U.S. Small Business Administration
Office of Inspector General

Top Management and Performance Challenges Facing the Small Business Administration in Fiscal Year 2024

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Report 24-01

Contents

Message From the Inspector General

SBA's role in the nation's pandemic response was unprecedented and immense. Even before the pandemic, SBA faced major challenges in its internal control environments for large financial lending programs, information technology, and business development assistance programs. The strain on the agency's capacity to meet the needs of delivering more than $1.2 trillion in pandemic assistance to America's small businesses laid bare these challenges. SBA continues to be responsive to OIG's recommended corrective actions to promote efficiency and effectiveness in the programs and mitigate the eight challenges identified in this report.

Major consequences of internal controls that do not provide assurance of identity and eligibility include a loss of public trust, improper payments, and fraud. OIG's white paper *COVID-19 Pandemic EIDL and PPP Loan Fraud Landscape* estimated that SBA disbursed over $200 billion in potentially fraudulent COVID-19 Economic Injury Disaster Loans (EIDL), EIDL Targeted Advances, Supplemental Targeted Advances, and Paycheck Protection Loans (PPP) loans. Every fraudulent transaction also is an improper payment. With SBA's flagship contracting, capital, and counseling programs having identified challenges in mitigating improper payments and ensuring only eligible entities gain access to its programs, action to eliminate self-certification as a practice and strengthen internal controls is at the forefront of our recommended corrective actions.

OIG also shares SBA's concern in its capacity to service its EIDL portfolio. SBA is now servicing about 4 million outstanding disaster loans — 15 times the amount the agency was managing before the pandemic. SBA must be responsive to recipients of these loans and perform its due diligence to mitigate loss to the taxpayer.

SBA's pandemic response also offered an opportunity to learn new ways to meet America's small business owners in underserved areas. This principally involved SBA lending partners leveraging financial technology and SBA expanding the reach of its Supervised Lenders, which are Non-Federally Regulated Lenders. Technology must be integrated within programs in a manner that assures eligibility criteria are met, to include identity, and that robust verification and validation are inherent in the internal control framework. SBA must fully meet its lender oversight responsibilities to avoid missteps that occurred in its pandemic response.

The nation can depend on OIG to provide independent, objective, and timely oversight of SBA. We will focus our resources on systems and processes that present serious management and performance challenges within SBA programs with a goal of improving the integrity, accountability, and performance of those programs for the benefit of the American people.

Hannibal “Mike” Ware

SBA Inspector General

FY 2024 Challenges and Issues

Identification of an issue as a top challenge does not necessarily denote significant deficiencies or lack of attention on SBA's part. Many of the top management challenges are longstanding, inherently difficult, and will likely continue to be challenges in the coming years. Addressing the challenges will require consistent attention from agency management and ongoing engagement with Congress, the public, and other stakeholders.

Table 1: Top Management and Performance Challenges Facing SBA in FY 2024

Challenge	Issue
Challenge 1 SBA's Economic Relief Programs Are Susceptible to Significant Fraud Risks and Vulnerabilities	Paycheck Protection Program Susceptible to Abuse and Fraud Paycheck Protection Program Eligibility Paycheck Protection Program Data Reliability SBA Must Review COVID-19 EIDLs and Grants for Potential Fraud Identified in OIG Reports Unprecedented Increase in Servicing COVID-19 EIDLs
Challenge 2 Eligibility Concerns in Small Business Contracting Programs Undermine the Reliability of Contracting Goal Achievements	Agencies Receive Credit for Ineligible Firms or Those Not Participating in SBA's Contracting Programs Women-Owned Small Business Federal Certification Program Susceptible to Abuse
Challenge 3 SBA Faces Significant Challenges in IT Investments, System Development, and Security Controls	SBA's IT Investment Controls Need Improvement Existing System Development and Monitoring Controls Need to Reflect Changing IT Design Risks Additional Progress Needed in IT Security Controls
Challenge 4 SBA Risk Management and Oversight Practices Need Improvement to Ensure the Integrity of Loan Programs	SBA's Oversight of High-Risk Lending Participants Increased Risk Introduced by Loan Agents Increased Risk Introduced by Lender Service Providers

Challenge 5 SBA's Management and Monitoring of the 8(a) Business Development Program Needs Improvement	SBA Continues to Address Its Ability to Develop Firms in the 8(a) Program and Measure Results
Challenge 6 Identification of Improper Payments in SBA's 7(a) Loan Program Remains a Challenge	Improvements Needed to Ensure High-Risk 7(a) Loan Reviews Reduce the Risk of Losses
Challenge 7 SBA's Disaster Assistance Program Must Balance Competing Priorities to Deliver Prompt Assistance but Prevent Fraud	Reserve Staff Need Training to Sustain Productivity During Mobilization Improper Payment Quality Assurance Process Needs Strengthening
Challenge 8 SBA Needs Robust Grants Management Oversight	SBA's Grants Management System Needs Improvement Better Performance Measurements Needed to Monitor Grant Program Achievements Comprehensive Oversight Plan with Strong Controls Will Help SBA Better Assess Risk, Distribute Payments, and Audit the Shuttered Venue Operators Grant and the Restaurant Revitalization Fund Leveraging SBA's Workforce to Ensure Effective Administration of New and Significantly Expanded Grant Programs to Aid Small Businesses

The management challenges report is an important tool to help the agency prioritize its work to improve program performance and enhance operations. OIG remains committed to protecting the interests of American taxpayers by promoting positive change within SBA and across government, ensuring taxpayer dollars are spent efficiently according to intent. I am confident SBA leaders are willing partners in ensuring their programs have integrity and meet the needs of the nation's small businesses.

Table 2: Color Code Definitions

We use a color gauge as a visual indicator of the agency's progress in confronting the issues that make a particular function a top management challenge. The color gauge indicates whether the agency has made little, no, or significant progress on the issue to date.

Color	Definition	Color Indicator
Green	Issue Resolved or Appropriately Reduced	
Yellow	Substantial Progress	
Orange	Moderate or Limited Progress	
Red	No Progress	
N/A	New, Not Rated	
N/A	Not Rated (extenuating circumstances)	

Challenge 1: SBA's Economic Relief Programs Are Susceptible to Significant Fraud Risks and Vulnerabilities

Why This Is a Challenge

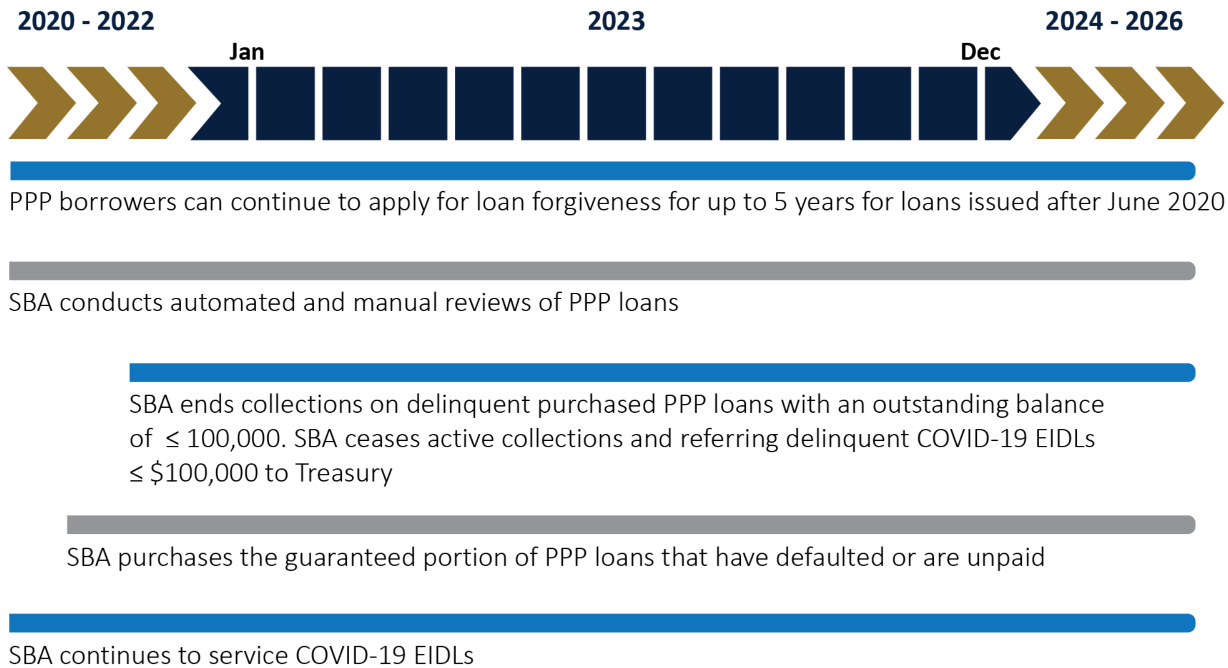
In the wake of the Coronavirus Disease 2019 (COVID-19) pandemic, action was needed to avert an economic crisis caused by lockdowns, business closures, and other economic impediments. More than 30 million small businesses in the United States were adversely affected by the economic crisis. In March 2020 the Coronavirus Aid, Relief, and Economic Security (CARES) Act was enacted, authorizing the U.S. Small Business Administration (SBA) to administer an unprecedented amount of funds through the Paycheck Protection Program (PPP) and COVID-19 Economic Injury Disaster Loan (EIDL) program. These funds were intended to help eligible small business owners and entrepreneurs adversely affected by the economic crisis.

Executive and legislative actions intended to expedite aid during the crisis led SBA to reduce or eliminate key internal controls that could have helped to mitigate fraud and misuse of taxpayer funds. The agency also relied on a mandated self-certification of eligibility for PPP loans to expedite aid. We have determined the agency has made progress in strengthening internal controls, but several issues remain open, which we highlight in this report, and should be considered for future economic relief programs like the PPP and COVID-19 EIDL.

Our PPP and EIDL investigative work has resulted in 1,090 indictments, 906 arrests, and 576 convictions as of August 31, 2023. The Office of Inspector General (OIG) has received more than 250,000 Hotline complaints since the start of SBA's pandemic relief programs. Additionally, OIG collaboration with SBA and the U.S. Secret Service has resulted in the seizure of more than $1 billion stolen from the EIDL program. OIG played a key role in assisting financial institutions in the return of another $8 billion to SBA's EIDL program. SBA has received over $20 billion in EIDL funds returned by borrowers prior to the deferment period ending. We are also aware of approximately $168 million in additional PPP seizures and funds that may have been returned. However, due to the informal, ad hoc nature of SBA's tracking, the full scope of PPP seized and returned funds is not presently known, as detailed in our management advisory *Serious Concerns Regarding the Return of Paycheck Protection Program Funds* (Report 23-08). To date, we have issued 12 reports related to the PPP program and 12 reports related to the COVID-19 EIDL program.

Since both programs have closed to new loans, the challenge has evolved from preventing fraud to bringing wrongdoers to justice and identifying and recovering funds that were misused or illegally obtained. Thanks to swift congressional action, the statute of limitations for COVID-19 EIDL and PPP fraud was increased to 10 years. As SBA conducts automated and manual reviews of PPP loans regarding forgiveness and guaranty purchasing, it could still identify ineligible loans, work to recover funds, and refer potential fraud for investigation. Fraud can be identified in these loans at any stage, even after they have been forgiven. See Figure 1 for important stages of these programs that are ongoing through 2026 and beyond.

Figure 1: Current and Ongoing Actions Relating to the PPP and COVID-19 EIDL



Source: OIG generated from SBA data

Paycheck Protection Program

As a result of the pandemic's widespread economic effects on the U.S. economy, Congress approved legislation to create and fund SBA's PPP, which was gradually increased to $813.7 billion in 2021.

PPP loans were made through more than 5,400 private lenders and can be fully forgiven if proceeds were used in accordance with law. Often, the lenders had existing relationships with the borrowers. PPP loans were made through existing SBA lenders and non-traditional lenders, including online financial technology companies (fintechs), which did not have the same relationships with borrowers as traditional lenders.

The pandemic radically affected the agency tasked with economic assistance to America's small businesses. From FY 2000 to 2019, before the pandemic, SBA-guaranteed 7(a) lending amounted to about 1.2 million loans, totaling $333 billion. By the end of the PPP program, SBA had processed 11.8

million PPP loans, totaling $800 billion. In just over a year the agency handled more demand than in the previous 20 years combined. The unprecedented demand and stress on SBA systems were considerable challenges for the agency, and fraudsters took advantage.

Issue: Paycheck Protection Program Susceptible to Abuse and Fraud

SBA's fraud risk management approach in 2020 for PPP loans was intentionally developed with more fraud risk controls at the loan forgiveness phase, the final phase, rather than at application. For funds disbursed on a fraudulent loan, the back-end controls established for the forgiveness stage may never be applied because it is unlikely that forgiveness will be sought. This has led to the current environment, where we and other law enforcement partners are chasing taxpayer funds that have already been stolen.

We explored this issue in detail in our *COVID-19 Pandemic EIDL and PPP Loan Fraud Landscape* (Report 23-09) white paper. We estimated that SBA disbursed $64 billion in potentially fraudulent PPP loans, which represents 8 percent of total disbursed funds.

Based on the various fraud schemes identified in our ongoing and adjudicated criminal investigations, we expanded rule-based analytics through link analysis — an investigative technique that identifies fraud clusters through shared data attributes. As a result, we identified multiple fraud indicators and schemes fraudsters used to steal from the American taxpayer and exploit programs meant to help those in need. The potential fraud estimates directly correlate to our investigative casework, adjudicated and ongoing criminal cases, and to schemes OIG and other oversight agencies are continuing to unravel and then prosecute. These indicators will continue to evolve as more data becomes available to us.

Indicators of potential PPP fraud include:

- Hold codes — loans flagged by SBA or third-party lenders that identified potential indicators of fraud.
- Internet Protocol (IP) addresses — loan applications submitted from a foreign country, so likely ineligible, or from an IP address that matches another application found to have a higher likelihood of fraud.
- Defaulted/no loan forgiveness — borrowers have not made any payments, are in default, or have not asked for loan forgiveness because they never intended to use the loan according to program requirements.

- Employer Identification Numbers (EIN) — borrowers who appeared to have established their business after the qualifying date; EINs that match those of other PPP loans.
- Hotline complaints — the loan was the subject of an OIG Hotline complaint with a high probability of fraud, such as a business misusing funds or identity theft.
- Suspicious email addresses — borrowers whose email addresses are from potentially temporary domains, have modifications such as dots, dashes, or pluses, or match those in other applications found to have a higher likelihood of fraud.
- Bank accounts — SBA lenders disbursed PPP loan funds to bank accounts matching other applications found to have a higher likelihood of fraud.

See Figure 2 for the total disbursed dollar value estimate of each PPP fraud indicator. The aggregate of each group total differs from the total potential fraud estimate because duplicates across groups may exist, while duplicates are removed from the total potential fraud estimate.

Figure 2: Summary of Potentially Fraudulent PPP Loans by Fraud Indicator

Source: OIG analysis of PPP data

We have several concerns from past audit work that falls under this issue, so we highlight here major concerns which are still being addressed by the agency.

Returning Potentially Fraudulent Paycheck Protection Program Funds

In our management advisory *Serious Concerns Regarding the Return of Paycheck Protection Program Funds* (Report 23-08), we found SBA's guidance to borrowers and lenders on returning PPP funds was insufficient. SBA did not explain how funds could be returned after forgiveness was approved. Also, SBA did not have specific guidance for financial institutions that needed to return PPP funds. At the time, SBA was tracking return of PPP funds on an ad hoc basis using a spreadsheet. Due to the informal and ad hoc nature of SBA's tracking, the full scope of returned PPP funds is not presently known.

When an agency implements a process ad hoc, it means program managers have no set procedure, which could lead to financial loss. We made four suggestions related to SBA establishing clear and detailed guidance for borrowers, lenders, and financial institutions on how to return PPP funds and implementing a process to accurately handle and track the returned funds to mitigate the risk of financial loss.

Duplicate Paycheck Protection Program Loans

Because SBA did not always have sufficient controls in place to detect and prevent duplicate PPP loans (see *Duplicate Loans Made Under the Paycheck Protection Program*, Report 21-09), OIG and other federal agencies have worked to track criminal fraud cases related to duplicate loans made to the same business. Based on our review of PPP loan data as of August 31, 2020, we found that lenders made more than one PPP disbursement to 4,260 borrowers, which totaled about $692 million and involved 8,731 loans. These disbursements were made during rounds 1 and 2 when only one PPP loan was permitted.

We made four recommendations to SBA to strengthen controls related to detecting and preventing duplicate loans to include ensuring duplicate PPP loans are not forgiven, taking action to recover improper payments, and ensuring appropriate controls are in place for future PPP type programs.

Program Changes Expanded the Opportunity for Sole Proprietor and Independent Contractor Fraud

In our evaluation report *SBA's Paycheck Protection Program Loan Review Processes* (Report 22-09), we noted changes SBA made to expand access to the program for certain borrowers could have been exploited by unscrupulous applicants. In March 2021, SBA issued an interim final rule that allowed individuals who filed an Internal Revenue Service (IRS) Form 1040, Schedule C, to calculate their maximum loan amount using gross income rather than net income. This change led to a significant increase in the number of loans of $20,833 or less, the maximum allowable loan amount for a Schedule C business with no employees.

Based on our analysis of the PPP loan data, many of the Schedule C loans were made by lenders that relied exclusively on third-party loan processing or software platform vendors (i.e., loan service providers) they hired to complete loan processes. Data shows that 7 of the top 15 lenders made more than 2.4 million loans in 2021, or more than 18,000 loans per day, after having made fewer than 22,000 PPP loans combined in 2020. These seven lenders included fintech lenders, Community Development Financial Institutions, and small business lending companies. SBA Lenders should be providing oversight of their third-party vendors.

We believe that these lenders and their reliance on third-party vendors could present SBA with several challenges moving forward, including access to loan documents. Within the context of the PPP eligibility and forgiveness process, we believe it is important for SBA to focus targeted efforts on these types of loans and review appropriate documentation to ensure these smaller loans were made to eligible businesses and minimize the losses associated with forgiveness of fraudulent loans.

Managing the Oversight of Potentially Fraudulent Paycheck Protection Program Loans

We found SBA did not have an organizational structure with clearly defined roles, responsibilities, and processes to manage and handle potentially fraudulent PPP loans in our inspection *SBA's Handling of Potentially Fraudulent Paycheck Protection Program Loans* (Report 22-13). The agency did not establish a centralized entity to design, lead, and manage fraud risk because it did not establish a sufficient fraud risk framework. This was partly due to the speed in which SBA was required to launch the PPP, which was 15 days after enactment of the CARES Act, and the continuous and rapid discovery of different kinds of fraud schemes.

In addition, lenders were not always clear on how to handle PPP fraud or recover fraudulently obtained funds that remained in the borrower's account. SBA did not provide lenders sufficient and specific guidance to effectively handle potentially fraudulent PPP loans. To better mitigate fraud, we made two recommendations for SBA to establish clearly defined and detailed roles, responsibilities, and processes and provide lenders formal guidance for managing and handling potentially fraudulent loans.

Agency Progress

SBA has made substantial progress in reducing fraud risk moving forward, including:

- Establishing a Fraud Risk Management Board in 2022;
- Developing a webpage dedicated to preventing fraud and identity theft, which includes a section titled "Lenders and Fraud Response";
- Developing aggregate review processes to identify different fraud scenarios;
- Developing and implementing a Master Review Plan that established guidelines for loan and forgiveness reviews;
- Increasing antifraud controls for loans originating in 2021, including checking application data against Treasury's Do Not Pay database before loans were approved;
- Developing and implementing SBA and contractor fraud risk management policy and framework;
- Increasing post-disbursement antifraud controls for loans that originated in 2020;
- Commencing manual loan and forgiveness reviews;

- Engaging a contractor with expertise in detection and identification of potential fraud;
- Using a contractor's automated review tool and the SBA Paycheck Protection Platform to analyze loans for fraud and eligibility;
- Implementing machine learning functionality to focus on areas of higher risk;
- Providing outreach and training;
- Implementing processes to refer potential fraud to SBA OIG;
- Developing a plan for recovering PPP funds; and
- Developing and implementing controls to enhance the loan review process, specifically for loans with a no further action decision made by contractors.

Remaining Challenges

Although SBA has made substantial progress in this area, the need to establish and use a clearly defined and comprehensive approach for managing and handling potentially fraudulent PPP loans, to include sufficient guidance when implementing similar future programs, remains an ongoing challenge.

SBA's plans and actions to reduce fraud risks and prevent further losses will determine how this challenge will continue to be rated in the future. Our investigations into suspected fraud and suspicious activities continue. We have ongoing or planned audit work on PPP loan eligibility, loan forgiveness, guaranty purchase, and lender activities to determine the effectiveness of agency implemented controls. We will continue to monitor agency actions to assess and reduce fraud risk and address vulnerabilities in the PPP. Strong internal controls will help reduce fraud risk and enhance program integrity for the PPP and similar programs enacted in the future.

Issue: Paycheck Protection Program Eligibility

PPP funds could still be returned to Treasury as loan forgiveness reviews continue. SBA's PPP risk management approach was intentionally developed with eligibility controls at the loan forgiveness phase, the final phase, rather than at application.

OIG reviews have found deficiencies with internal controls related to eligibility of borrowers. Our review of SBA's implementation of the PPP identified thousands of loans provided to potentially ineligible borrowers. SBA lenders also inappropriately approved loans for businesses that exceeded maximum loan amounts for the number of employees and exceeded the maximum size allowed. Also, SBA lenders approved loans for nonprofit organizations that did not meet SBA's eligibility requirement for size standards.

We have several concerns from past audit work that falls under this issue, so we are highlighting here major concerns which are still being addressed by the agency.

Businesses Exceeding Maximum Loan Amounts

In our *Inspection of SBA's Implementation of the Paycheck Protection Program* (Report 21-07), we found tens of thousands of approved and disbursed loans were made to borrowers for amounts that exceeded the loan maximum based on the number of employees and compensation rates, as defined in the CARES Act. The CARES Act states that the maximum loan amount is generally obtained by multiplying the average total monthly payments by the applicant for payroll costs incurred during the 1-year period before the date on which the loan is made times 2.5, plus any outstanding amounts of Economic Injury Disaster Loans made beginning January 31, 2020. We made six recommendations to improve SBA's program and reduce the risk of financial loss from PPP loans made to ineligible or fraudulent borrowers.

Businesses that Exceeded Maximum Size Standards

In Report 21-07, we also identified hundreds of businesses that exceeded the maximum size standard and may have been erroneously approved for PPP loans. These businesses exceeded both 500 employees and the applicable employee-based size standard for the business industry. Under the CARES Act, an eligible business cannot exceed the greater of 500 employees or the SBA size standard for number of employees in the industry, if applicable.

Eligibility for Nonprofit Organizations

In our inspection report *Paycheck Protection Program Eligibility for Nonprofit Organizations* (Report 22-21), we identified 179 PPP loans, totaling approximately $684 million, made to potentially ineligible nonprofits that may have exceeded SBA's requirements for business size at the time of application.

We also reviewed PPP loans for three large nonprofits. We determined that two of the three large nonprofits met the eligibility requirements and one of the large nonprofits did not meet the eligibility requirements. We recommended SBA review the 179 PPP loans to ensure eligibility requirements were met and seek remedy or repayment for all loans deemed ineligible.

Borrowers with Treasury's Do Not Pay Data Matches

In our management alert *Paycheck Protection Program Loan Recipients on the Department of Treasury's Do Not Pay List* (Report 21-06), we found SBA did not use Treasury's Do Not Pay system data to screen borrowers for eligibility before approving PPP round one loans. Following OIG oversight and communication with the agency, SBA started checking loan applicants against Treasury's Do Not Pay database. The U.S. Department of the Treasury's Do Not Pay system is the designated source of centralized data and analytics services to help agencies verify eligibility. The Payment Integrity

Information Act of 2019 requires agencies to establish pre-award procedures to determine eligibility and prevent improper payments before the release of any federal funds. The law further specifies the use of Do Not Pay data sources as a control to determine program or award eligibility.

Agency Progress

SBA has initiated several corrective actions to enhance and develop additional controls to address loan reviews, loan forgiveness, and fraud, including:

- Developing the Master Review Plan, establishing guidelines for loan and forgiveness reviews;
- Implementing SBA and contractor fraud risk management policy and framework;
- Developing machine learning models to focus on areas of higher risk;
- Implementing automated screening to detect potentially ineligible loans;
- Developing a plan for recovering PPP funds; and
- Continuing manual reviews of loans flagged for potential eligibility issues.

The fraud control framework also includes a variety of antifraud controls in place designed to detect and mitigate possible instances of eligibility fraud. These controls include approved lender lists, verification with the Treasury Do Not Pay database, and compliance checks.

SBA also integrated affiliation data, which shows business affiliation through ownership and maximum number of employees, as well as maximum loan amount. SBA instituted an affiliation worksheet for PPP loan and forgiveness reviews. Swift management action to identify and review potentially ineligible loans could prevent improper payments to lenders because the associated loan forgiveness may still be in process.

As we complete current reviews and conduct future audit work, SBA's plans and actions to reduce and prevent improper payments in addition to SBA's corrective actions to address OIG recommendations will determine how we will rate this challenge in the future.

Issue: Paycheck Protection Program Data Reliability

OIG's flash report *SBA's Implementation of the Paycheck Protection Program Requirements* (Report 20-14) found the data SBA reported and the loan-level PPP data was inaccurate and incomplete. Without accurate and complete data, SBA cannot reliably and accurately inform SBA management and Congress about program effectiveness and measures needed to inform program decisions.

Underserved Market Data Was Incomplete

At the beginning of the PPP program, our flash report found that SBA's demographic information for underserved markets for PPP borrowers was incomplete. SBA's borrower application for PPP did not include standard SBA fields to request demographic information. One week after we issued our flash report, SBA issued the initial PPP loan forgiveness application, which included an optional page for borrower demographic information. We believe sufficient data still may not be collected.

Some borrowers may not apply for loan forgiveness while others may choose not to complete the optional page. Although ethnic demographic information is optional for SBA's traditional loan programs and the PPP, SBA generally requests the demographic information as a section on a mandatory form. Borrowers have the option to decline to provide the information.

North American Industry Classification System Data Was Incomplete

In our *Inspection of SBA's Implementation of the Paycheck Protection Program* (Report 21-07), we found SBA's loan-level data on PPP NAICS codes was incomplete. SBA did not require the borrower to provide the industry classification code on the application, so lenders did not have the information to put in the loan processing platform. As of June 30, 2020, there were 222,096 loans, totaling approximately $9.9 billion, identified as unclassified establishments because there was no industry classification data on the application.

Job Statistics Were Inaccurate and Incomplete

Also in Report 21-07, we found SBA's loan-level data for job statistics was inaccurate and incomplete. We found that 191,003 loans approved in 2020, totaling about $11 billion, did not include employment information in the required job field for the number of current employees. SBA officials said because of a backlog of loan applications before the beginning of the second round of PPP funding, lenders were allowed to submit loan applications in bulk. The officials said they turned off system controls to allow for faster approval. Of the 191,003 applications that did not have data for the number of current employees, 83,374 were approved during the first week of the second round of funding. Because SBA removed the internal control to check data for the number of current employees, these loans, totaling about $4 billion, were not validated before approval and issuance of loan numbers to PPP lenders.

Agency Progress

SBA implemented additional controls to ensure the integrity of the key data fields noted above, including:

- Adding mandatory fields in borrower and lender application processes;
- Updating controls to ensure data accuracy of lender-reported data;
- Instituting a procedure for lenders and borrowers to correct publicly available PPP loan data provided to SBA by delegated PPP lenders; and
- Launching a new data reporting webpage for public and SBA stakeholders with links to several public SBA reports and datasets.

We have an ongoing audit reviewing PPP loan eligibility, loan forgiveness, and guaranty purchase. We will continue to assess the reliability of PPP loan data and monitor the agency's efforts to ensure data reliability.

COVID-19 Economic Injury Disaster Loan

As a result of the pandemic's widespread economic effects on the U.S. economy, Congress approved legislation that increased funding to SBA's disaster assistance program, providing $470 billion in funding to the Economic Injury Disaster Loan (EIDL) program and $20 billion for emergency grants for eligible entities, which was then increased to $35 billion in 2021.

This program was different from the PPP in that a COVID-19 EIDL was a direct loan from the government, requiring collateral or personal guarantees from borrowers depending on the amount of the loan. SBA relied initially on a quick online application and self-certification of eligibility. Later, once authorized by Congress to do so, the agency required Internal Revenue Service (IRS) tax transcripts to confirm business income and expenses.

The COVID-19 EIDL represented a significant increase over all disaster loan funding disbursed in the agency's 70-year history. Since the agency's inception in 1953, SBA has approved 2.2 million disaster assistance loans, totaling $66.7 billion. From March 2020 to the end of the program in May 2022, so in a little over 2 years, SBA approved approximately 4 million COVID-19 EIDLs totaling $387 billion.

Like the PPP, the significant increase in demand for disaster funding and the stress on SBA systems created considerable challenges. Again, fraudsters took advantage of the crisis and weak internal controls in SBA's programs. The magnitude of fraud in this program will become more apparent as delinquent loans are liquidated and charged-off and investigations are adjudicated.

Issue: SBA Must Review COVID-19 EIDLs and Grants for Potential Fraud Identified in OIG Reports

Because the COVID-19 EIDL program has closed, the issue has evolved from preventing fraud in the program to identifying and remedying fraud that has already occurred. In our white paper *COVID-19 Pandemic EIDL and PPP Loan Fraud Landscape* (Report 23-09), we estimated SBA disbursed over $136 billion in potentially fraudulent COVID-19 EIDLs, which represents 33 percent of total disbursed funds.

As described above in the PPP section of this report, we identified multiple fraud indicators and schemes used by fraudsters to steal from the American taxpayer and exploit programs meant to help those in need. The potential fraud estimates directly correlate to our investigative casework, adjudicated and ongoing criminal cases, and to schemes OIG and other oversight agencies are continuing to unravel and then prosecute. These indicators will continue to evolve as more data becomes available to us.

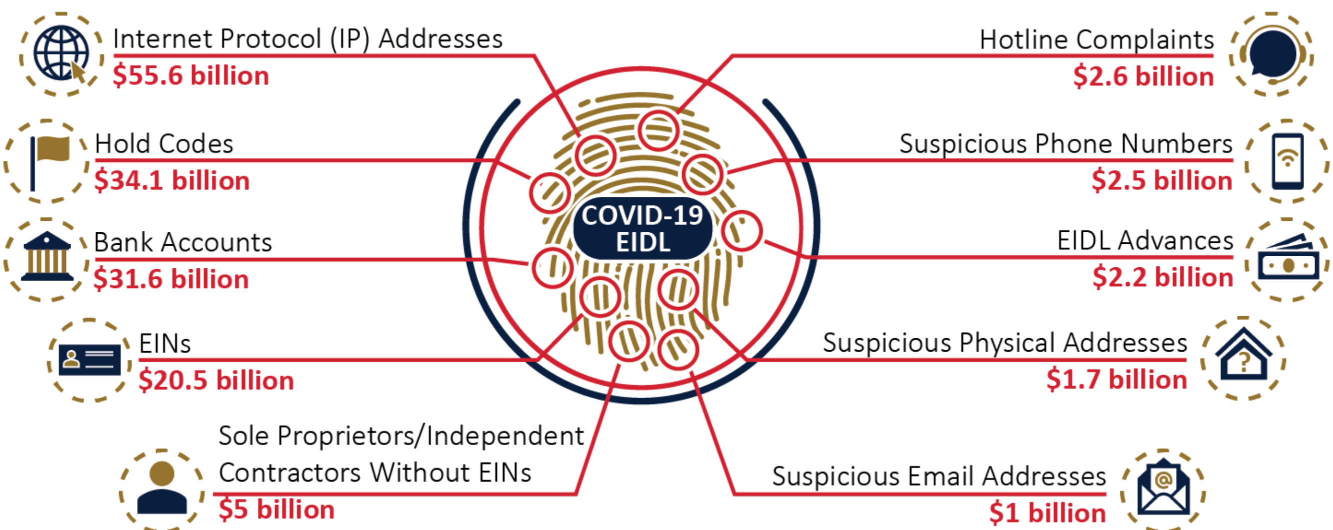
Indicators of potential COVID-19 EIDL fraud include:

- Internet Protocol (IP) addresses — loan applications submitted from a foreign country, so likely ineligible, or from an IP address that matches another application, indicating possible duplication of loan requests.
- Hold codes — loans flagged by SBA or a third party that identified potential indicators of fraud.
- Bank accounts — SBA disbursed funds for multiple loans to the same bank account; borrowers who changed their bank account information during the application process, or those whose bank account matches other applications.
- Employer Identification Numbers (EIN) — borrowers who appeared to have established their business after the qualifying date, EINs matching those of other COVID-19 EIDLs, and borrowers with an EIN that is improperly formatted or begins with an invalid prefix, masking a nonexistent or ineligible business.
- Sole proprietors/independent contractors without an EIN — borrowers who claim to employ more than one person but did not use an EIN in their application. The IRS requires all businesses that employ more than one person to register for an EIN.
- Hotline complaints — the loan was the subject of an OIG Hotline complaint.
- Suspicious phone numbers — borrowers whose phone numbers match those in other applications.

- COVID-19 EIDL Targeted Advances — applicants who received advances SBA identified as potentially fraudulent.
- Suspicious physical addresses — borrowers whose addresses match other applications found to have a higher likelihood of fraud.
- Suspicious email addresses — borrowers whose email addresses are from potentially temporary domains, have modifications or match those in other applications.

See Figure 3 for the total disbursed dollar value estimate of each COVID-19 EIDL fraud indicator. The aggregate of each group total differs from the total potential fraud estimate because duplicates across groups may exist, while duplicates are removed from the total potential fraud estimate.

Figure 3: Summary of Potentially Fraudulent COVID-19 EIDLs by Fraud Indicator



Source: OIG analysis of COVID-19 EIDL data

We have several concerns from past audit work that falls under this issue, so we are highlighting here major concerns which have not yet been addressed by the agency. Although the loans and grants we have cited may overlap with each other, the total potential fraud estimate presented in our fraud landscape white paper removed duplicate loans. Per our estimate, there are over $136 billion in COVID-19 EIDLs and grants that require further investigation.

Ending Collections

In our management advisory *Ending Active Collections on Delinquent COVID-19 Economic Injury Disaster Loans* (Report 23-16), we reported that in April 2022, SBA decided to cease some active collection activities, such as foreclosure on property collateral and wage garnishment, on all delinquent COVID-19

EIDLs with an outstanding balance of $100,000 or less. While SBA indicated it will not end collection efforts on any amount that appears to be, or has been, reported as fraudulent, false, or misrepresented, these loans only represent $11.2 billion of the $70.9 billion COVID-19 EIDLs that are $100,000 or less.

As indicated in our fraud landscape white paper, $136 billion COVID-19 EIDLs were determined to be potentially fraudulent. Of this amount, $25.9 billion were for loans valued at $100,000 or less. We estimate that SBA will cease active collection activities on $14.7 billion potentially fraudulent COVID-19 EIDLs valued at $100,000 or less, which could violate the federal law that prohibits agencies from ending collections on fraudulent, false, or misrepresented claims.

Foreign IP Applications

Our evaluation report *COVID-19 Economic Injury Disaster Loan Applications Submitted From Foreign IP Addresses* (Report 22-17) found that SBA approved and disbursed 41,638 potentially fraudulent COVID-19 EIDLs, advances, and grants totaling $1.3 billion that were submitted from foreign IP addresses.

Although applicants that reside overseas may qualify for this assistance, transnational crime entities in foreign countries have fraudulently obtained funding from this and other U.S. programs in the past. The numerous applications submitted from foreign IP addresses are an indication of potential fraud that could involve international criminal organizations. OIG has ongoing investigations into international organized crime operations that applied for and stole pandemic relief funds.

We recommended the agency review the loans in our test sample and the $1.3 billion disbursed to applicants from foreign IP addresses. We also recommended SBA recover any disbursed loans and advances determined to be ineligible or fraudulent. Additionally, we recommended that the agency examine controls related to foreign IP addresses and ensure these controls are more effective in future disaster processing systems.

Treasury's Do Not Pay List

Our management advisory *COVID-19 EIDL Program Recipients on the Department of Treasury's Do Not Pay List* (Report 22-06) identified over $3.1 billion in EIDLs and over $550 million in emergency EIDL grants to potentially ineligible applicants in the Department of Treasury's Do Not Pay database. OIG has launched numerous investigations into the suspect loans identified in this report.

We made three recommendations for SBA to use the Do Not Pay system to prevent improper payments, including for SBA to use the batch match or continuous monitoring functions available in Treasury's Do Not Pay portal to identify potentially ineligible applicants. We are currently assessing whether SBA effectively implemented controls, utilizing the Treasury Do Not Pay databases to ensure only eligible recipients received COVID-19 EIDLs and grants.

Fraudulent Advances and Grants

Our inspection of *SBA's Emergency EIDL Grants to Sole Proprietors and Independent Contractors* (Report 22-01) found SBA provided $4.5 billion more in advances and grants than the applicants were entitled to receive. Eligible applicants were entitled to receive $1,000 per employee up to the CARES Act mandated maximum amount of $10,000. The report identified 542,897 sole proprietors and 161,197 independent contractors who received a grant of more than $1,000 but did not have an Employer Identification Number (EIN). The absence of a provided EIN may indicate the applicants should have claimed no employees. We recommended SBA remedy $4.5 billion in funds disbursed in excess of its statutory allowance to sole proprietors and independent contractors.

Control Weaknesses

Since the start of the pandemic, we have identified potential fraud resulting from serious control weaknesses in the system SBA used to process COVID-19 EIDL and grants. Our *Inspection of SBA's Initial Disaster Assistance Response to the Coronavirus Pandemic* (Report 21-02) identified $78.1 billion in potentially fraudulent loans and grants to borrowers who changed their bank account from the original account listed on the loan application prior to disbursement; borrowers who used the same IP address, email address, bank account, or physical address; and potentially ineligible businesses. We made 10 recommendations to SBA to strengthen its controls to lower fraud risk and recover funds from ineligible businesses. Of those, seven recommendations have been closed.

Our *Follow-up Inspection of SBA's Internal Controls to Prevent COVID-19 EIDLs to Ineligible Applicants* (Report 22-22) found that SBA did not implement the IRS tax transcript requirement in a timely manner, potentially disbursing COVID-19 EIDLs to ineligible entities. In the 4 months after Congress removed the tax return prohibition, SBA disbursed $92 million to businesses with suspect tax ID numbers. Also, SBA approved and disbursed 20 loans totaling $1.9 million to businesses that did not exist on or before January 31, 2020, had an unknown start date, or had other red flags, including change of registered agent shortly before the application date, evidence of falsified documents, or evidence that the applicant did not own the business. Ten of these loans were flagged by SBA for suspected fraud. We recommended SBA recover funds disbursed to ineligible applicants identified in our sample and review the remaining COVID-19 EIDL disbursements with suspect tax ID numbers to determine if the business applicant was legitimate.

Agency Progress

SBA made some progress in addressing this issue, implementing new controls in the EIDL program in 2021, such as:

- Reviewing correspondence and making loan referrals to OIG in response to identity theft complaints;
- Validating business addresses with the U.S. Postal Service and location indicators; and
- Implementing multi-factor authentication and automated reviews, such as checking Treasury's Do Not Pay database.

In addition, the fraud review team within the SBA Office of Performance, Planning, and the Chief Financial Officer collaborated with the Office of Capital Access on a data analytics project to help identify COVID-19 EIDLs that may be associated with identity theft or fraud. The results of this project are being used by the fraud review team to research suspected cases of identity theft and fraud.

According to SBA, if it is determined that a file should be flagged for suspected fraud or identity theft, an agency hold is added to the processing system. Holds are added to an application at any stage. They alert staff that special attention is required and that it should be reviewed. SBA is still reviewing loans that have been on hold for review to make a fraud determination. The agency hold review system allowed staff to review and recategorize or refer agency holds to the disaster fraud review team.

SBA has made progress in identifying and reviewing fraud and agency holds, but the sheer volume of potential fraudulent loans and grants discovered in OIG reports will be a continuing challenge for the agency. The deferment period ended for some COVID-19 EIDLs in October 2022, and borrowers were expected to begin making payments on these loans. As of October 2023, approximately 20 percent of active performing loans, totaling $77 billion, are past due, delinquent, or in liquidation. SBA anticipates the majority of these loans will require liquidation and charge-off. Another $47.7 billion in COVID-19 EIDLs has already been charged-off. We discuss this issue to a greater extent in this report. OIG's ongoing reviews will continue to assess SBA's progress in addressing potential fraud in the COVID-19 EIDL program.

Issue: Unprecedented Increase in Servicing COVID-19 EIDLs

Before the COVID-19 pandemic, SBA was servicing about 263,000 outstanding disaster loans, totaling approximately $9 billion, across the three servicing centers. SBA maintains two Disaster Loan Servicing Centers, one in Birmingham, Alabama and the other in El Paso, Texas, to service disaster loans that have been approved and fully disbursed. The two centers manage the portfolio and provide customer service, including accepting and processing loan payments, making routine collection efforts by phone, email, and postal letters, and handling any loan-related issues, such as insurance, title, or lien matters.

After a disaster loan becomes 90 days delinquent, it is transferred to a third center known as the National Disaster Loan Resolution Center in Santa Ana, California. The loan resolution center manages the portfolio of defaulted disaster loans with increased collection efforts, including foreclosure when necessary.

The center also handles other loan servicing activities, such as processing loan payments. When disaster loans are deemed ultimately uncollectable and charged-off, or removed from the agency's loan portfolio, the borrowers and guarantors are referred to the Treasury Department.

Treasury has the authority to take stronger efforts to collect, including offset of other federal payments. In this context, offset means diverting federal payments to satisfy the delinquent loan.

As a result of the unprecedented number of pandemic relief loans, SBA is now servicing about 3.7 million outstanding disaster loans — 15 times what the agency was doing before the pandemic. A total of 30 months of payment deferment was instituted for all COVID EIDLs. The end of this deferment period began in October 2022. Because the COVID-19 EIDLs were approved with repayment terms of 30 years, the expected servicing duration of this portfolio is long term.

SBA indicated there were over 764,000 COVID-19 EIDLs, totaling $77 billion, that are either past due, delinquent, or in liquidation as of October 2023. In addition, $47.7 billion in COVID-19 EIDLs have been charged-off. We have not yet validated this data.

Agency Progress

SBA officials have made some progress to service a historic number of outstanding loans, such as:

- Establishing the standalone COVID-19 EIDL Servicing Center in Fort Worth, Texas, which became fully functional in the first quarter of FY 2023 with 500 employees handling the first loans that entered repayment status. Hiring continued at an intentionally measured pace as more loans reentered repayment status. By the first quarter of FY 2024, 1,841 employees were servicing over 3.7 million loans with a total value of $349 billion. Recently, SBA stated it is servicing more than 90 percent of the COVID-19 EIDL portfolio after deferments were ended.
- Establishing a dedicated phone number (1-833-853-5638) and general email address inbox (covideidlserviciing@sba.gov). Loan servicers use an internal tracking system with controls to administer and monitor servicing in a timely manner.
- Transitioning to a borrower portal, MySBA Loan Portal, active as of the second quarter of 2023, that allows all SBA borrowers to access their loan details, obtain billing notices, and make payments and includes a link for submitting suspected identity theft claims. The loan

portal is automated to mail letters, send emails, and call past-due borrowers at regular intervals.

- Enabling a pay-by-phone capability in the third quarter of 2023.
- Issuing Policy Notice 5000-840468, COVID-19 EIDL Servicing and Liquidation, effective December 2022, giving specific requirements on collecting documentation and deciding on different servicing requests.
- Implementing a new hardship accommodation process in November 2022, which allows COVID-19 EIDL borrowers to obtain 6 months of reduced payments, which remains available in FY 2023.

This issue remains a significant challenge for SBA because it is still unclear if the agency will be able to service and collect its entire COVID-19 EIDL portfolio.

Challenge 2: Eligibility Concerns in Small Business Contracting Programs Undermine the Reliability of Contracting Goal Achievements

Why This Is a Challenge

The government-wide goal of the Small Business Act is to ensure that 23 percent of all prime contracts are awarded to small businesses each fiscal year. Since FY 2013, SBA has reported in its annual Small Business Procurement Scorecard that the federal government has met or exceeded that goal. This year, SBA announced the federal government exceeded the FY 2022 goal, awarding 26 percent of prime contracts to small businesses. Though the overall percentage awarded decreased from FY 2021 goaling achievements, the contracts awarded to small businesses in FY 2022 totaled $162.9 billion, an $8.7 billion increase from the previous fiscal year. SBA reported the federal government earned an "A" on this year's government-wide scorecard.

SBA's achievement reports do not portray federal contracting dollars ultimately earned by small businesses, and this reduces the ability of Congress and other federal policymakers to determine whether the government is maximizing contracting opportunities for small businesses.

This risk is revealed in OIG audits on how federal agencies award contracts to small firms with provisions or other contract language that allows larger companies to do most of the work. Although the agencies report these awards as part of their small business contracting goaling achievements, the true percentage of work performed is misreported in these instances. We found this to be the case in our *Evaluation of SBA's Contract for Disaster Assistance Loan Recommendation Services* (Report 22-10). SBA awarded the contract using procedures that restricted the competition for the award to small businesses. The business SBA made the award to then subcontracted with a large business. SBA did not adequately assess whether the relationship between the small and large businesses made them affiliated. Also, we found the contractor exceeded the limit for how much of the work it could subcontract.

We found the subcontracting limits were exceeded in another recent evaluation of an SBA agreement that was awarded as a set-aside for an 8(a) small business in *SBA's Awards for Staffing Support for COVID-19 Economic Relief Loan Programs* (Report 23-11). Specifically, we found SBA did not ensure the small business complied with the subcontracting limitations for 5 of the 29 contracts we reviewed. For those five orders, the small business subcontracted an average of 93 percent of the work to firms that were not similarly situated and exceeded the 50 percent limitations on subcontracting.

As the federal government's primary advocate for small business, SBA must continue to strive to ensure federal agencies award small business contracts only to eligible entities and that those qualifying businesses are counted in the assessment.

Issue: Agencies Receive Credit for Ineligible Firms or Those Not Participating in SBA's Contracting Programs

SBA program success and integrity could be adversely affected if the agency admits ineligible firms into programs intended for disadvantaged small businesses. OIG continues to find that SBA does not consistently detect ineligible firms in its small business contracting certification programs. SBA needs to further strengthen its controls in reviewing eligibility to ensure that only businesses meeting program requirements are awarded contracts.

Agency contracting officers have incorrectly reported awards were made to firms certified as HUBZone or 8(a) Business Development program businesses in the System for Award Management (SAM.gov). In 2020, the General Services Administration (GSA) Office of Inspector General found $89 million in contracting dollars erroneously recorded as awarded to small businesses in the Federal Procurement Data System–Next Generation, the contract reporting system of record at the time of the audit.

The Small Business Act requires that 5 percent of all prime and all subcontracts for the federal government be awarded to contractors with small, disadvantaged business status. In December 2021, the Office of Management and Budget raised the prime contracting goal for small, disadvantaged businesses to 11 percent for FY 2022. Participants in the 8(a) program are considered small, disadvantaged businesses and awards made to them are also counted toward agency goals.

We also found SBA's Dynamic Small Business Search database did not consistently update when SBA made decisions on applicants' WOSB certifications. Contracting officers throughout the government rely on the certification status reported in the database, the system of record for SBA's small business contracting programs. The Dynamic Small Business Search database integrates with SAM.gov. Without reliable information, contracting officers may be awarding contracts set aside for disadvantaged small businesses to ineligible firms.

We have several concerns from past audit work that falls under this issue, so we are highlighting here major concerns which are still being addressed by the agency.

HUBZone Eligibility Requirement

GAO's *Small Business Administration Could Further Strengthen HUBZone Eligibility Reviews in Puerto Rico and Programwide* (GAO-18-666) and OIG's audit *SBA's HUBZone Certification Process* (Report 19-08) found SBA did not ensure only eligible firms entered the HUBZone program.

This program was created to bring more economic opportunity to small, disadvantaged businesses and workers located in areas categorized as historically underutilized business zones. In late 2019, SBA changed a HUBZone requirement allowing the businesses to employ a large percentage of its workforce outside the HUBZone, widening eligibility and, we believe, deviating from congressional intent. Under the new requirement, the business continues to qualify as long as it has employees who lived in a HUBZone for at least 180 days leading up to the date of recertification. This means HUBZone businesses could have no employees residing in the HUBZone and still qualify.

Small, Disadvantaged Business Goaling

Federal agencies will need to expand procurement activities to deliver on the President's goal of increasing the share of federal contracts awarded to small, disadvantaged businesses from 5 to 15 percent by 2025. SBA program success and integrity could be adversely affected if the agency admits ineligible firms into programs intended for disadvantaged small businesses. SBA terminated its small, disadvantaged business certification program in 2008 as a result of past court decisions. Since then, firms have been allowed to self-certify, opening up the designation to risk. As of September 2023, SBA's Dynamic Small Business Search database included 300,836 firms that self-certified as small, disadvantaged businesses. Firms that falsely certify they are socially and economically disadvantaged may receive federal contracts counting toward the agency's goal achievements.

Based on FY 2022 contract data retrieved from SAM.gov, as much as $16.5 billion in prime contracts was awarded to small, disadvantaged businesses without a certification overseen by SBA. Given the large amount of federal contracting dollars awarded to these self-certified small, disadvantaged businesses, it is crucial for SBA to ensure that only eligible firms are counted.

Even though self-certification is inherently risky, SBA removed regulations allowing for protests of a firm's small, disadvantaged business status in FY 2020. SBA manages a protest process, which means interested parties to the contract that had been set aside for small businesses can challenge the size or status of an entity in line to receive the award. This process is intended to instill integrity within SBA's small business contracting programs.

While firms were still subject to protests related to their small business size, business owners' status as socially or economically disadvantaged could not be challenged. We discovered this oversight and reported it to SBA. In September 2022, SBA proposed to authorize reviews and protests of the small, disadvantaged business status in connection with prime contracts and subcontracts to a federal prime contract. SBA requested comments on that proposal and others by November 8, 2022. The agency recently issued a final rule, effective May 30, 2023, to allow for reviews of the small, disadvantaged businesses status.

Agency Progress

SBA has made substantial progress in adding controls to detect ineligible firms in the HUBZone program, such as:

- Updating procedures and training staff on its HUBZone policy directives to standardize analysis and oversight;
- Requiring each firm complete a program examination every 3 years;
- Taking action to decertify firms that are no longer eligible for the program, decertifying 3,750 firms as of June 1, 2023; and
- Educating HUBZone firms on meeting part-time employee requirements.

While recent regulatory and procedural changes improved SBA's oversight of firms in the HUBZone program, the changes also removed a certain control that we believe is essential for proper oversight. The new HUBZone employee residency requirement could reduce the program's ability to meet legislative intent. Allowing certified businesses to count employees who are not current HUBZone residents does not help provide economic opportunity to HUBZone residents.

SBA has achieved significant progress on the issue involving small, disadvantaged business goaling by making the following improvements during FY 2023:

- SBA recently issued a final rule, effective May 30, 2023, to allow for reviews of the small, disadvantaged businesses status.
- SBA strengthened the process it uses to alert other federal agencies of potentially inaccurate contracting data in SAM.gov, the system SBA relies on to assess government-wide goaling achievements and grading federal agencies using the small business contracting scorecard.
- SBA improved its regulations for handling protests, requiring that program officials review entities representing themselves as a small, disadvantaged business on a federal prime contract or subcontract whenever the agency receives credible information.
- SBA also worked with GSA to add clarifying language to SAM.gov so that business owners self-certifying as a small, disadvantaged businesses are prompted to review the definition in the Federal Acquisition Regulation.

Issue: Women-Owned Small Business Federal Certification Program Susceptible to Abuse

SBA's Women-Owned Small Business (WOSB) program is intended to give eligible companies greater access to federal contracting opportunities, ensuring a level playing field for women business owners. Both OIG and GAO have reported weaknesses in SBA's controls intended to ensure only eligible firms receive federal contracts set aside for these businesses.

The federal government's annual contracting goal for WOSBs is 5 percent of all federal contracting dollars. The WOSB program is a subset of this larger goal, but not the sole driver. The government limits competition for set-aside WOSB and economically disadvantaged women-owned small business federal contracts to participants in the WOSB Federal Contracting Program. Some contracts are awarded directly with no competitive bidding. Such contracts are known as sole-source awards. This means significant contracting dollars and taxpayer funds are at stake, beginning with program eligibility and certification of the designation.

The 2015 National Defense Authorization Act required qualifying small businesses to be certified by a federal agency, a state government, SBA's Administrator, or a national certifying entity approved by the Administrator.

Women business owners seeking to participate in the WOSB program may submit an application and supporting documents to SBA at no cost via WOSB.Certify.sba.gov, or pay a fee to be certified by an official third-party organization. As mandated in FY 2015, SBA has four approved third-party certifiers that are allowed to charge a fee to certify the WOSB or the economically disadvantaged women-owned small business.

In our audit *SBA's Implementation of the Women-Owned Small Business Certification Program* (Report 22-20), we reported that SBA established its WOSB certification process to collect documents to verify applicants met most program eligibility requirements, but did not require any documentation to ensure businesses met SBA size standards. SBA analysts also did not always ensure women were the majority owners and controlled the business. In our analysis, we found 3 of the 25 firms we reviewed did not have documentation showing that a woman controlled the business. To ensure that only small businesses owned and controlled by women benefit from the WOSB certification program, SBA must create a control environment requiring all eligibility requirements to be verified.

SBA and other agencies rely on a third party for many WOSB certifications, but SBA is still not conducting consistent reviews of these organizations to make sure only qualifying women-owned businesses receive the benefit. This has been a challenge for the agency since 2014, when GAO first recommended SBA establish procedures to assess the performance of the third-party certifiers.

Agency Progress

SBA has made progress toward addressing risks in the Women-Owned Small Business program, including:

- Launching WOSB.Certify.sba.gov, the operational platform used to manage the certification process for the WOSB and economically disadvantaged women-owned small business programs in July 2020;
- Conducting WOSB certification determinations in October 2020;
- Hiring additional WOSB analysts, a program director, and increased the number of staff supporting the program;
- Holding bi-weekly webinars to help prepare the firms whose applications were returned for a more successful reapplication;
- Implementing new measures to verify WOSB program data and develop repairs or workarounds to reduce the risk of reporting inaccurate data in FY 2023;
- Cross-checking data between databases to identify and remedy errors on a semi-annual basis; and
- Establishing a desk guide in December 2022 for staff to follow when reviewing applications.

Although SBA has drafted standard operating procedures for application reviews, SBA managers determined they would not implement OIG's recommendations to review documentation to verify that applicants meet small business size standards. SBA disagreed with OIG's interpretation that the 2015 National Defense Authorization Act required SBA to verify that the business was small in addition to the requirement that the business be owned and controlled by a woman. We alerted the Audit Follow-up Official of our concerns in accordance with our policy. The Audit Follow-Up official decided the agency would continue to allow applicants to self-certify that the business met size standards. While OIG believes that removing self-certification from the WOSB program is essential to reducing the risk, OIG will not take further action and has closed the recommendation.

Challenge 3: SBA Faces Significant Challenges in IT Investments, System Development, and Security Controls

Why This Is a Challenge

The inherent risks and related internal controls related to this challenge are included on the Government Accountability Office's (GAO) federal high-risk list: IT investments, SBA's emergency loan process, and cybersecurity. According to GAO, this list comprises federal programs and operations that need reform because they are vulnerable to waste, fraud, abuse, and mismanagement.

SBA uses third-party providers to provide application processing services for multiple assistance programs, including veteran assistance and loan processing. Federal guidance, such as OMB Circular A-123 and the Federal Information Security Modernization Act (FISMA), requires agency management to validate the adequacy of controls by third-party service providers. Commercial software development requires transparency, ability to resist attack, and controls to prevent tampering by malicious actors. Moreover, SBA needs to implement rigorous and predictable programs to monitor supply chain security over this software.

IT investments, system development, and security controls are managed primarily through entity-level control activities. These activities allow the agency to meet its objectives, address related risks, and ensure information technology continues to properly operate. SBA must maintain and establish IT design and security control baselines essential to protect information and preserve data integrity.

Issue: SBA's IT Investment Controls Need Improvement

Effective IT system design and development improve business processes and reduces the cost of providing essential government services. SBA must establish effective IT investment controls to ensure the agency meets performance metrics, projected schedules, and estimated costs.

The SBA Business Technology Investment Council (BTIC) oversees significant IT investments and monitors system development, design, and security controls. The BTIC is responsible for implementing key provisions of the Clinger-Cohen Act, also known as the Information Technology Management Reform Act. It charges chief information officers with the duty to monitor, evaluate, and report agency performance of IT programs. The BTIC monitors development performance against requirements and baseline controls, facilitates corrective actions, and provides transparency to the investment control process. This oversight is critical to ensure systems are delivered in a cost-effective manner and that SBA's technical infrastructure is designed and maintained properly.

The BTIC met in September 2022 to start a re-design of its oversight controls. These controls will address project investment cost, schedule, and performance. The re-design will provide improved oversight of project schedules and costs.

Standard Operation Procedure (SOP) 90 82, Procedure for Managing SBA IT Investments Investment Review Board, requires an investment control framework to integrate investment planning and execution. This policy specifically requires reviews be conducted on an annual basis to determine the overall health of an existing investment, approve project level requests, and assign project resources if needed. SBA's SOP IT Investment Performance Baseline Management Policy requires that the BTIC be involved for the whole life of the IT project/investment. The policy further states the BTIC should provide direction on reviewing and approving the SBA IT portfolio. The council should be helping the agency create the optimum return on its IT investment. The BTIC should be supporting the agency's mission and ensuring the accountability of SBA business and IT investments.

Agency Progress

After reviewing February 2023 SBA BTIC meeting minutes, we found many investment controls previously identified as missing in the FY 2020 – 2022 timeframe, were still not in place. We found the BTIC did not consistently report on the performance of previous IT investments or provide the basis of its acceptance or continuation of new and existing investments.

Until this process is implemented there will be little oversight over SBA's IT investments. The agency made progress in designing a new investment oversight framework, but preliminary implementation of this re-design is not planned until the second quarter of FY 2024.

SBA can improve in these specific areas:

- Full adherence to preliminary design criteria and agency SOPs, which includes approval by the BTIC and Architectural Review Board.
- Effective project baseline management, which allows planned results to be assessed against investment performance and then actions taken to improve performance.
- Ongoing quality assurance reviews to assess development progress, improvement, baseline management policy controls.
- Periodic analysis of investment performance throughout the project lifecycle to identify improvement areas.

Full implementation of the above controls will allow senior agency leaders, Congress, and other stakeholders to better gauge SBA's IT oversight and performance. These controls will deter fraud and better protect the identity of taxpayers who have received SBA assistance.

Issue: Existing System Development and Monitoring Controls Need to Reflect Changing IT Design Risks

Our past audit work identified multiple areas in system development and monitoring controls requiring improvement. Through our FISMA evaluations and monitoring of open recommendations, we found the agency made progress in these areas. SBA updated its policy for System and Organization Controls (SOC) 1 Type 2 reports. Yet we found these issues with SBA's system development methodology and system acceptance controls. Many of the control areas identified below will be tested in our ongoing audits and evaluations.

Communication and Mitigation of Privacy Risks

In the last 3 years, OIG has identified potential privacy and identity internal control weaknesses. In *COVID-19 and Disaster Assistance Information Systems Security Controls* (Report 22-19), we recommended that a process be established to communicate identified privacy and identity risks. FISMA criteria recommends the development of performance metrics to monitor the effectiveness of SBA's privacy internal controls. The agency has revised its privacy impact assessment process to address this issue.

Coordination of System Contracts and Data Management Oversight

In our Report 22-19, we also found SBA managers did not fully implement controls to show that external service providers adhered to federal cybersecurity and supply chain risk management requirements. Also, SBA management did not document assessment and review of the supply chain-related risks as required by FISMA guidance.

We recommended that SBA enforce the requirement to establish and implement internal controls to ensure program officials perform and document contract reviews. This will ensure that information security is addressed in the contract language, as required by OMB Circular A-130 and SBA SOP 90 47 6.

FISMA guidance requires continuous monitoring of third-party software security controls. SBA officials stated they would revise their IT Governance Framework to ensure contracts are updated with the appropriate security language.

Monitoring of Third-Party Systems

In our Repot 22-19, we recommended SBA fully update its policy to provide a roadmap for the purchase, launching, and management of software and related application development activities. Updated system guidance is crucial for monitoring third-party systems used to process transactions integral to the mission of SBA. The agency must update its guidance for purchasing and related system development to validate essential controls exist before a system is put into production.

In response to Report 22-19, SBA plans to revise the agency's SBA System Development Methodology and provide procedural guidance over supply chain risk management practices including applications with high-value asset system designation.

Updated System and Organization Controls Reports

In the *Independent Auditors' Report on SBA's Fiscal Year 2022 Financial Statements* (Report 23-02), the OIG's independent public accountant was unable to obtain reasonable assurance regarding the reliability and integrity of reported financial data for critical third-party systems, which contributed to two disclaimer audit opinions for FYs 2020 and 2021. The SOC 1 Type 2 report provides assurance that reported financial data is complete and reliable.

SBA has updated its policies to ensure that prior to issuing a contract, SOC 1 has been reviewed and impact assessed on SBA internal controls as well as modify ongoing contracts where a SOC 1 may be necessary.

System Acceptance Controls and Monitoring to Limit Risk

In our Repot 22-19, we recommended SBA meet federal guidance in delivering program funds to eligible taxpayers. Testing protocols must be fully implemented, even within limited timeframes, and then independently tested to ensure they operate as designed. Acceptance criteria must also specify the minimum desired functionality acceptable for a system to be put into operation.

Agency Progress

Through our FISMA evaluations and monitoring of open recommendations, we found the agency made progress updating its polices to ensure that prior to issuing a contract, security controls have been reviewed and impact assessed and modifying ongoing contracts where a SOC 1 may be necessary.

In response to OIG Report 22-19, SBA plans to revise the agency's System Development Methodology; and provide procedural guidance over supply chain risk management practices, including applications with high-value asset system designation.

The agency stated it will update policy to require that all systems include an assessment of security risk management activities via the Cyber Risk Management Platform by July 31, 2024.

Issue: Additional Progress Needed in IT Security Controls

Inspectors general are required by FISMA to assess the effectiveness of information security programs on a maturity model spectrum and assess security capability in eight domains.

For FY 2023, the scope of the FISMA evaluation included a core set of 20 metrics and a supplemental set of an additional 23 metrics. The maturity model criteria places SBA at an overall level of "not effective."

Agency Progress

The current benchmark for an effective program within the context of the maturity model is managed and measurable. SBA quickly responds to identified vulnerabilities but continues to experience reoccurring control challenges in the areas of user access, configuration management, and security training and risk management.

Challenge 4: SBA Risk Management and Oversight Practices Need Improvement to Ensure the Integrity of Loan Programs

Why This Is a Challenge

SBA's Office of Credit Risk Management manages credit risk for the agency's loan portfolio of approximately $173 billion (as of December 2022), and this includes the remaining outstanding loans made through the Paycheck Protection Program (PPP). As discussed in Management Challenge 1, SBA's lack of internal controls led to significant fraud risk and vulnerabilities. Additionally, we found SBA did not have an organizational structure with clearly defined roles, responsibilities, and processes to manage and handle potentially fraudulent PPP loans. As of December 2022, SBA has made forgiveness payments exceeding $750 billion to over 4,700 PPP lenders, which the SBA Office of Credit Risk Management has the responsibility to oversee. PPP loans were originated by lenders and other companies that often have a low degree of expertise in SBA loan program requirements, which is why this continues to be a challenge for FY 2024.

Lenders often rely on the services of fee-based and other third-party agents to help originate, close, service, and liquidate SBA loans. Most traditional SBA-guaranteed 7(a) and 504 Certified Development Company loans are originated by lenders with delegated approval authority. Generally, these lenders are subject to only limited SBA oversight and quality control unless a borrower defaults on a loan.

Our previous audits have found SBA has not adequately recognized or managed significant lender weaknesses. In our *Audit of SBA's Oversight of High-Risk Lenders* (Report 20-03), we identified additional internal control weaknesses in lender oversight.

Previous OIG audits have also shown that SBA did not effectively identify and track third-party agent involvement in its 7(a) and 504 loan portfolios. Tracking such agents is crucial in managing the portfolios because many lenders rely on the services of fee-based and other third-party agents to help originate, close, service, and liquidate SBA loans.

Issue: SBA's Oversight of High-Risk Lending Participants

The risks inherent in delegated lending require effective oversight to monitor compliance with SBA policies and procedures and corrective actions to address noncompliance. However, in Report 20-03, we found that the SBA Office of Credit Risk Management did not always effectively oversee high-risk lenders to identify and mitigate risks. Specifically, SBA did not always:

- Conduct planned high-risk lender reviews,
- recommend appropriate and consistent risk mitigation actions for the deficiencies identified during the oversight reviews of high-risk lenders, and
- communicate loan deficiencies noted during high-risk lender reviews to SBA approval and purchase loan centers.

Agency Progress

SBA has worked to address issues with its oversight of lenders in response to our audit recommendations and, in FY 2021, improved its ability to oversee high-risk lenders by:

- Issuing the Final 7(a) Lending Oversight Rule and publication of Standard Operating Procedure (SOP) 50 53 (2) on supervision and enforcement,
- Realigning the organizational structure of the Office of Credit Risk Management to strengthen lender oversight and add resources to the review teams for effective oversight, and
- Implementing quarterly meetings to ensure adequate oversight of lenders with elevated risk profiles.

In FY 2023, SBA continues to revise SOP 51 00 2, On-Site Lender Reviews/Examinations, and document the process for on-site lender reviews and examinations, which is planned to be finalized by the agency in December. This revision will include the communications protocol that was developed by SBA to document deficiencies identified during loan file reviews and to then share this information with SBA loan centers and other internal stakeholders.

In FY 2023, SBA took additional actions to improve its ability to oversee high-risk lenders by issuing SOP 50 56, Lender Participation Requirements. The agency increased frequency of review activities for 7(a) Lenders with portfolios of $350 million or greater and SBA Supervised Lenders. It increased review activity with the Office of Performance and Systems Management and Fiscal and Transfer Agent to assist lenders with loan reporting compliance.

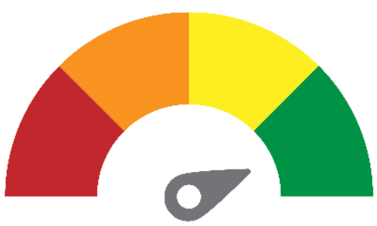
The agency implemented a scaled down review for 7(a) lenders with delegated authority and 7(a) loan portfolios between $1 million and $10 million to review between one and three recently disbursed loans. It implemented quarterly reviews where the sample is taken from high-dollar loans coded as early defaults. SBA formalized quarterly high-risk lender meetings where lenders with an elevated risk profile are discussed and SBA leaders ensure that oversight activity is adequate.

Although SBA has made substantive progress, it has not addressed the remaining three recommendations in Report 20-03. Agency management has indicated it needs time to finalize and implement oversight policies and procedures, including SOP 51 00 2. Agency managers need to obtain additional information to confirm that identified deficiencies have been corrected.

While SBA has made substantial progress in its oversight of high-risk lending participants, in Report 23-05, *White Paper: 7(a) Loan Program During SBA's Response to the COVID-19 Pandemic*, we found oversight staffing levels in the Office of Credit Risk Management decreased from 42 to 26 employees, or by 38 percent. This staff reduction could affect SBA's FY 2023 goal for oversight reviews, which help ensure lender compliance with program requirements and sustain the progress SBA has achieved addressing this issue. The report indicated that to ensure 7(a) loan program integrity and reduce the risk of financial loss, SBA should consider potential risks related to staffing shortages in its 7(a) risk strategy. Since Report 23-05 was issued, SBA stated that the Office of Credit Risk Management has been successful in recruiting additional staff and utilizing staff from other departments and contract personnel.

OIG will continue to monitor SBA's ongoing efforts to address open recommendations in this report, including developing effective oversight policies and procedures and a comprehensive database or workflow management tool to manage oversight of high-risk lenders.

Issue: Increased Risk Introduced by Loan Agents



Previous OIG audits and investigations have shown SBA could not effectively identify and track loan agent involvement in its 7(a) and 504 loan portfolios. OIG investigations have also revealed a pattern of fraud by loan packagers and other fee-based agents in the 7(a) loan program involving hundreds of millions of dollars. Despite the prevalence of fraud in its loan portfolios, SBA's oversight of loan agents was limited.

SBA requires lenders to provide a loan agent disclosure form (Form 159) to SBA's fiscal and transfer agent for 7(a) loans that involve a loan agent. The fiscal and transfer agent is a contractor who supports SBA by serving as paying agent for all investor payments, processes lender loan reporting, and payment remittance reconciliations. The fiscal and transfer agent also serves as the central registry for all guaranteed secondary-market interests. The fiscal and transfer agent must enter the data into a database accessible to SBA. Prior OIG audits identified significant issues in the data quality of Form 159 being tracked by the fiscal agent. We also found that SBA had not begun tracking Form 159 in the 504-loan program.

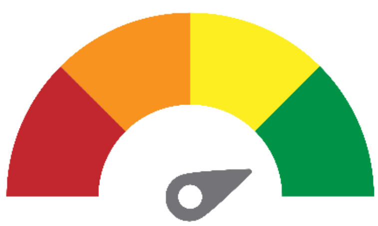
Agency Progress

SBA's oversight of loan agents has been a long-standing challenge that the agency has made great progress in resolving. SBA took actions to improve the information collected on loan agents by enhancing Form 159, which improved its ability to oversee loan agents. The improvements included:

- Requiring lenders to electronically submit Form 159s through the Capital Access Financial System,
- Developing application and follow-up controls to ensure critical fields on each form are completed,
- Aggregating and reporting on loan agent activity to analyze lender portfolios, and
- Considering the loan agent activity for lenders under review and regularly reporting on risks associated with loan agents across the 7(a) portfolio.

Because loan agent involvement in the 7(a) program is significant, it is important for SBA to have oversight tools that monitor loan agent involvement in this sizeable program. SBA also needs to effectively manage the risk introduced by high-risk loan agents. OIG plans to conduct work related to agents involved in the PPP and monitor risks related to SBA's oversight of loan agents.

Issue: Increased Risk Introduced by Lender Service Providers



In August 2021, an SBA OIG investigation resulted in the conviction of five people on all charges in a 13-year conspiracy to defraud SBA in connection with programs to guarantee loans made to small businesses.

The five people fraudulently obtained guarantees for loans SBA deemed ineligible. They hid signs of ineligibility from SBA by misrepresenting the use of SBA loan proceeds and unlawfully diverting previously denied loan applications into expedited approval channels. They originated dozens of loans, totaling more than $10 million in disbursements, that were not eligible for SBA guarantees. SBA has had to contend with risks introduced by the outsourcing of traditional lender functions to lender service providers, a type of loan agent, for some time.

The number of SBA-approved lender service provider agreements has grown significantly, in part because of SBA's effort to better control access to its systems by lender service providers. SBA assigns an identifying number to all lender service providers that access SBA systems and records all SBA-approved agreements. The limited oversight capacity within the Office of Credit Risk Management to oversee its lenders also may challenge its ability to monitor the Lender Service Providers operating on behalf of these lenders.

Agency Progress

Since we first reported on these issues in 2015, SBA has implemented internal controls related to the tracking and monitoring of lender service provider involvement in SBA's loan programs. Specifically, SBA:

- Established a method to track lender service provider involvement at the loan level;
- Established procedures to assess provider activities and oversight, as part of lender risk-based reviews that include file inspection; and
- Worked with a contractor to aggregate lender usage of lender service providers and to develop a performance analysis for lender service provider portfolios to identify any high-risk providers and identify the lender with whom they are aligned.

SBA's analyses since 2021 have indicated that loans with a lender service provider generally performed worse than those without provider involvement in both guaranty purchase and early default rates.

It remains critically important for SBA to continue to evaluate performance and act when necessary to effectively reduce the incurred risks. We will continue to assess risks and conduct further audits and reviews as necessary.

Challenge 5: SBA's Management and Monitoring of the 8(a) Business Development Program Needs Improvement

Why This Is a Challenge

SBA's 8(a) Business Development Program was created to provide business development assistance to eligible small, disadvantaged businesses seeking to compete in the federal marketplace. A major benefit of the 8(a) program is that these certified firms can receive sole source and set-aside contracts. Sole-source awards are contracts proposed for award without competition. A set-aside award is a proposed contract with competition limited to small businesses. This means small businesses do not have to compete against large businesses that may have an industry advantage.

The goals of these contracts and certification programs are that the federal government receives the needed services for the benefit of taxpayers and also helps diversify the economy by supporting small business. In looking ahead to how courts are weighing in on the aspect of social disadvantage, we anticipate effects to several of SBA's certification programs like the 8(a) program. A review of SBA's process for determining eligibility will be planned in the future. The agency continues to address the challenges in providing effective business development assistance, as well as measuring and reporting the outcomes of the program.

Issue: SBA Continues to Address Its Ability to Develop Firms in the 8(a) Program and Measure Results

SBA has historically emphasized business development to enhance the ability of 8(a) firms to better compete for federal contracts. SBA offers individualized development assistance to program participants and also makes referrals to its resource partners, Small Business Development Centers, a volunteer mentor network composed of retired executives and entrepreneurs, Women's Business Centers, Veterans Business Outreach Centers, and affiliate Apex Accelerators (formerly known as Procurement Technical Assistance Centers).

Despite this, SBA has not fully established an information technology system to perform regular performance monitoring and reporting for 8(a) participants to ensure progress within their business plans. Without an effective IT system to monitor 8(a) participant progress in meeting individualized business development goals, SBA may not be able to consistently determine if 8(a) participants have demonstrated the ability to compete in the open marketplace without program assistance.

SBA has not finalized next steps for IT development that would facilitate tracking, measuring, and monitoring individual business progress. To bridge the gap in the interim, SBA in FY 2020 revised the Business Opportunity Specialist Annual Review Workbook. The specialist uses this Excel workbook for each firm during annual reviews to evaluate business development, competitive business mix of 8(a) and non-8(a) revenue, and financial condition. The specialist also reviews other business proficiencies, such as marketing and government contracting goals.

SBA's IT challenge is not the sole reason the 8(a) program has not improved in measuring the development of firms over the years. In our report *SBA's Business Development Assistance to 8(a) Program Participants* (Report 22-08), we found SBA's processes did not consistently allow for SBA or stakeholders to determine whether firms met their individual goals to successfully complete the 9-year program.

SBA did not ensure specialists regularly monitored a participant's business goals, assessed business development needs, and followed up with actions for training and accountability. We found that 15 of the 40 firms tested did not have approved business plans with identified goals, making them ineligible to receive 8(a) contracts. We questioned $93 million in 8(a) set-aside or sole-source contracts that four of the firms were awarded.

SBA also did not establish performance measures at the program level to know whether the 8(a) program was successful as an SBA program. There are no relevant performance metrics to gauge the outcomes of the program or to know the effects the program is having on small businesses.

Without consistent procedures, there is no assurance that participants received the business development assistance needed for them to become viable competitors in the contracting arena. As a result, the agency continues to face challenges on how it can best manage a program that will effectively increase the participation of small businesses in the American economy.

Agency Progress

Notwithstanding the issues noted above, SBA has made substantial progress to improve its ability to develop firms in the 8(a) program and measure results. The agency has completed these things:

- Implemented a standard process to ensure initial business plans are monitored and annual reviews capture the 8(a) participant's business plan updates;
- Issued Procedural Notice 6000-836899 (effective August 2022), which standardized 8(a) business processes and required all district offices to ensure that 8(a) firms obtain their business plan approval prior to the first contract being awarded; and
- Mandated the use of the updated Business Opportunity Specialist Annual Review Workbook that track development of firms throughout the 9-year program, across all district offices when conducting annual reviews.

Officials added sections for capturing data on a firm's competencies in marketing, human resources, financial condition, sales trends, management experience, and government contracting goals. The agency is initiating plans to include a business proficiency matrix in the workbook so the specialist can use stated metrics to evaluate a firm's skill level in each competency and make referrals to resource partners or training available through SBA's 7(j) Management and Technical program, in line with the firm's business development needs.

The enhancements to the workbook will allow SBA to aggregate and analyze the data to identify trends at the 8(a) program level, which will improve SBA's ability to provide timely and accurate results of program measures and outcomes for an annual congressional report. SBA is developing a long-term strategic plan that aims to provide all 8(a) certified firms throughout the country with equitable business development assistance. When fully implemented, the enhanced processes could help emphasize business development rather than solely focusing on eligibility and annual compliance.

Challenge 6: Identification of Improper Payments in SBA's 7(a) Loan Program Remains a Challenge

Why This Is a Challenge

OIG audits and reviews have identified 7(a) loans that were made to ineligible borrowers, given to borrowers who did not have the ability to repay, or were not properly closed, resulting in improper payments. Improper payments occurred in part because SBA did not adequately review related loans, which is why this remains a management challenge this year.

In FY 2022, the dollar amount of SBA's 7(a) loan approvals totaled $25.9 billion. Most of these loans were made by lenders with delegated approval authority. When a loan goes into default, SBA reviews the lender's actions on the loan to determine if it is appropriate to pay the lender the guaranty, which SBA refers to as a guaranty purchase.

About 9 years ago, OIG established a High-Risk 7(a) Loan Review Program to evaluate lender compliance with SBA requirements for high-dollar, early defaulted 7(a) loans. High-dollar, early defaulted loans are $500,000 or more and default within the first 18 months of initial disbursement. The 7(a) loan program has been the agency's largest financing program for general business needs, so it is vital that SBA identify and reduce the risk of improper payments to meet its objectives for the program.

Issue: Improvements Needed to Ensure High-Risk 7(a) Loan Reviews Reduce the Risk of Losses

Between 2014 and 2019, OIG conducted risk-based reviews of 7(a) loans and recommended recoveries on 17 loans totaling more than $19.3 million. In addition, we identified suspicious activity on five loans totaling nearly $4 million, which were ultimately referred to our Investigations Division. Although SBA completed purchase and quality control reviews on all the loans, the agency did not identify or fully address the material deficiencies noted in the OIG review.

The OIG High-Risk 7(a) Loan Review Program used an internal scoring system to prioritize loans for review by level of risk. This evaluation included a review of high-risk loans purchased by SBA to determine whether lenders complied with SBA requirements and identified suspicious activity.

Our reviews of high-risk loans have consistently identified issues regarding eligibility, repayment ability, size standards, franchise agreements, business valuations, appraisals, equity injection, and debt refinance. Our review program also has helped us identify concerns with change of ownership transactions and SBA's identification of improper payments.

In May 2023, we reported that SBA did not demonstrate improvements to payment integrity for 7(a) loan guaranty purchases as the improper payment estimate increased between FYs 2021 and 2022, as detailed in the *Independent Auditors' Report on SBA's Fiscal Year 2022 Compliance with the Payment Integrity Information Act of 2019* (Report 23-07).

Agency Progress

Despite the issues identified in the May 2023 report, we noted that SBA has made progress in addressing the identification of improper payments in the 7(a) program since FY 2020, including:

- Allowing loan specialists more time to review complex early defaulted loans;
- Improving its review of loans;
- Training loan specialists and updating the loan review checklist;
- Providing regular feedback to loan center management and staff regarding improper payments, root causes, and corrective actions;
- Internally evaluating its purchase process and quality control reviews for 7(a) guaranteed loans to determine why the loan center reviews did not identify or correct lenders' noncompliance with SBA requirements;
- Conducting a training session at the loan center focused on the requirements and SBA review of documentation related to the source of funds used for equity injection; and
- Providing training at lender conferences on the most common root causes of the improper payments.

SBA revised and issued SOP 50 57 3, 7(a) Loan Servicing and Liquidation Standard Operating Procedure, in August 2023. SBA will provide training to staff and lenders on the new SOP.

We continue to communicate with the agency about previous recommendations for recoveries as part of the audit follow-up process. We will monitor risks in this area and conduct audits and reviews as necessary.

Challenge 7: SBA's Disaster Assistance Program Must Balance Competing Priorities to Deliver Prompt Assistance but Prevent Fraud

Why This Is a Challenge

SBA contributes to disaster recovery by providing long-term, low-interest loans to affected homeowners, renters, businesses of all sizes, and nonprofits. SBA must continually balance the priority of quickly assisting survivors in the immediate aftermath of a disaster with the need to mitigate fraud risk and ensure program integrity. To do so, the agency faces challenges in staffing, quality assurance, and increased loan servicing requirements.

Issue: Reserve Staff Need Training to Sustain Productivity During Mobilization

The magnitude of the pandemic relief demand (27.7 million applications received as of December 31, 2021) required SBA to rapidly increase and train staff; staffing numbers rose to historic levels. The number of personnel needed to serve during the pandemic was almost twice the previous record high staff total. In addition, the agency had to develop the needed training to address the new criteria for COVID-19 EIDLs.

Effective July 3, 2022, the agency reorganized its Office of Disaster Assistance. SBA moved the entire disaster lending program from the Office of Disaster Assistance to the Office of Capital Access. The Office of Disaster Recovery and Resilience manages the agency's non-lending aspects of the disaster program (such as the immediate response group).

SBA's Office of Disaster Assistance increased its trained staff from 800 to more than 5,000 employees in December 2017 to respond to hurricanes Harvey, Irma, and Maria. In response to the COVID-19 pandemic, the Office of Disaster Assistance increased its permanent and temporary staff size from about 1,200 at the onset of the pandemic to more than 11,500 by December 2020. In those 9 months, the staff was increased nearly 10 times.

Agency Progress

SBA management made good progress on this long-term issue during the pandemic. SBA implemented a cross-functional training plan, as well as online and automated tutorials, a change that resulted from a previous report. The COVID-19 pandemic required SBA to train and mobilize the largest number of new employees ever in its history.

Bringing on a large temporary staff in response to a major natural disaster will always be a challenge for any organization, including SBA. However, during the past couple of years, SBA was able to increase its staff by almost tenfold to provide COVID-19 pandemic financial assistance. The new disaster assistance employees expanded the pool of reserve staff that can be activated for future disasters. The lessons learned from this surge inform the agency’s current hiring and training practices; therefore, this issue has achieved a rating of yellow.

Although the agency has now achieved a rating of yellow, the Office of Capital Access is urged to keep monitoring the need to revise and update its plan for rapid staff surge and the associated need to update its training. This is needed to ensure a high level of customer service with reduced applicant processing times, and to ensure eligible applicants receive the federal assistance they need in a timely manner. The strain of the pandemic response effort made these concerns more evident. This is significant because SBA is developing a new computer system to process disaster loan applications. SBA is currently running a test of its Unified Lending Platform, with full implementation planned to roll out in late 2023.

Issue: Improper Payment Quality Assurance Process Needs Strengthening

SBA received a historic number of loan applications during FY 2020 through FY 2022 when COVID-19 relief programs were established. SBA tests a statistical sample of these loans for improper payments. Because the total of the number of loans that have been approved and disbursed is so large, the statistical sample also is large, which has highlighted issues in SBA’s improper payment process. As a result, providing an accurate estimate of the improper payment poses a significant challenge to the disaster program.

An improper payment is any federal government payment made to an ineligible recipient or for an ineligible good or service, duplicate payment, or payment for goods or services not received (except for such payment authorized by law). While not every improper payment is fraudulent; every fraud is an improper payment. This highlights the need to ensure internal controls result in eligible recipients gaining access to programs.

In our *Audit of the Office of Disaster Assistance Improper Payment Appeal Process* (Report 20-07), we found the improper payments appeal process effectively assessed improper payments, but the initial review process was inefficient.

Our *Independent Auditors' Report on SBA's Fiscal Year 2022 Compliance with the Payment Integrity Information Act of 2019* (Report 23-07) found the sampling and estimation methodology plans were not statistically acceptable for SBA disaster assistance loans, COVID-19 Economic Injury Disaster Loans, and Economic Injury Disaster Loan Targeted advanced programs and activities. The population of outlays reported in the agency financial report were not reconciled to the general ledger and were not complete. Consequently, certain transactions were omitted from the population and excluded from SBA's review procedures. As a result, these programs and activities did not comply with the requirement of the Payment Integrity Information Act of 2019 to publish improper and unknown payment rates of less than 10 percent.

The Payment Integrity Information Act of 2019 requires agencies to publish improper payments information within an agency financial report or performance accountability report for each fiscal year. To be in compliance with the act, SBA must report an estimated gross improper payment rate of less than 10 percent for each program.

Agency Progress

While SBA had previously made significant progress to improve the quality assurance process, the results of our report regarding SBA's compliance with the Payment Integrity Information Act for FY 2022 indicate that issues continue to exist in the improper payment estimation process. To address the findings of that report, SBA entered into a contract with an independent statistician in December 2022, who has:

- Developed a statistically valid sampling and estimation plan. The plan for FY 2023 has been developed with sufficient documentation to support the methodology identified in the plan.
- Performed monthly reconcilements of the agency's outlays for the disaster assistance loan program. The contractor will continue to perform monthly reconcilements for the upcoming fiscal year. This action has been completed for FY 2023 and is ongoing for FY 2024.
- Developed a statistically valid sample of outlays in the disaster assistance loan program. This action has been completed for FY 2023 and is ongoing for FY 2024.
- Plans to develop statistical estimates of improper and unknown payment rates. This action will be completed to report rate estimates in the agency's annual financial report, as of September 2023.

Overall, while SBA has stated that it took actions to address our recent findings, it is too early to assess the agency's progress. OIG will perform its annual audit of the agency's compliance with the Payment Integrity Information Act for FY 2023. We will assess, at that time, whether the actions taken above addressed our concerns. At this time, we consider the agency to have made limited progress.

Challenge 8: SBA Needs Robust Grants Management Oversight

Why This Is a Challenge

In FY 2021, pandemic relief legislation authorized new, multibillion-dollar grant programs in addition to SBA's existing entrepreneurial development grant program portfolio. Congress authorized $45.3 billion for SBA to administer as grants to provide economic relief and technical assistance, nearly doubling SBA's existing technical assistance programs. This remains a challenge because SBA must ensure more than 111,000 grant recipients used the funds appropriately and measure the performance results of the pandemic grant programs. SBA administers grants to organizations that aid in counseling and training small business owners and emerging entrepreneurs. These entrepreneurial development programs are part of SBA's core mission to support and grow small businesses.

Because of the government-wide emphasis on grants management reform, it is SBA's responsibility to maximize the value of its grant funding to ensure its programs accomplish program objectives. In recent OIG audits, we have found ineffective oversight of grant recipients and systemic issues with the accuracy of SBA grant data in both financial and performance reporting.

Issue: SBA's Grants Management System Needs Improvement

Previous OIG reports have found SBA used an inefficient and error-prone system to manage its grant awards. The grant management system SBA used to award, monitor, and report on technical assistance programs required substantial manual data entry, which can lead to input errors.

Data inaccuracies inhibit the ability to effectively track federal spending. Errors also affect the agency's ability to report complete and accurate information on time, as required by the Digital Accountability and Transparency Act of 2014. Our advisory memorandum *Improvement Needed in the Accuracy of SBA Data Reported on USASpending.gov* (Report 18-15) detailed material weaknesses identified by an independent accounting firm in SBA's controls over the accuracy of grant award data reported on USASpending.gov.

Immediately after our alert was issued, program officials requested a review of the internal controls of the grant management process to assess and verify OIG's findings. SBA's internal auditors found that all 45 of the sampled awards included inaccuracies and deficiencies.

The grant management system was not completely integrated with SBA's financial system and required additional manual entry to obligate funds and authorize payments to grant recipients. Without a fully integrated system, the agency must continue manual and burdensome processes to manage compliance requirements. Manual workarounds were the main cause for the errors in the data reported on USASpending.gov. Reliable data in a grants management system ensures the federal funds are awarded to eligible recipients, disbursements are accurate, and that management can make informed decisions to effectively administer programs.

Agency Progress

SBA has made substantial progress in modernizing its grants management system over the last 5 years. It entered into an interagency agreement in 2019 with the U.S. Department of Health and Human Services for transition analysis, infrastructure setup, and training services to launch GrantSolutions.gov. SBA spent $2.5 million to implement the system to help the agency do these things:

- Improve funding management, award of grants, and process payments and closeouts;
- Enhance ability to develop accurate performance metrics reporting;
- Reduce compliance violations; and
- Increase auditability, accountability, and transparency.

The SBA Office of Grants Management implemented the GrantSolutions system for program office use, providing training to program officials on how to use the system during FY 2023. The office also works with each program office to identify program-specific system customizations that ensure the agency complies with federal and SBA policies.

As of FY 2023, the GrantSolutions management system is used by all grant making program offices, excluding those offices issuing pandemic related grants. The Shuttered Venue Operators Grant (SVOG) program opted to use a contracted customer relationship management system to manage its grants. The Restaurant Revitalization Fund (RRF) program developed its own application portal that interfaced with the SBA Office of Capital Access's systems to manage the application intake, processing, and award approvals. Both the SVOG and RRF programs were integrated into SBA's Joint Administrative Accounting Management System.

Since 2020, SBA has been working to integrate the SBA's Joint Administrative Accounting Management System with GrantSolutions.gov. Until the agency integrates the financial interface, program offices are still required to use the grant management system that they used prior to GrantSolutions, which was also not completely integrated with SBA's financial system. It requires manual entry to obligate funds and authorize payments to grant recipients. While SBA continues to have to work around the limitations, grants management officials perform monthly data quality assessments of the manually input data, reporting deficiencies.

Issue: Better Performance Measurements Needed to Monitor Grant Program Achievements

Our management alert on *Serious Concerns About SBA's Control Environment and the Tracking of Performance Results in the Shuttered Venue Operators Grant Program* (Report 21-13) found SBA did not establish performance goals and measurements for the grant recipients before disbursing $14.6 billion in SVOG funds.

After our management alert, SBA created a logic model in March 2021. The model helped identify outputs and outcomes to assess whether the program successfully aided small businesses in the live arts and entertainment industry.

We found in our *Evaluation of SBA's Award Procedures for the CARES Act Entrepreneurial Development Cooperative Agreements* (Report 21-11) that the agency did not establish clearly defined goals with targets for the award recipients. Because of this, SBA cannot effectively measure and accurately report performance results to assess whether the award recipient's performance met objectives, ensuring the pandemic relief programs were effective.

Federal regulations require awards to include performance goals. The agency must provide a standard to effectively measure grantee performance, such as the estimated number of jobs saved or created, tax revenue generated, or entity operational status.

GAO reported similar concerns about how SBA took limited steps in enforcing RRF reporting. Thirty-two percent of RRF recipients have not yet reported how they used their funds for 2021 (GAO-22-105442). Our audit report on *SBA's Oversight of Restaurant Revitalization Fund Recipients* (Report 23-15) found that as of June 2023, 20 percent of all recipients, with awards totaling $3.5 billion, had not yet filed the required report.

Program officials did establish performance goals and indicators for the supplemental CARES Act funds provided to Small Business Development Centers, Women's Business Centers, and the Resource Partner Training Portal, but SBA should have clearly defined the goals and set targets to more effectively ensure they were achieved as intended.

We first identified oversight of grant program performance as a top management challenge in FY 2019. To address these weaknesses, SBA updated its grant management policies and procedures. The agency required grant officers to enforce performance requirements and verify reported information as well as to ensure applicants' proposals include plans to measure performance in a way that will help SBA achieve program goals.

The SBA Office of Entrepreneurial Development had until September 2020 to fully adopt the updated policies, which are not reflected in the CARES Act entrepreneurial development grants. Without clearly defined performance goals and targets, SBA cannot effectively measure and accurately report performance results. Our evaluation *SBA's Oversight of the Grant Recipient's Implementation of the CARES Act Resource Partners Training Portal* (Report 22-07) found that SBA and its grant recipient that implemented the Resource Partner Training Portal, an initiative authorized under the CARES Act, did not set targets for performance goals to assess whether the portal met the intended purpose. We reported the portal did not serve as a major source for COVID-19 information. SBA awarded the grant recipient $18.6 million and less than 1 percent of 30 million eligible small businesses used the portal within the first year of the pandemic. Only about 62 resource partner counselors and mentors out of approximately 13,000 completed any of the training modules.

Without performance targets, program officials could not hold the Resource Partner Training Portal grant recipient accountable for ensuring the information hub served as a major source of COVID-19 related resources for small businesses and a training portal for resource partner counselors and mentors.

Agency Progress

SBA has made substantial progress in establishing performance measures for its grant programs. In FY 2022, the SBA Office of Grants Management collaborated with all of SBA's grants-making program offices to oversee an overall approach for implementing effective performance monitoring.

The SBA Office of Entrepreneurial Development applied lessons learned from our *Evaluation of SBA's Award Procedures for the Coronavirus Aid, Relief, and Economic Security Act Entrepreneurial Development Cooperative Agreements* (Report 21-11). The office established a variety of output and outcome-focused measures for the Community Navigator pilot program, authorized by the American Rescue Plan Act of 2021.

In the announcement for the program, SBA required grant applicants to establish realistic targets for the goals to measure achievements during grant performance. The Office of Entrepreneurial Development enforced its procedures by requiring clearly defined performance goals. The office included performance targets in all future Small Business Development Centers and Women's Business Centers cooperative agreements to objectively measure performance results.

In June 2021, SVOG program officials finalized a program evaluation framework. This framework examined venue survival and other outcomes across industry, geographic location, and business owner demographics. Additionally, program officials implemented SVOG performance metrics, such as revenue dollars earned, a shuttered entity's capacity to continue operation, and planned versus actual expenditures. This information will be collected as part of the close-out process.

SVOG program officials developed a customer experience and award outcomes survey. As of June 5, 2023, nearly 9,000 award recipients have received invitations to complete the survey. SBA expects a final report of the survey results and program evaluation by the end of FY 2024.

Issue: Comprehensive Oversight Plan with Strong Controls Will Help SBA Better Assess Risk, Distribute Payments, and Audit the Shuttered Venue Operators Grant and Restaurant Revitalization Fund

In our management alert on *Serious Concerns About SBA's Control Environment and the Tracking of Performance Results in the Shuttered Venue Operators Grant Program* (Report 21-13), we alerted management to concerns about SBA's initial plans for assessing applicant risk and setting payment disbursements.

Since the majority of SVOG grant awards were under a certain dollar threshold, they were categorized as low risk. These awards were disbursed in lump sum payments with minimal financial reporting requirements and expectations for post-award accountability.

SBA reported that as of July 5, 2022, the agency completed processing applications for the SVOG program. In total, SBA awarded $14.6 billion to 13,011 grant recipients, of which 9,800 received supplemental awards.

The Economic Aid to Hard-Hit Small Businesses, Nonprofits, and Venues Act of 2020 required SBA to submit the policies and procedures used to conduct oversight and audits of the grants to Congress. It also required measurement standards to determine which grants should undergo an audit. The SBA Office of Disaster Recovery and Resilience based its audit plan for this program on the risk level established for the payment distributions and financial reporting requirements for the grant recipients.

All grant recipients who received $10 million, which is the maximum amount for any single award, were going to be audited. It is likely a minimal number of recipients will be subject to an audit. The office's initial audit plan exposed the $16.25 billion grant program to potential misuse of funds because the bulk of grant funds will not be subject to a reasonable degree of scrutiny. SBA has finalized its oversight plan to include monitoring, audit, and closeout strategies that address the agency's obligation to uphold federal grant regulations and other applicable requirements.

In our inspection *SBA's Award and Payment Practices in the Shuttered Venue Operators Grant Program* (Report 22-15), we reported that even after determining multiple disbursements would better protect grant funds from fraud or misuse, SBA switched to a riskier single advance payment for all grantees. This lump sum payment method may have hastened award disbursement, but multiple disbursements are a better way to protect taxpayer funds. Multiple disbursements enable program officials to verify that grant recipients used initial award funds for allowable activities, before then disbursing the remaining award. Because SBA made this change, program officials will not be able to monitor grantees' use of the proceeds until the end of the award, when closing out the grant, after all the funds have been disbursed.

Some of the issues we identified in SVOG were also identified in the Restaurant Revitalization Fund program. In FY 2022, GAO reported that SBA had emphasized putting pre-award controls in place to manage risk but identified weaknesses in the design and operation of the internal controls (GAO-22-105442). As a result, the agency did not effectively prevent systemic control weaknesses throughout the award process.

Our inspection *SBA's Administrative Process to Address Potentially Fraudulent Restaurant Revitalization Fund Awards* (Report 23-10) found SBA designed the RRF application validation and approval processes using the GAO's *A Framework for Managing Fraud Risks in Federal Programs*. However, 3,790 applications submitted through a point-of-sale partner were processed without verifying gross sales, a key control designed to prevent ineligible entities from receiving awards.

In our recent audit of *SBA's Oversight of Restaurant Revitalization Fund Recipients* (Report 23-15), OIG identified issues with SBA's post-award process for the RRF program. The Office of Capital Access developed a post award report process to monitor the use of funds by awardees. All RRF awardees are expected to submit a post-award report to SBA itemizing the use of funds.

SBA is also performing a manual audit of approximately 10 percent of the 10,000 awards to confirm eligibility, award calculation, and use of funds. Although SBA developed a plan for monitoring and auditing RRF recipients, program officials did not implement the process as planned.

OIG found program officials did not obtain sufficient information to monitor the RRF program to ensure funds were used as intended. RRF recipients were required to submit their final use of funds report to SBA by April 30, 2023. As of June 2023, 20 percent of all recipients, with awards totaling $3.5 billion, had not yet filed the required report.

In addition, program officials selected 10 percent of the awards to review; however, they did not select all awards considered to be potentially fraudulent or ineligible, as originally planned. We identified 210 awards with indicators of potential fraud or ineligibility were not included in SBA's sample selection plan. We also found program officials did not implement procedures for recipients to return unused or improperly awarded funds to Treasury.

Agency Progress

SBA has made progress in its oversight of the SVOG and RRF programs. For the SVOG program, agency officials accomplished these things:

- Finalized a revised oversight plan and established procedures to monitor, audit, and close out awards;
- Drafted standard operating procedures to identify and recover improper payments;
- Modified the SVOG budget form to include constraints on budget submissions for certain cost categories to help recipients comply with program requirements;
- Contracted with a firm to help develop the strategy and oversight plan;
- Trained staff and SVOG grant recipients on audit and grant management policies and procedures; and
- Established a plan to audit a statistically significant sample of low, moderate, and high-risk level SVOG recipients.

For the RRF program, agency officials accomplished these things:

- Approved the RRF Award Recovery Plan in May 2023, which detailed the process for notifying awardees when funds must be returned;
- Developed an outreach strategy to notify awardees who did not file the final financial report to comply or return funds. SBA alerted awardees through all known contact information.
- Initiated plans with the RRF platform developers to identify the most efficient way to implement the plan and begin notifying awardees of the intent to recover funds.

Issue: Leveraging SBA’s Workforce to Ensure Effective Administration of New and Significantly Expanded Grant Programs to Aid Small Businesses

SBA will need to leverage and maintain a skilled workforce to meet the demands of ongoing grant management and administration of awards. SBA did not have enough staff to handle the new and significantly expanded grant programs to aid and assist small businesses during the pandemic. When SBA began implementing the

SVOG program, it had only one official and a few temporary staff to start the program. Once implemented, SBA had to onboard and train a substantial workforce to review and approve applications. SBA awarded 13,011 grants, totaling $14.6 billion. With more than 13,000 grants to service through monitoring, audit, and closeout.

To oversee the RRF program, SBA selected 10,050 RRF recipients, or 10 percent, to manually verify that awarded funds were used for allowable costs. In our audit *SBA's Oversight of Restaurant Revitalization Fund Recipients* (Report 23-15), we found that SBA was not on track to review awards in a prompt manner. We identified imbalances in the number of personnel assigned to review a single award, leading to an inefficient review process that will need to be addressed in the near term. The agency assigned a team of 22 reviewers and 6 approvers to complete the 10,050 reviews. As of August 2023, program officials have completed over 1,400 reviews. At this rate of review, we estimate it will take nearly 5 years to complete the remaining reviews, which raises concerns because the reviews would extend beyond the required timeframe for retaining award records.

Agency Progress

SBA had made the following progress on ensuring the SVOG had staff to support grant monitoring activities in FY 2023:

- SVOG realigned its workforce to better use the workforce strengths and skills and provided opportunities for staff members to participate in cross-functional training and knowledge sharing.
- Program officials trained staff on oversight procedures now that it has transitioned to monitoring the 13,011 shuttered venue grants.
- The agency detailed a grants management specialist to provide strategic guidance on all monitoring, auditing, and closeout activities.

For the RRF program, SBA made the following progress:

- SBA increased the staff assigned to conduct the 10,050 planned post-award reviews.
- SBA plans to maintain current staffing levels of 40 employees to complete post-award reviews through Q1 FY25.
- As of August 2023, SBA completed over 1,400 or 14 percent of the planned post-award reviews.