



**HANNIBAL "MIKE" WARE  
INSPECTOR GENERAL  
U.S. SMALL BUSINESS ADMINISTRATION**

**BEFORE THE**

**SUBCOMMITTEE ON INVESTIGATIONS, OVERSIGHT, AND REGULATIONS  
COMMITTEE ON SMALL BUSINESS  
U.S. HOUSE OF REPRESENTATIVES**

**OCTOBER 1, 2020**

## INTRODUCTION

Chairwoman Chu, Ranking Member Spano, and distinguished members of the Subcommittee, thank you for inviting me to testify before you today and for your continued support of the Office of Inspector General (OIG). The hearing is titled, “Preventing Fraud and Abuse of PPP and EIDL: An Update with the SBA Office of Inspector General and Government Accountability Office.” I am proud of the dedication and hard work of the men and women of OIG to not only prevent fraud in these programs, but also to detect, deter, and combat fraud.

OIG provides auditing, investigative, and other services to support and assist SBA in achieving its mission. As a result of its oversight efforts, OIG provides dozens of recommendations each year to SBA leadership aimed at improving the integrity, accountability, and performance of SBA and its programs for the benefit of the American people. Similarly, OIG’s investigative efforts result in dozens of convictions and indictments as we aggressively pursue evidence of fraud in SBA’s programs. In doing so, OIG provides taxpayers with a significant return on investment as it roots out fraud, waste, and abuse in SBA programs. During fiscal year (FY) 2019, OIG achieved \$111.0 million in monetary recoveries and savings—a fivefold return on investment to the taxpayers. The monetary recoveries and savings for all of FY 2020 are anticipated to be exponential to OIG’s base operating costs.

## BACKGROUND

SBA was given a tremendous role in the nation’s response to mitigate the economic impact of social distancing and other negative effects of the COVID-19 outbreak. Over a trillion dollars in lending authority was made available to SBA through public law.

The Coronavirus Preparedness and Response Supplemental Appropriations Act deemed COVID-19 a disaster. The Act authorized SBA to provide Economic Injury Disaster Loans (EIDLs) to eligible entities under the Small Business Act in geographic locations declared disaster areas. In addition, the Coronavirus Aid, Relief, and Economic Security (CARES) Act provided \$10 billion for a new vehicle—emergency advance grants. The Paycheck Protection Program and Healthcare Enhancement Act provided another \$10 billion for the emergency advance grants and \$50 billion in loan credit subsidy to support approximately \$366 billion in additional disaster loans.

The President signed the CARES Act into law on March 27, 2020, to provide economic relief from the impact of COVID-19. One of the Act’s most significant provisions, Section 1102, provided \$349 billion for the PPP under section 7(a) of the Small Business Act. The PPP provides fully guaranteed SBA loans for certain

eligible small businesses, individuals, and nonprofit organizations that can be forgiven if loan proceeds were used as required by the Act. Eligible expenses include payroll, rent, utility payments, and other limited uses.

On April 24, 2020, the President signed the Paycheck Protection Program and Health Care Enhancement Act to provide an additional \$310 billion to the PPP. SBA initiated this round of additional funding on April 27. The deadline for PPP borrowers to apply for a loan was originally June 30, 2020. However, Congress passed legislation that extended the program until August 8, 2020.

SBA's role in the nation's pandemic response has provided an oversight challenge for which this OIG nor any OIG in history has ever faced. OIG is grateful that the Congress and the Administration recognized the need for oversight and the value of OIG in performing this oversight. The CARES Act appropriated \$25 million dollars to OIG to supplement its resources for a limited time. However, billions of dollars in loans will perform in SBA's portfolios for up to 30 years, and statute of limitations for fraud associated with CARES Act lending and programs will allow for prosecutions for more than a decade into the future.

Through the CARES Act, Congress also established the Pandemic Response Accountability Committee (PRAC) within the Council of the Inspectors General for Integrity and Efficiency (CIGIE). SBA OIG was designated as a statutory member of the PRAC, which provides increased oversight capacity to the pandemic response efforts. The PRAC's initial successes have been in consolidating the whole of government oversight reports and offering a window of transparency into the pandemic response funds across government.

## **OVERSIGHT OF SBA'S PANDEMIC RESPONSE PROGRAMS**

SBA is exercising over a trillion dollars in lending authority and entrepreneurial assistance as part of the Government's pandemic response. OIG currently is charged with providing oversight of this unprecedented amount of SBA lending authority. OIG also is providing oversight of billions in subsidy loan payments and hundreds of millions of dollars in entrepreneurial development efforts by SBA. At the same time, SBA also continues to have identified management and performance challenges across its programs, to which OIG directs its discretionary oversight efforts.

OIG sought to inform SBA's efforts before the lending even happened with our 'risks and lessons learned' white paper reports. OIG published a robust oversight plan and immediately initiated its first reviews focusing on implementation and eligibility of PPP, EIDL, and the entrepreneurial development programs.

OIG also proactively sought to prevent the public from being a victim of a fraud scheme or scam. Prior to the first PPP loan being made by SBA, OIG published a list of fraud schemes and scams to alert the public and SBA stakeholders. We partnered with SBA's Office of Communication and Public Liaison to have this information available in 18 languages. This information was made available on OIG's and SBA's webpages and distributed broadly through established communication channels to include social media. OIG also sought assistance from organizations involved with SBA lending to distribute the information and raise awareness. We also consolidated all OIG pandemic response-related reports, press releases, and testimonies on a single webpage.

In the ensuing weeks of the pandemic and SBA's response, our criminal investigators partnered with the Department of Justice and other law enforcement organizations, conducted outreach to U.S. Attorney's Offices, and evaluated allegations of wrongdoing received through our Hotline. We also partnered with SBA's Office of the Chief Information Officer to investigate and remove websites suspected of being fraudulent. Hundreds of investigations involving complaints of fraud have been initiated by my office and are ongoing, with noteworthy results being reported daily by the U.S. Department of Justice. Among these accomplishments was the first in the nation charges against individuals fraudulently seeking PPP loans, which was announced on May 5. This achievement was the result of dedicated work by OIG criminal investigators and its law enforcement partners. More than 57 defendants have been charged with PPP fraud since the CARES Act passage, as announced by the Department of Justice on September 10, 2020.

SBA's tremendous role in the nation's pandemic response is without precedent. It is noteworthy that SBA executed over 14 years' worth of lending within 14 days, and this was just the beginning. The speed and reduced controls surrounding this lending authority brought with it substantially increased risk. Our oversight work confirmed SBA did not have adequate controls to address these risks and provide assurance that PPP loans and EIDL grants and loans were only being received by eligible recipients.

Those PPP and EIDL reviews revealed alarming preliminary findings, which were confirmed as our initial reviews of these programs carried on and concluded. Given the ongoing execution and policy considerations surrounding our preliminary findings, we published a flash report on PPP in May, which resulted in legislative changes to the program, and we published a management alert on EIDL in July, sharing our finding of potentially rampant fraud in the program.

In mid-September, OIG presented its additional review findings for SBA's implementation of PPP and SBA's initial disaster response efforts to SBA leadership. Our findings further the work reported on in our PPP flash report and

our EIDL management alert. For both EIDL and PPP, the unprecedented challenges SBA had in responding to this pandemic, combined with missing or lowered controls leaves limited assurance that loans went to only eligible recipients. SBA leadership is afforded the opportunity to review our findings and offer its official comments, which we will include in our published report with our analysis of the same.

## CONCLUSION

OIG's mission is to provide independent, objective oversight to improve the integrity, accountability, and performance of SBA and its programs for the benefit of the American people. Our focus is to keep SBA leadership, our congressional stakeholders, and the public currently and fully informed about the problems and deficiencies in the programs as identified through our work and to promote corrective action in fulfillment of our mission.

OIG currently is charged with providing oversight of an unprecedented amount of SBA lending authority—over a trillion dollars. The oversight challenges of SBA's pandemic response efforts are continuing to evolve with the hundreds of fraud cases, tens of thousands of allegations of wrongdoing being received by OIG's Hotline, and concerns surrounding internal controls mounting based on our review findings. We will continue our efforts to keep the Administrator and this Congress currently and fully informed of our findings. Nothing short of the public trust is at stake, as well as the vitality of the nation's economy.