

INSPECTION OF SMALL BUSINESS ADMINISTRATION'S INITIAL DISASTER ASSISTANCE RESPONSE TO THE CORONAVIRUS PANDEMIC

REPORT NUMBER 21-02 | October 28, 2020





EXECUTIVE SUMMARY

SMALL BUSINESS ADMINISTRATION'S INITIAL DISASTER ASSISTANCE RESPONSE TO THE CORONAVIRUS PANDEMIC

Report Number 21-02

October 28, 2020

What OIG Reviewed

This report presents the results of our inspection to assess the Small Business Administration's (SBA's) initial disaster assistance response to the Coronavirus Disease 2019 (COVID-19) pandemic. SBA's Disaster Assistance Program is the federal government's primary program for providing disaster assistance. SBA provides Economic Injury Disaster Loans (EIDLs) of up to \$2 million to eligible entities such as small businesses, nonprofits, farms, etc.

The Coronavirus Preparedness and Response Supplemental Appropriations Act deemed COVID-19 a disaster. The Act authorized SBA to provide EIDLs to eligible entities under the Small Business Act in geographic locations declared disaster areas. In addition, the Coronavirus Aid, Relief, and Economic Security 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.

To meet our objective, we reviewed key provisions of the laws as well as SBA's policies and procedures, and information on both SBA's website and the loan application. Additionally, we analyzed loan data to determine if loans were provided to ineligible businesses and identify suspicious loan activity. Finally, we interviewed SBA and subcontractor personnel.

As of July 31, 2020, SBA had received over 14 million COVID-19 EIDL applications, of which it approved 3.2 million for a total of \$169.3 billion. Additionally, SBA had disbursed 5.8 million emergency advance grants for \$20 billion.

What OIG Found

SBA's initial response to implement the COVID-19 EIDL program made billions of dollars of capital available to provide prompt economic relief to businesses affected by COVID-19. To expedite the process, SBA "lowered the guardrails" or relaxed internal controls, which significantly increased the risk of program fraud. The unprecedented demand for COVID-19 EIDLs and the equally unprecedented challenges SBA had in responding to this pandemic

combined with lowered controls resulted in billions of dollars in potentially fraudulent loans and loans to potentially ineligible businesses.

Based on our analysis of SBA's COVID-19 EIDL data, as of July 31, 2020, we found SBA approved \$14.3 billion (\$13.4 billion disbursed) in COVID-19 EIDLs to accounts that differed from the original bank accounts listed on the loan applications; \$62.7 billion (\$58.0 billion disbursed) in multiple (between 2 and 245) COVID-19 EIDLs to applicants using the same IP addresses, email addresses, bank accounts, or businesses listed at the same addresses; and approximately \$1.1 billion in COVID-19 EIDLs and emergency advance grants to potentially ineligible businesses.

OIG Recommendations

We made 10 recommendations for SBA to strengthen its controls to lower fraud risk and recover funds from ineligible businesses as it continues to respond to the ongoing pandemic.

Agency Response

SBA Management disagreed with the audit findings we report here. Management only partially agreed with recommendations 1 through 8 and 10. Management disagreed with recommendation 9.

Overall management stated it disagreed with the findings because there was insufficient evidence that loans were approved and disbursed to ineligible businesses. It is important to note that despite management disagreeing with the findings and only partially agreeing with 9 of the recommendations, in most cases, the agency is taking corrective actions to fully implement our recommendations.

We have included management's comments on this report in Appendix III.




Office of Inspector General

U.S. Small Business Administration

Report Number 21-02

DATE: October 28, 2020

TO: Jovita Carranza
Administrator

FROM: Hannibal "Mike" Ware 
Inspector General

SUBJECT: Small Business Administration's Initial Disaster Assistance Response to the
Coronavirus Pandemic

This report presents the results of our inspection of the Small Business Administration's initial disaster assistance response to the coronavirus pandemic. We considered management's comments on the draft of this report when preparing the final report. Management partially agreed with recommendations 1 through 8 and 10 and disagreed with recommendation 9.

If you have any questions please contact me or Andrea Deadwyler, Assistant Inspector General for Audits, at (202) 205-6586.

cc: William Manger, Chief of Staff and Associate Administrator, Office of Capital Access
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Introduction

The Small Business Administration's (SBA's) Disaster Assistance Program is the federal government's primary program for assisting small businesses, small agricultural cooperatives, and most private, nonprofit organizations after disasters. SBA provides up to \$2 million in economic injury disaster loans (EIDLs) to help these eligible entities meet financial obligations and operating expenses.

In this report, we present the results of the Office of Inspector General's (OIG's) inspection to assess SBA's initial disaster assistance response to the Coronavirus Disease 2019 (COVID-19) pandemic.

To provide prompt economic relief to businesses affected by the Coronavirus Disease 2019 (COVID-19) pandemic, SBA was tasked with lending more than \$373 billion in COVID-19 EIDLs and \$20 billion in COVID-19 emergency advance grants, which is more disaster loan funding than all the years combined since the agency was created in 1953.

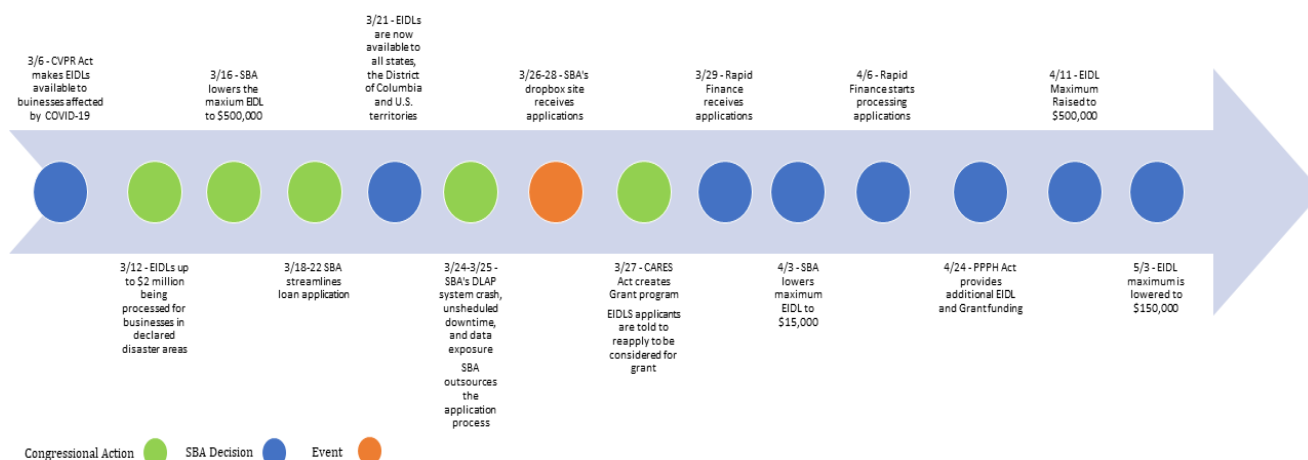
The March 6, 2020, Coronavirus Preparedness and Response Supplemental Appropriations Act designated COVID-19 a disaster, which allowed SBA in accordance with the Small Business Act to provide EIDLs to affected eligible entities in declared disaster areas (See Figure 1).¹ Additional laws passed in response to the COVID-19 pandemic and discussed in this report expanded the types of organizations that qualify as eligible entities and created a new emergency advance grant program (See pages 6 and 10).

Overall, eligible entities for COVID-19 EIDLs are defined as small businesses; small agricultural cooperatives; most private, nonprofit organizations; businesses, cooperatives, Employee Stock Ownership Plans, and tribal concerns with no more than 500 employees; sole proprietorships; independent contractors; and agricultural enterprises.²

¹ Public L. No. 116-123

² Agricultural enterprises means small business concerns engaged in the production of food and fiber, ranching and raising of livestock, aquaculture, and all other farming and agricultural-related industries, as defined by section 18(b) of the Small Business Act (15 U.S.C. 647(b)).

Figure 1. SBA COVID-19 EIDL Decisions as of July 31, 2020



Source: OIG analysis of SBA, congressional, and other events

Background

On March 12, 2020, the SBA Administrator issued a press release stating SBA was beginning to offer EIDLs of up to \$2 million. On March 16, 2020, the first states (California, Connecticut, Maine, and Washington) were declared statewide COVID-19 disaster areas.³ By March 21, 2020, all states, the District of Columbia, and U.S. territories had been declared disaster areas. The declarations and COVID-19 being deemed a disaster allowed SBA to use about \$1.1 billion in its disaster loan credit subsidy account to support \$7 billion to \$8 billion in EIDLs.⁴

SBA's standard EIDLs are low interest loans (not to exceed 4 percent interest) to meet working capital requirements during the disaster-affected period until normal operations resume.⁵ The loan term is determined by the borrower's ability to repay the loan but cannot be more than 30 years. SBA typically determines repayment ability using the business's federal tax return and other income and expense information. The needs of the business and amount of economic injury determines the actual loan amount up to the legislative maximum amount of \$2 million. SBA can set the maximum amount lower than \$2 million.

For COVID-19 EIDLs, SBA lowered the maximum amount to \$500,000 on March 16, 2020. That same day, SBA also set the minimum credit score for application approval.

Applicants can download an application or SBA will mail, email, or fax an application to them. The applicants can return the completed application by mail, email, or fax. This report refers to all faxed, emailed, and mailed applications as "mail-in applications."

³ Federal Register, Vol 85, No. 69, Disaster Declarations of Economic Injury for the Coronavirus (COVID-19); Administrative Declarations of Economic Injury Disasters for the Entire United States and U.S. Territories, April 9, 2020.

⁴ The loan credit subsidy is the estimated long-term cost to the federal government of a direct loan or loan guarantee. The subsidy equals the net present value of estimated cash flows from SBA (for new disaster loans) minus the estimated cash flows to SBA (payments expected to be received over time on existing disaster loans), excluding administrative costs.

⁵ Disaster loan interest rates are set by federal statute and are based on the current Treasury funds rate.

Unprecedented COVID-19 EIDL Application Volumes

After SBA's March 12, 2020, announcement, applicants quickly began applying for COVID-19 EIDLs by the tens of thousands. SBA suddenly had to handle unprecedented numbers of applications. For example, on March 31, 2020, more than 680,000 applications came in, the highest number of loan applications SBA has ever received on 1 day. By April 10, 2020, SBA had received more than 4.5 million loan applications, well above the average of 65,000 per year before the pandemic. By July 31, 2020, SBA had received over 14 million COVID-19 EIDL applications, in which it approved 3.2 million for \$169.3 billion. Additionally, SBA disbursed 5.8 million emergency advance grants, totaling \$20 billion.

To put this volume in perspective, an SBA official testified during a congressional hearing that since SBA was founded in 1953, SBA had approved 2.2 million disaster loans for \$66.7 billion.⁶ SBA has now approved and disbursed more loans for COVID-19 relief than for all other disasters combined in the agency's history.

To further emphasize the unprecedented volume, SBA approved the following multibillion-dollar loan volumes:

- Hurricanes Katrina, Rita, and Wilma—SBA approved 160,845 loans totaling \$11 billion.
- Superstorm Sandy—SBA approved 38,094 loans totaling \$2.6 billion.
- Hurricanes Harvey, Irma, and Maria—SBA approved 145,636 loans totaling \$7.4 billion.
- Hurricanes Florence and Michael—SBA approved 25,991 loans totaling \$1.16 billion.

Loan Portal

SBA's Disaster Loan Application Portal did not have the capacity to handle the number of applicants seeking COVID-19 relief who logged in simultaneously. Consequently, the system was slow and periodically froze or crashed. The portal did not work at all for 30 or more minutes at least three times in March 2020, once for more than 6 hours (See Table 1).

Table 1. Disaster Loan Portal Unscheduled Downtime, March 2020

Date	Portal Unscheduled Down Time (minutes)
March 16, 2020	31
March 24, 2020	152
March 25, 2020	387

Source: SBA

SBA's Office of Disaster Assistance issued a series of internal memorandums beginning on March 18, 2020, to attempt to streamline application processing for COVID-19 EIDLs (See Table 2).

⁶ U.S. House of Representatives, Small Business Committee, *The Economic Injury Disaster Loan Program: Status Update from the Administration*, 116th Cong., 2d sess., July 1, 2020, <https://youtu.be/qdxq-fZW3c> (accessed September 8, 2020).

Table 2. SBA March 2020 COVID-19 EIDL Policy Decisions

Eligibility and Repayment Requirements	Requirements for Standard SBA EIDLs	Requirements for COVID-19 EIDLs
Federal Tax Returns (Businesses and Agriculture Coops)	Required Document	Not Required
Federal Tax Returns (Nonprofits)	Required Document	Required Document
Open Bankruptcies	Not Automatic Disapproval	Not Automatic Disapproval
Credit Elsewhere Test	Required Test	Required Test
Minimum Credit Score	Required	Required ^a
Delinquent Federal Debt	Not Automatic Disapproval	Not Automatic Disapproval
Title Search	Required for Loans above \$250,000	Required for Loans of more than \$500,000
Length of Loan	Up to 30 years	30 years
Real Estate Collateral	Preferred on loans Greater than \$25,000	Not Required
Furniture, Fixtures, and Similar Collateral	Required for loans Greater than \$25,000	Required for loans Greater than \$25,000
Personal Guarantee	Required for principals.	Required for principals.
Hazard Insurance	Proof before disbursement ^b	Proof within 12 months

Sources: March 18, 2020, Office of Disaster Assistance (ODA) Memo 20-17 Coronavirus Processing Changes; March 20, 2020, ODA Memo 20-18 Coronavirus Processing Changes Number 2; March 22, 2020, ODA Memo 20-19 Coronavirus Collateral and Insurance Changes

^a Before COVID-19 changes, a credit score above the minimum credit score meant the applicant was eligible from a credit standpoint but was still required to demonstrate repayment ability. After COVID-19, meeting the minimum credit score was considered as eligible both from a credit standpoint and repayment ability.

^b This is only applicable to standard EIDLs that met the threshold requiring security. Unsecured loans did not require proof of hazard insurance.

Volume Leads SBA to Outsource the Receiving and Processing of Applications to an Existing Contractor

To increase the system's capacity, SBA moved the application portal from its internal servers to the cloud, a network of servers that function using the Internet instead of local computers. But on March 25, 2020, system upgrading caused information on more than 7,900 applications to be potentially exposed to viewing by other applicants currently logged into the system. When the data exposure was discovered, SBA closed the application portal to COVID-19 EIDL applications. (The portal, Disaster Loan Application Portal 1.0, reopened for other disaster-related loan applications on April 3, 2020.)⁷

SBA turned to a contractor that had been hired on December 7, 2018, to streamline application processing through data analysis and loan underwriting. The contractor's work was delayed by a bid protest, but the Government Accountability Office denied the protest on March 25, 2019,

⁷ In this report, we refer to the application portal for non-COVID-19 disaster loans as Disaster Loan Application Portal 1.0 and the separate portal for COVID-19 EIDLs as Disaster Loan Application Portal 2.0

allowing the contract to proceed. The contractor had done only limited work on disaster loans before the COVID-19 pandemic.

Because of the anticipated loan volume for COVID-19 EIDLs, SBA amended the original contract, increasing it from \$100 million to \$600 million on April 17, 2020, and again to \$850 million on August 3, 2020. As of August 3, 2020, SBA had paid \$485.8 million on this contract.

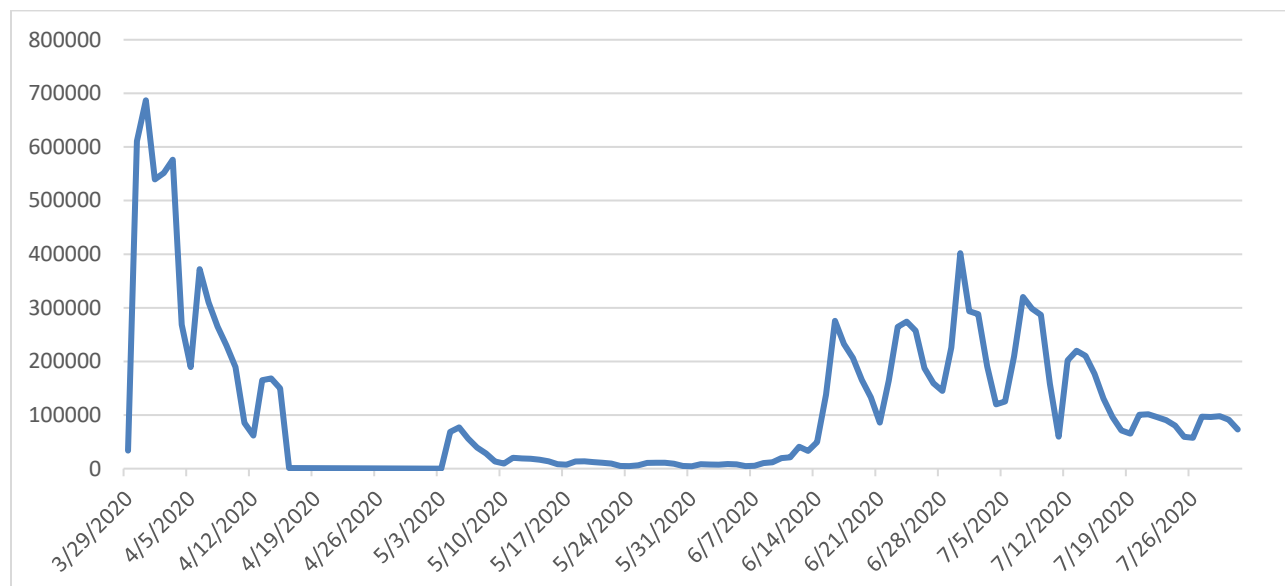
The new amended contract tasked the company with receiving applications for and underwriting COVID-19 EIDLs. The contractor delegated a portion of the non-COVID-19 disaster loan work (predominately loans to repair homes and personal property) to a subcontractor (subcontractor Number 1). However, subcontractor Number 1's system was not suited well to process business loans like COVID-19 EIDLs, so it delegated that loan processing and advance grant tasks to its sister company, also as a subcontractor (subcontractor Number 2).

Subcontractor Number 1 continued to assist SBA in processing non-COVID disaster loans. Subcontractor Number 2 took over the reviewing process of COVID-19 EIDL applications, recommending either approval or denial of each application. SBA personnel reviewed the subcontractor's loan recommendations, made the final decisions, and funded the loans.

From March 26 to March 28, 2020, a separate disaster loan application portal, Disaster Loan Application Portal 2.0, sent all new loan applications to an electronic "drop box," or file storage service, where they were saved while the subcontractor set up its system. In total, 6,543 loan applications were sent to the drop box. SBA rerouted Disaster Loan Application Portal 2.0 so applications would go directly to subcontractor Number 2, which started receiving the applications on March 29, 2020, and began processing loans on April 6, 2020.

Based on subcontractor Number 2's data, the subcontractor processed 33,542 applications on March 29, 2020. By July 31, 2020, subcontractor Number 2 had processed 14.1 million COVID-19 EIDL applications. Figure 2 shows the number of applications received by the subcontractor by day between March 29, 2020, and July 31, 2020.

Figure 2. Number of Loan Applications Received by Subcontractor Number 2 as of July 31, 2020



Source: OIG analysis of subcontractor data

Note: Disaster Loan Application Portal 2.0 was closed between April 15, 2020, and May 3, 2020, to all eligible entities because of a funding lapse. SBA reopened the portal between May 4, 2020, and June 14, 2020, to agricultural enterprises and reopened to all eligible entities on June 15, 2020 (See p. 11). The openings and closings of the portal represent the low application volume on certain days.

On March 25, 2020, the day the data exposure was discovered, SBA also stopped processing mail-in applications. Between March 25, 2020, and July 8, 2020, SBA received approximately 40,000 mail-in applications, or “hard copy” applications. SBA officials said the agency attempted to contact each applicant and persuade them to reapply through the Disaster Loan Application Portal 2.0, now redirected to subcontractor Number 2’s site. SBA officials said they do not know if all the mail-in applicants reapplied electronically.

Additional Criteria Changes – Coronavirus Aid, Relief, and Economic Security Act

On March 25, 2020, SBA lowered the required credit score for application approval. An SBA official said the change was due to “policy decisions” but did not give any further explanation.

On March 27, 2020, the President signed the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), which made significant changes to the COVID-19 EIDL requirements (See Table 3, changes in red).⁸ Most notably, the Act alleviated the requirements for tax returns and the credit elsewhere test.

Specifically, the Act said SBA could either approve an applicant based solely on credit score and not require a tax return or use an alternative method to determine repayment ability. These changes allowed SBA to approve an eligible applicant based on its credit score, as well as applicant self-certifications of the business’s start date, activity, annual gross revenues and cost of goods sold.⁹

⁸ Public L. No. 116-136, Sec. 1110

⁹ Public L. No. 116-136, Sec. 1110 (d)(1). All applicants for standard SBA EIDLs not associated with COVID-19 must demonstrate repayment ability and have acceptable credit scores to qualify.

Table 3. CARES Act Changes to COVID Injury Loan

Eligibility and Repayment Requirements	Requirements Before CARES Act	Requirements After CARES ACT
Federal Tax Returns (Businesses and Agriculture Coops)	Not Required	Not Required
Federal Tax Returns (Nonprofits)	Required Document	Not Required
Open Bankruptcy	Automatic Disapproval	Automatic Disapproval
Credit Elsewhere Test	Required Test	Not Required
Credit Score	Required ^a	Required ^a
Delinquent Federal Debt	Not Automatic Disapproval	Not Automatic Disapproval
Title Search	Required for Loans above \$500,000	Required for Loans above \$500,000
Length of Loan	30 years	30 years
Real Estate Collateral	Not Required	Not Required
Furniture, Fixtures, and Similar Collateral	Required for Loans greater than \$25,000	Required for Loans greater than \$25,000
Personal Guarantee	Required for principals.	Required for principals.
Hazard Insurance	Proof within 12 months	Proof within 12 months

Source: OIG analysis of the standard EIDL criteria and criteria in the CARES Act

^a Before COVID-19 changes, a credit score above the minimum credit score meant the applicant was eligible from a credit standpoint but was still required to demonstrate repayment ability. After COVID-19, meeting the minimum credit score was considered as eligible both from a credit standpoint and repayment ability.

The CARES Act also expanded COVID-19 EIDL eligible entities to include businesses, cooperatives, Employee Owned Stock Ownership Plans, and tribal concerns with not more than 500 employees; sole proprietorships with or without employees; and independent contractors affected by COVID-19.¹⁰ The Act set the period for COVID-19 EIDLs to be made between January 31, 2020, through December 31, 2020.¹¹ The Act also mandated that only eligible entities in operation before February 1, 2020, would be eligible for loans.¹²

The CARES Act designated \$10 billion for COVID-19 emergency advance grants.¹³ The Act allows eligible entities that have applied for a COVID-19 EIDL to request an advance grant of up to \$10,000 and request SBA to pay out the funds within 3 days of receiving an application.¹⁴ The applicant is

¹⁰ Public L. No. 116-136, Sec. 1110(a)(2)-(b)

¹¹ Public L. No. 116-136, Sec. 1110(a)(1)

¹² Public L. No. 116-136, Sec. 1110(c)(2)

¹³ Public L. No. 116-136, Sec. 1110(e)(7). The CARES Act refers to the funds as COVID-19 emergency grants. In this report, we refer to the funds as advance grants in keeping with our recent Management Alert about fraud in the COVID-19 EIDL program, summarized here under "Prior Work."

¹⁴ Public L. No. 116-136, Sec. 1110(e)(3) & Public L. No. 116-136, Sec. 1110(e)(1)

not required to repay any of the advance grant, even if later denied a COVID-19 EIDL.¹⁵ SBA decided to limit advances to \$1,000 per employee for up to 10 employees.¹⁶

SBA and Subcontractor's Processes for Recommending Approval or Decline of COVID-19 EIDLs

It is important to note that subcontractor Number 2's system electronically checks the application; each application is not reviewed by the subcontractor's personnel. Subcontractor Number 2's system uses public domain information and certain fraud indicators in accessing and verifying loan application information.

The subcontractor's system verification check of the bank accounts is contingent on each bank's Customer Identification Program and the amount of customer information collected as required under 31 C.F.R. § 1020.220. The subcontractor estimates that 40 percent of banks do not collect enough information for its system to verify a bank account.

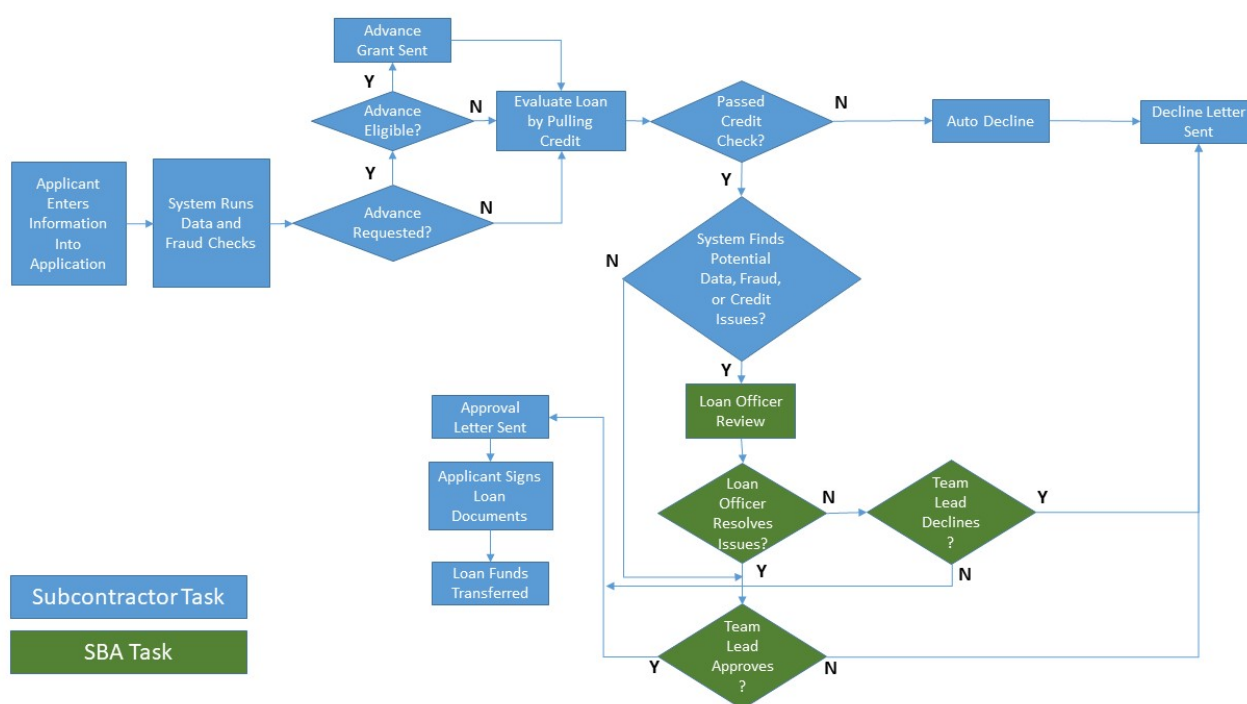
We were told the system makes these checks before the credit check to determine loan eligibility based on application information. The main reasons the system would deem an application ineligible are insufficient economic injury, ineligible business type, or ineligible answers to other application questions, such as felony convictions, etc.

Figure 3 shows SBA's and subcontractor Number 2's process for approving or declining COVID-19 EIDL applications for both the loans and advance grants.

¹⁵ Public L. No. 116-136, Sec. 1110(e)(5)

¹⁶ SBA Internal Memorandum, *Authorization for Payments from [Contractor]*, April 7, 2020. The total disbursement amount for each record included in the payment file is calculated based on the following logic: 1) if number of employees is 0 then \$1,000, 2) if number of employees is greater than 10 then amount is \$10,000, or 3) otherwise amount is number of employees times \$1,000.

Figure 3. Flowchart of the Major Steps in SBA’s and Subcontractor Number 2’s Process.



Source: SBA subcontractor Number 2

After subcontractor Number 2’s system determines eligibility of the loan application, it sends the loan application to SBA with a recommendation to approve or decline and flags the record with any concerns. Between late March 2020 and early April 2020, SBA set policies for the SBA loan officers and team leads to follow for processing COVID-19 EIDL applications.

In addition to the 40,000 mail-in applicants that SBA contacted to reapply, the agency set up automatic “robocalls” to contact more than 90,000 applicants whose unprocessed applications had been received by SBA before closing Disaster Loan Application Portal 1.0 to COVID-19 applications. SBA also contacted the 6,543 applicants whose unprocessed applications were received in the drop box site during the portal outage. Both were encouraged to reapply using the Disaster Loan Application Portal 2.0. If those applicants did not reapply, they did not receive an advance grant.

SBA required reapplication to ensure the applications went directly to subcontractor Number 2’s processing system. SBA’s message told the applicant that the new application would be used for both the COVID-19 EIDL and the advance grant. SBA also mailed notices to the applicants to notify them of the requirement to reapply. Unlike the mail-in applications (hard copy applications), SBA officials said they maintained these applicants’ places in line according to the receipt date of their previous unprocessed digital application.

April Policy Changes to Extend COVID Injury Loan Funds

In March 2020, SBA had between \$7 billion and \$8 billion available for COVID-19 EIDLs and non-COVID disaster loans. It set the COVID-19 EIDL maximum at \$500,000. But the huge number of loan applications quickly depleted the funds. Consequently, the agency lowered the maximum COVID-19

EIDL amount to \$15,000 on April 3, 2020, stating this change was made to help as many businesses as possible.

However, a week later on April 11, 2020, SBA restored the maximum amount of a COVID-19 EIDL to \$500,000 and the minimum required credit score back to the original. According to an SBA official, the changes were “policy decisions.” The official did not give any additional explanation.

On April 15, 2020, SBA closed the Disaster Loan Application Portal 2.0 to new applications. The agency had received approximately 5.5 million applications, but officials did not know how much funding would be appropriated in Congress’s next relief act. The next day, April 16, 2020, SBA determined it had obligated all disaster funds up to that point.

Paycheck Protection Program and Healthcare Enhancement Act

The President signed the Paycheck Protection Program and Healthcare Enhancement Act on April 24, 2020.¹⁷ This Act appropriated an additional \$10 billion for advance grants and an additional \$50 billion to SBA’s disaster loan credit subsidy account to support approximately \$366 billion in additional loans.¹⁸

On May 3, 2020, SBA made the decision to cut the COVID-19 EIDL maximum from \$500,000 to \$150,000. The Act also expanded eligible entities to include agricultural enterprises.¹⁹ The next day, May 4, 2020, SBA reopened its Disaster Loan Application Portal 2.0 only for agricultural business applications.

Funding Still Available as of July 31, 2020

As of June 11, 2020, SBA reported it had disbursed approximately \$10.7 billion in advance grants. SBA had approximately \$9.3 billion in advance grant funding remaining available. By July 14, 2020, SBA had awarded the entire \$20 billion in advance grants. SBA also reported in mid-June that it had approved approximately \$91 billion of \$373 billion in COVID-19 EIDLs. On June 15, 2020, SBA reopened its Disaster Loan Application Portal 2.0 to all eligible entities.

On July 10, 2020, SBA officials said the agency had approximately 280,000 approved loans yet to be disbursed. SBA officials said some of the undisbursed loans were awaiting borrower action, such as signing loan documents. In some other cases, there were errors in the borrower’s application, such as incorrect bank routing numbers for direct deposit delaying disbursement. SBA decided that these loans will be deobligated after 90 days of borrower inaction or the agency is unable to contact the borrower.

We analyzed the number of COVID-19 EIDLs recorded in SBA’s Capital Access Financial System. As of July 31, 2020, there were more than 345,000 approved loans totaling approximately \$13.8 billion to be disbursed (See Table 4). The agency still had approximately \$204 billion of \$373 billion (\$373 billion minus the \$169 billion disbursed or obligated) to lend for disaster loans as of July 30, 2020.

¹⁷ Public L. No. 116-139

¹⁸ Public L. No. 116-139, Div. A Sec. 101(b) and Title II “Disaster Loans Programs Account”

¹⁹ Public L. No. 116-139, Div. A Sec. 101(c)

Table 4. Status of COVID-19 EIDLs as of July 31, 2020

Loan Status^a	Number	Dollar Amount (\$)
Disbursed Current	2,778,328	\$155,406,147,663
Active Undisbursed	345,465	13,750,708,775
Paid in Full	5,473	164,585,700
In Liquidation Disbursed	51	6,810,000
Fully Cancelled	38,909	0
Total	3,168,226^b	\$169,328,252,138

Source: OIG analysis of SBA's Capital Access Finance System

^a Disbursed Current means the loan has been disbursed to the borrower. Active Undisbursed means the loan has been approved and obligated but has yet to be disbursed to the borrower. Paid in Full means the loan was disbursed to the borrower but the borrower or their bank returned the funds. In Liquidation Disbursed means the loan was disbursed to the borrower and then the borrower went into bankruptcy or died. Fully Cancelled generally means the loan was approved but the applicant decided not to accept the loan, or the applicant did not accept the loan in time. Applicants must accept loans within 90 days of approval.

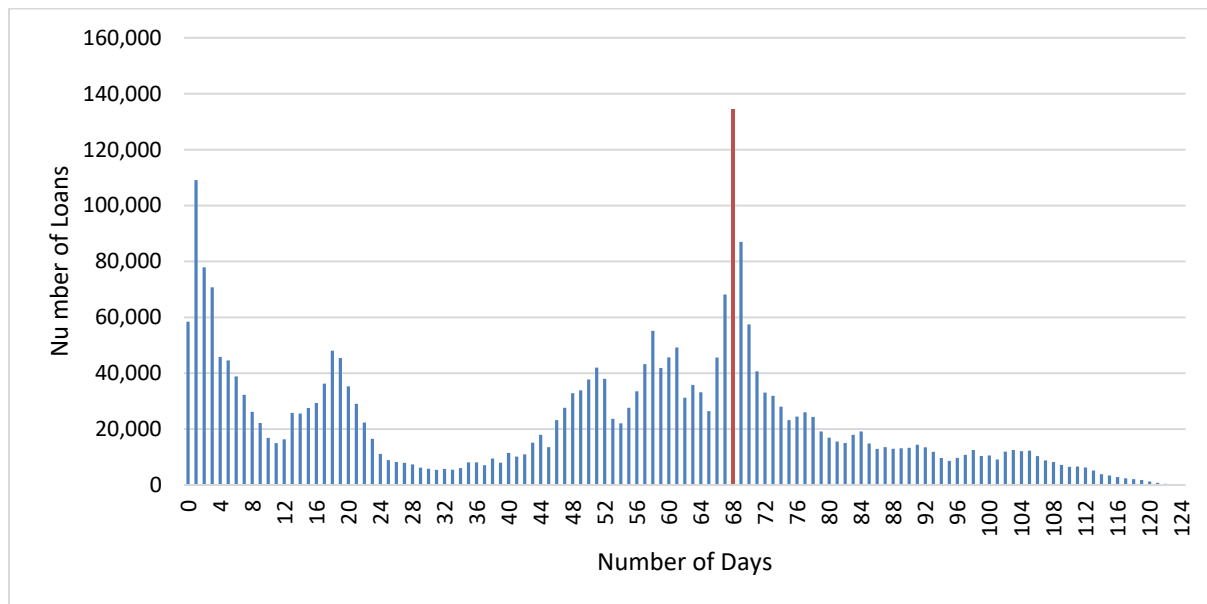
^b This includes 298 loans in the Capital Access Financial System (117 Cancelled and 181 Active Undisbursed) that we could not tie back to an application in subcontractor Number 2's system, the SBA's application system, or the SBA's data warehouse. We should have been able to find the 298 loan applications because the data is exported from the subcontractor's system to the Capital Access Financial System.

Timing of COVID-19 EIDLs and Advance Grants

SBA took an average of 49 days to receive, underwrite, and fund loan applications for 2,783,755 COVID-19 EIDLs disbursed as of July 31, 2020. In some cases, the process took up to 124 days to fund loan applications, but some were funded on the same day the application was received (see Figure 4).²⁰ Figure 4 shows the number of loans approved and disbursed by number of days after the application was received. For example, 134,492 loans were funded 68 days after the application was received (as shown by the red bar in Figure 4).

²⁰ The 345,465 active undisbursed loans shown in Table 4 are not reflected in average loan processing calculation or the data used for Figure 4. Once these loans are disbursed, the average number of days to process loans could increase.

Figure 4. Timing from Loan Application Receipt by Subcontractor to Funding



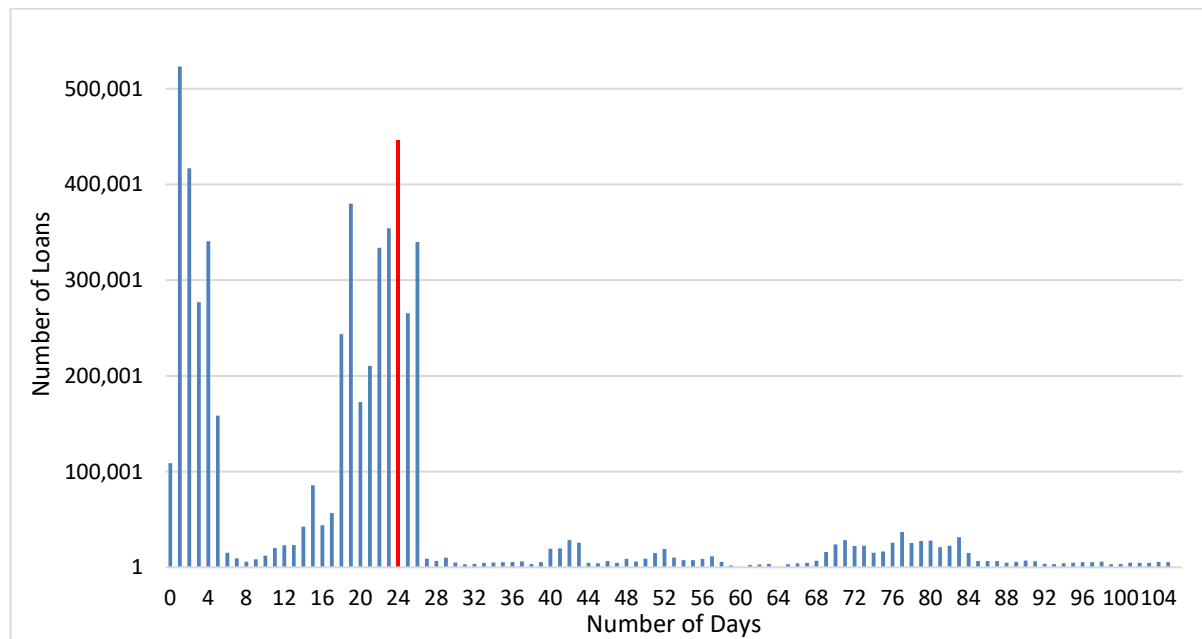
Source: OIG analysis of subcontractor data

Although the data shows 58,459 EIDLs were funded on the same day as the application was received, we are concerned about the accuracy of this data, because before funding, SBA personnel must review the application, and obtain signed documents from the borrowers.

We also compared the date loan applications were recorded in subcontractor Number 2's system to the date of grant disbursement. From the beginning of the program through July 31, 2020, SBA took between 0 days (same day) and 106 days (average of 22 days) to pay out advance grant funds (See Figure 5). We found SBA paid 1,325,695 grants within 3 days.

Figure 5 shows the number of advance grants approved by number of days after the application was received. For example, 446,700 advance grants were funded 24 days after the application was received (as shown by the red bar in Figure 5).

Figure 5. Grant Payment Timeframes as of July 31, 2020

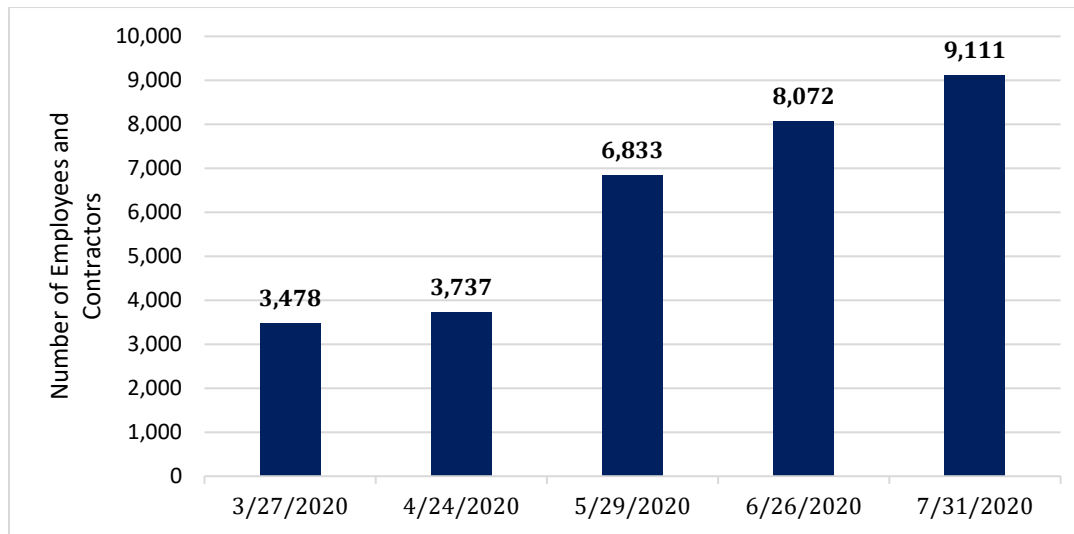


Source: OIG analysis of subcontractor's data

Staffing

On February 28, 2020, SBA's Office of Disaster Assistance had 3,483 employees and contractors. In March 2020, the office began the process to increase its staff size to 10,000 employees and contractors for SBA's initial response to the pandemic and to continue to respond to other disasters (See Figure 6). By July 31, 2020, the office had more than 9,000 employees and contractors. In comparison, the highest ever staffing levels previously in SBA's Office of Disaster Assistance was just over 5,000 employees working on SBA's disaster response to Hurricanes Harvey, Irma, and Maria in 2017.

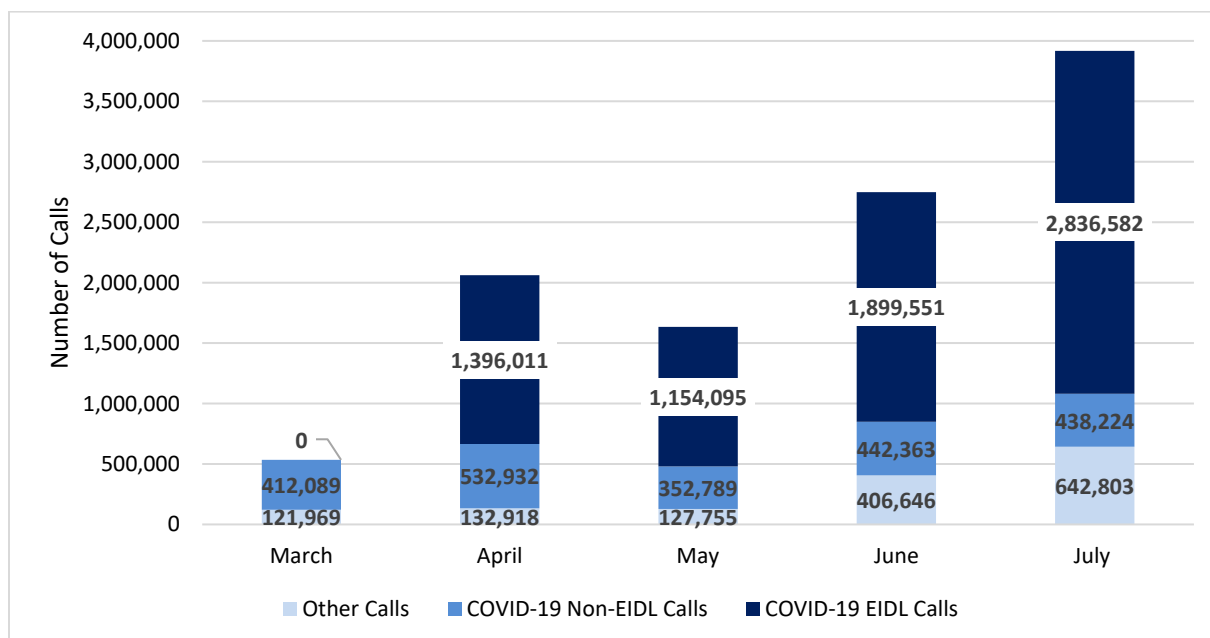
Figure 6. Number Employees and Contractors in SBA Office of Disaster Assistance March 1-July 31, 2020



Source: SBA

From March 1, 2020, to July 31, 2020, SBA's Customer Service Center received 10.9 million calls (See Figure 7). Between July 31, 2020, and August 10, 2020, SBA's Customer Service Center received almost 700,000 additional calls. SBA data shows 18 percent of callers gave up while waiting on hold.

Figure 7. Calls Received by SBA's Customer Service Center March 1-July 31, 2020.

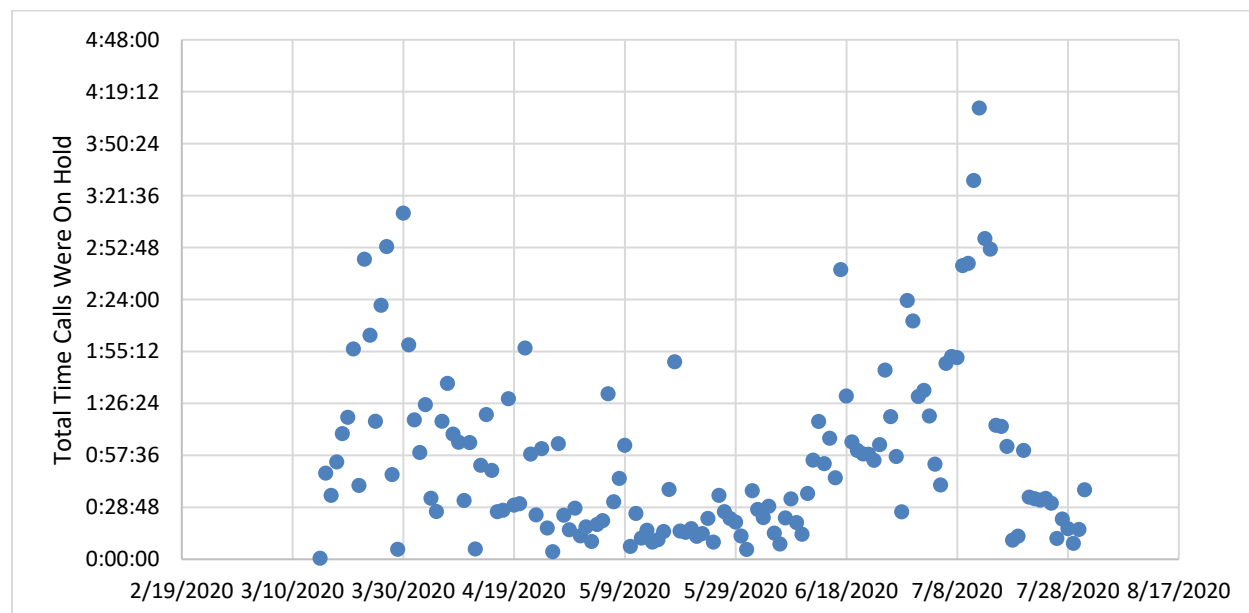


Source: SBA

The overall average call wait time was 14 minutes. But the daily maximum time callers were on hold between March 15, 2020, and July 31, 2020, ranged from 34 seconds to 4 hours and 10

minutes (See Figure 8).²¹ SBA also received 2.1 million emails about all COVID-19 loans and more than 300,000 of these emails had not been answered as of July 31, 2020.

Figure 8. Longest Call Wait Times by SBA’s Customer Service Center March 15-July 31, 2020.



Source: SBA

Objective

Our objective was to assess SBA’s initial disaster assistance response to the COVID-19 pandemic, including staffing adequacy, loan application volume, timeliness of disaster loan approval, and customer service.

Results

SBA’s initial response to implement the EIDL program made billions of dollars of capital available to provide prompt economic relief to eligible entities affected by the COVID-19 pandemic. However, the unprecedented demand for COVID-19 EIDLs and equally unprecedented challenges SBA had in responding resulted in billions of dollars being distributed to potentially ineligible entities or fraudsters because of errors, weaknesses in controls, and fraud. We found several strong fraud indicators in alignment with what we have uncovered in ongoing criminal investigations demonstrating that SBA approved:

- approximately \$14.3 billion (disbursed \$13.4 billion) in potentially fraudulent loans to accounts that differed from the original bank accounts listed on applications;

²¹ System issues limited the calculation of wait time for two of the days.

- approximately \$62.7 billion (disbursed 58.0 billion) in potentially fraudulent loans to applicants using the same IP address, the same email address, the same bank accounts, or businesses listed at the same addresses; and
- approximately \$1.1 billion in disaster loan funds to potentially ineligible businesses that registered an Employer Identification Number after the cutoff date of January 31, 2020, which could indicate they were not in business by this deadline, as required.

Finding 1: SBA Approved \$14.3 Billion in Potentially Fraudulent Loans to Accounts that Differed from the Original Bank Accounts Listed on Applications

We found that as of July 31, 2020, SBA had approved 281,414 COVID-19 EIDLs totaling \$14.3 billion (\$13.4 billion of which has been disbursed) to applicants who later changed the bank account number to pay out the loan to a different number than that listed on the original loan application. For these applications, an additional \$13.6 million was disbursed in advance grants.²²

We compared all bank account numbers on loan applications in subcontractor Number 2's database to all the bank account numbers for loans in SBA's Capital Access Financial System. We found 281,414 differences between the bank account number on the application and the number recorded in Capital Access Financial System.

In some cases, the applicant made mistakes when completing the application. For example, an applicant put the bank's routing number in the bank account information field or vice versa. Another example is transposed numbers in the bank account or routing number or not including all the digits for those numbers. In such cases, SBA staff generally contacted the applicant if they could not verify the account number, and the applicant provided the correct information.

However, other scenarios we found are highly suspicious and strong indicators of potential fraud. Suspicious examples include bank account numbers being significantly different or routing numbers of entirely different banks than the account numbers on the original application. It is also suspicious when the change is to an online-only debit card financial institution instead of a checking account at the brick-and-mortar banking institution listed on the original application.

For example, SBA received 22 loan applications from the same Internet Protocol, or IP address, the identifying number associated with a specific computer or computer network. The applications claimed to represent 22 individual farms located in 6 states. Although 13 of the 22 applications were originally submitted with unique bank accounts, they were submitted from the same IP address with nearly identical financial data and approved by SBA. Before the loans were disbursed, the bank account numbers were changed to three separate banks with new routing numbers and account numbers, none of which were associated with the bank listed on the application. SBA disbursed \$1.9 million dollars to those accounts.

In another specific example, three loan applications were submitted with three unique bank accounts. After approval but before disbursement, all three applications bank accounts were changed to a debit card financial institution. Two of the loans were disbursed for \$30,300 and the third loan was approved for \$9,300 but had not been disbursed as of July 31, 2020.

An official at SBA's Subcontractor Number 2 said loan applicants can change the bank account information at any point in the process. We found this concerning. Essentially, an applicant can use anyone's legitimate bank account number to get their application through the controls in the subcontractor's system, which includes a verification of the bank account information. Then having

²² For the approved loan amount, we used the Net Gross Amount from SBA's loan data, which is the original approved loan amount minus any reduction in the approved amount or cancellation of the approved loans.

bypassed the controls, the applicant can later change the account number post-system controls and before the loan is funded, which greatly increases the risk of undetected fraud.

On August 10, 2020, shortly after we briefed the Administrator on this alarming issue, SBA worked with the subcontractor to fix the problem. An official at the subcontractor company said in mid-August 2020, the system controls were changed to require the bank account information to be revalidated whenever the loan applicant changes the bank account information.

Loans to potentially ineligible borrowers reduce the amount of available critical capital needed for eligible businesses to withstand the effects of the pandemic and increase the risk of financial loss. These loans also constitute improper payments under the Payment Integrity Information Act of 2019.²³ The Improper Payments Act defines improper payments to include payments made to ineligible recipients.²⁴ SBA should flag these loans for its FY 2021 Improper Payments estimation process.

Recommendations

We recommend the Administrator to direct the Associate Administrator for Disaster Assistance to:

1. Review all loans that had a bank account number changed from that shown on the original application to determine if the changes were legitimate or fraudulent. If not legitimate, work to recover the funds, deobligate any undisbursed funds, and refer to the OIG.
2. Establish or strengthen controls to ensure loan deposits are made to legitimate bank accounts for eligible borrowers only.

²³ Public L. No. 116-117, codified at 31 U.S.C. §§3351 - 3358

²⁴ 31 U.S.C. §3351(4)

Finding 2: SBA Approved Billions of Dollars in Potentially Fraudulent Loans to Applicants Using Duplicate Information (IP Addresses, Email Addresses, Business Addresses, and Bank Accounts)

We found that as of July 31, 2020, SBA had approved more than one loan to applicants that used the same IP addresses, email addresses, business addresses, or bank accounts. Although there may be some legitimate reasons for individual occurrences, multiple occurrences indicate a strong probability of fraud. Specifically, SBA:

- approved 977,086 potentially fraudulent COVID-19 EIDLs totaling \$62.7 billion, of which \$58 billion had been disbursed, to applicants using the same IP addresses (an additional \$614.8 million was disbursed in advance grants);
- approved 319,936 potentially fraudulent COVID-19 EIDLs for \$26.7 billion, of which \$25.4 billion has been disbursed, to applicants using the same email addresses (an additional \$172.2 million was disbursed in advance grants);
- approved 260,109 potentially fraudulent COVID-19 EIDLs totaling \$15.4 billion, of which \$14.5 billion had been disbursed, to businesses listed at the same address (street, city, and the zone improvement plan, or ZIP code) on their applications (an additional \$134.9 million was disbursed in advance grants); and
- approved 16,015 potentially fraudulent COVID-19 EIDLs for \$928.1 million, of which \$811.5 million had been disbursed, to the same bank accounts (an additional \$2.5 million was disbursed in advance grants).²⁵

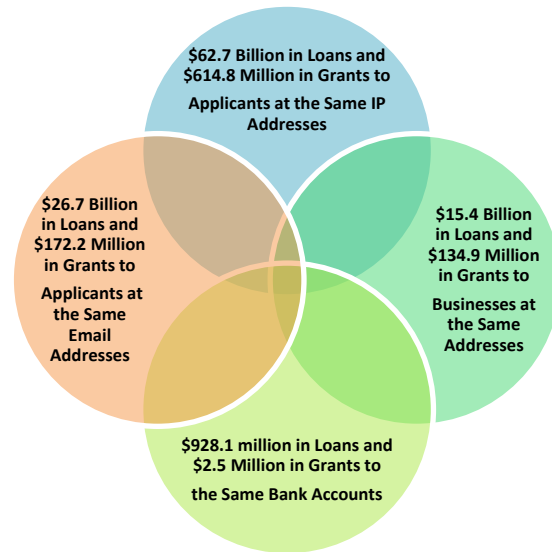
It is important to note that there is overlap among these four subgroups of all the approved COVID-19 EIDLs as of July 31, 2020 (See Figure 9). The overlap amongst the subgroups indicates a higher likelihood of fraud.

We recognize that some of the loans in these subgroups could be legitimate and for eligible businesses. An example would be an accounting or law firm filling out multiple applications for their clients. However, SBA's control should have been to thoroughly research these applications containing duplicative information before approval. Additionally, when the information indicated suspicious activity, SBA should have requested additional supporting documentation from the applicants to sufficiently alleviate any fraud concerns. SBA should thoroughly research these suspicious situations in current loans to determine whether the loans are legitimate, and the businesses are eligible for COVID-19 EIDLs.

The following subsections describe what we found in each subgroup. We compiled a "top 10" list for each to show that many IP addresses, email addresses, physical addresses, and bank accounts were approved for more than 2 loans (and up to 245 loans). We also provide specific examples of suspicious loan activity, which is in line with the fraudulent loan activity schemes we have uncovered in our ongoing investigations.

²⁵ For the approved loan amounts, we used the Net Gross Amount from SBA's loan data, which is the original approved loan amount minus any reduction in the approved amount or cancellation of approved loans.

Figure 9. Overlap of Potentially Fraudulent Activity in EIDLs and Advance Grants



Source: OIG Analysis of SBA's COVID-19 EIDLs in SBA's Capital Access Financial System

Multiple Loans to Applicants Using the Same IP Addresses

Our analysis of the top 10 IP addresses used by applicants to submit and obtain approval for multiple loans showed that 245 loans were approved for \$14.4 million for IP address Number 1 (See Table 5).

Table 5. Sample of Top 10 IP Addresses Receiving Most Multiple Loans with Amounts as of July 31, 2020

BORROWER IP ADDRESS	COUNT OF LOANS	APPROVED AMOUNT(\$) ^a	DISBURSED AMOUNT(\$)
IP Address Number 1	245	\$14,458,800	\$14,211,500
IP Address Number 2	174	26,693,800	26,329,600
IP Address Number 3	173	14,481,400	14,342,200
IP Address Number 4	168	16,263,700	15,469,000
IP Address Number 5	152	12,868,600	12,511,300
IP Address Number 6	137	11,046,400	10,754,500
IP Address Number 7	133	12,967,600	12,803,000
IP Address Number 8	124	11,821,000	11,012,700
IP Address Number 9	121	9,030,200	8,430,100
IP Address Number 10	114	3,966,300	3,816,300

Source: OIG Analysis of subcontractor's data

^a For the approved loan amounts, we used the Net Gross Amount from SBA's loan data, which is the original approved loan amount minus any reduction in the approved amount or cancellation of approved loans.

We analyzed loan and application data from the subcontractor's system. Overall, we found 280,520 IP addresses used by applicants to submit multiple applications. SBA approved more than one loan to each of those applicants.

For example, applicant(s) at one IP address and using primarily what looks like an email address at a fish market with six locations in one state applied for 85 COVID-19 EIDLs loans (SBA approved 84) in various company names of jewelry stores, psychiatric services, construction, gas stations, and other non-seafood businesses. SBA disbursed \$9,383,600 to these potentially fraudulent companies.

The three following examples raise similar red flags. Note, the applications could have been made by more than one individual. The key is that all were submitted from the same IP address.

- An applicant at one IP address applied for and SBA approved 10 COVID-19 EIDLs for different farms. However, some of the addresses for the farms were residential homes or apartments. This applicant also used an email address with periods that could be moved within the same address to create several different addresses; for example, john.smith@ and jo.hn.smith@. This technique is another indicator that these are potentially fraudulent loan applications. SBA disbursed \$506,700 for these potentially fraudulent farms.
- An applicant at one IP address submitted 25 applications claiming to represent 21 unique farms and businesses located across 6 states. Between August 1, 2020, and September 14, 2020, another 3 applications were submitted from this IP address. In total, SBA approved 15 of the applications and disbursed 14 of them for \$1,715,100. In between application submission and disbursement, the applicant changed several of the bank accounts. Additionally, these applicants used similar email addresses.
- An applicant at one IP address submitted 62 applications claiming to represent 62 unique farms and businesses located across 22 states. Between August 1, 2020, and September 14, 2020, another 68 applications were submitted from this IP address. In total, SBA approved 13 of the applications and disbursed 8 of them for \$349,500. In between application submission and disbursement, the applicant changed several of the bank accounts. This applicant also moved the period around in the different email addresses used in the applications.

Multiple Loans to Applicants Using the Same Email Addresses

Our analysis of the top 10 email addresses used by applicants to apply for and obtain approval of multiple loans, showed one example of 158 loans approved for \$9.4 million using the same email address. (See Table 6)

Table 6. Sample of Top 10 Email Addresses Receiving Most Multiple Loans with Amounts as of July 31, 2020

BORROWER EMAIL ADDRESS	COUNT OF LOANS	APPROVED AMOUNT(\$) ^a	DISBURSED AMOUNT(\$)
Email Address Number 1	158	\$9,434,600	\$8,696,900
Email Address Number 2	156	14,352,600	13,323,300
Email Address Number 3	120	9,623,100	9,332,600
Email Address Number 4	104	7,582,100	7,548,400
Email Address Number 5	102	9,161,600	8,987,200
Email Address Number 6	94	8,696,700	8,479,200
Email Address Number 7	90	9,060,900	8,481,600
Email Address Number 8	86	4,344,600	2,642,100
Email Address Number 9	83	5,374,700	5,315,900
Email Address Number 10	83	4,225,500	4,113,500

Source: OIG Analysis of subcontractor's data

^aFor the approved loan amounts, we used the Net Gross Amount from SBA's loan data, which is the original approved loan amount minus any reduction in the approved amount or cancellation of approved loans.

We analyzed loan data for multiple COVID-19 EIDLs to the same email addresses in SBA's Capital Access Financial System. Overall, we found 113,324 email addresses that SBA had approved more than one loan to applicants that used those email addresses on their applications.

Some of this loan data indicates suspicious activity. For example, applicant(s) at one email address applied for 10 COVID-19 EIDLs and SBA approved eight loans in various company names (names of family members, restaurant, hostel, roofing company, karate organization, and other businesses). SBA disbursed \$807,100 to these potentially fraudulent companies.

In another example, an applicant(s) at one email address applied for 10 COVID-19 EIDLs and SBA approved 10 loans for 10 different bathroom renovation businesses in the same city. However, we were not able to locate any bathroom renovation companies in that company's name in that city. Additionally, the email address indicates it is for a burrito restaurant, which we did locate in that city. SBA disbursed \$1.4 million for these potentially fraudulent companies.

Multiple Loans to the Businesses with the Same Address on the Loan Application

Our analysis of the top 10 addresses used by applicants to submit and obtain approval for multiple loans showed that the top address was used for 97 loans. The total loan disbursement was approximately \$1.4 million (See Table 7). We also found that for some of the applications the business names were the same and for some the business names differed.

Table 7. Sample of Top 10 Addresses Receiving the Most Multiple Loans and Amounts as of July 31, 2020

Borrower Address	Number of Loans	Approved Amount (\$) ^a	Disbursed Amount (\$)
Address Number 1	97	\$1,497,200	\$1,377,800
Address Number 2	75	1,377,400	1,272,900
Address Number 3	57	2,472,000	2,472,000
Address Number 4	51	1,184,600	1,184,600
Address Number 5	48	2,002,600	1,713,900
Address Number 6	47	1,631,100	1,608,100
Address Number 7	44	569,900	569,900
Address Number 8	41	1,400,000	1,400,000
Address Number 9	40	973,100	973,100
Address Number 10	37	2,442,500	2,293,500

Source: SBA Capital Access Financial System

^a For the approved loan amounts, we used the Net Gross Amount from SBA's loan data, which is the original approved loan amount minus any reduction in the approved amount or cancellation of approved loans.

We analyzed loan data for multiple COVID-19 EIDLs to the same address in SBA's Capital Access Financial System. Overall, we found 110,549 business addresses (street, city, and ZIP code) for which SBA approved more than 1 loan for businesses at those locations.

Using basic Internet searches, we determined some of the addresses listed are locations of registered agent services or locations such as large office buildings that could potentially house multiple businesses. However, our searches revealed that some of the multiple loans were made to residential addresses, pharmacies, and a vacant lot.

It seems fraudsters understood that sending a shower of applications increased the likelihood that one or more would make it through existing controls. For example, one applicant filled out 38 applications, and subcontractor Number 2's system flagged these loan applications as potential fraud or duplicates. But some of the applications were reviewed by different loan officers, and at least two of the loans were approved and disbursed for a total of \$384,600.

In another example, 10 COVID-19 EIDL applications were submitted and approved using the same house address and received \$1,136,200. Also, 11 COVID-19 EIDL applications were submitted and approved using the same apartment address and received \$658,300.

Multiple Loans to the Same Bank Accounts

We analyzed loan data from SBA's Capital Access Financial System for multiple loans to the same bank accounts. In total, we found 7,282 applicants received more than one loan in their bank account. (See Table 8 for a sample of the top 10 bank accounts used by applicants to submit and obtain approval for multiple loans). We also found half of the applicants for these 7,282 loans applied for multiple loans using the same IP addresses.

Table 8. Sample of Top 10 Bank Accounts Receiving the Most Multiple Loans as of July 31, 2020

Bank Account	Number of Loans	Approved Amount (\$) ^a	Disbursed Amount(\$)
Bank Account Number 1	38	\$4,977,600	\$4,977,600
Bank Account Number 2	28	1,898,900	1,898,900
Bank Account Number 3	22	532,100	532,100
Bank Account Number 4	20	180,400	180,400
Bank Account Number 5	19	268,700	268,700
Bank Account Number 6	17	861,300	861,300
Bank Account Number 7	17	1,003,300	1,003,300
Bank Account Number 8	15	1,755,600	1,755,600
Bank Account Number 9	15	1,115,100	1,115,100
Bank Account Number 10	14	722,100	169,400

Source: SBA's Capital Access Financial System

^a For the approved loan amounts, we used the Net Gross Amount from SBA's loan data, which is the original approved loan amount minus any reduction in the approved amount or cancellation of approved loans.

For example, 13 different types of businesses (financial, automotive, gymnastics, etc.) received loans for \$1,167,800 to the same bank account. It is possible these are legitimate different types of business run out of one bank account. However, it is suspicious behavior and should be researched by SBA to determine if these are legitimate businesses.

SBA Policy Changes. To get funds to eligible entities quickly, SBA “lowered the guardrails” by removing or weakening of controls. For example, SBA reduced existing controls by abandoning the rule of two reviewers for each loan application, setting high production goals, approving loans in batches without review, and ignoring system flags. We have found through thousands of contacts from banks and hotline complaints and our own data analytics that these actions increased fraud risk significantly.

Several factors attributed to the potential fraudulent duplicate loans, as follows:

SBA Abandoned the Rule of Two. In a more typical situation, SBA would require the “Rule of Two,” meaning at least two SBA personnel would have to approve a loan. However, SBA did not do this for COVID-19 EIDLs. SBA officials told us that the subcontractor sent clean loan applications recommended for approval in batches of 25 to 50 loans. An SBA team lead would approve these batches with little to no vetting of the loan information.

Applications are considered clean if the subcontractor’s system does not find any major problems, such as large number of applications with other lenders, owner information failed validation, digital identity fraud suspicion, invalid bank account number, or bank account number does not match business. However, these loans considered by the subcontractor’s system as clean and included in batches could have multiple minor issues, such as client location is international, phone number is not associated with the business, large number of applications in succession, email does not pass validation, or unable to confirm business registration.

An SBA official told us they considered the subcontractor's system as the first review and the SBA team lead as the second review. This approach, however, does not satisfy the Rule of Two because some of the system identified loan application issues were ignored (such as large number of applications in succession), and some system controls were only sometimes effective (such as the bank account could only be verified 60 percent of the time). SBA employees could potentially see trends in fraudulent applications that a system potentially could not identify, especially if a system is not programmed to detect a change such as bank account changes or if the system's capability is limited, such as not flagging all duplicative loans as discussed below.

Timing Goals for Loan Decisions. Office of Disaster Assistance officials established production goals that loan officers should make final loan decisions (approval or denial) on at least 4 loan applications per hour, and team leads should make final loan decisions (approval or denial) on 10 to 12 loan applications per hour. To meet that goal, the officers had to make their decisions within an average of 15 minutes and team leads within an average of 5 to 6 minutes per application despite the complexity and serious nature of the responsibility entrusted to the loan officers and team leads. SBA's production requirement resulted in cursory reviews rather than the deeper reviews required to ensure loans were given to eligible businesses.

After our briefing on August 10, 2020, SBA issued a new policy that day curtailing approval of loan applications in batches.²⁶ This change should help reduce the number of potential fraudulent loans previously being approved in batches without being properly vetted by SBA personnel.

SBA Ignored Subcontractor's System Flags. We found the subcontractor's system identified multiple potentially fraudulent applications with duplicate names, account numbers, addresses, or other information. However, SBA personnel did not always adequately address the flags before approving the loans. SBA officials took corrective action after we warned them of the issue. Along with the other policy changes on August 10, 2020, SBA issued a new informal policy requiring all subcontractor flags on loan applications must be researched and fully resolved before approving or denying a loan or the application will be returned to the loan officer.²⁷ Team leads are required to add notes to the files telling loan officers what actions to take and what to tell applicants. Loan officers also are required to document the actions taken to resolve the flags.²⁸

SBA also set a new procedure requiring loan officers to manually check the applicant's Social Security Number and federal Taxpayer Identification Number before processing each duplicate loan application. These changes should help reduce approvals of potential fraudulent loans that have duplicate information because they should be properly vetted by SBA personnel.

²⁶ SBA Email to Disaster Assistance Processing and Disbursement personnel, *[Subcontractor] Procedure Update Number 2*, August 10, 2020

²⁷ SBA Email to Disaster Assistance Processing and Disbursement personnel, *[Subcontractor] Procedure Update Number 2*, August 10, 2020

²⁸ SBA Email to Disaster Assistance Processing and Disbursement personnel, *[Subcontractor] Procedure Update Number 2*, August 10, 2020

Subcontractor's System Control Did Not Always Flag Duplicative Loans. On August 12, 2020, SBA discovered controls in the subcontractor's system were not always consistently flagging problematic loan applications.²⁹ The system did not link related loan applications when multiple loan applications had the same information. These features help to prevent fraud and are also essential in preventing multiple loan decisions to the same entity. This inoperable control could have led to some loan applications being mistakenly marked "clean" and erroneously approved in batches. A subcontractor official told us the duplicate-logic system control was corrected in mid-August.

SBA Action to Address our July 2020 Management Alert on Duplicate Loans. In our July 2020 Management Alert, we warned SBA that we had found approximately \$45.6 million in duplicate loans to the same businesses at the same addresses.³⁰ The findings in this report are a continuation of that analysis as we further identified the scope of the potential fraud.

In response to our Management Alert, SBA issued a notice to financial institutions to alert them to the potential for suspicious activity related to COVID-19 EIDL funds deposited into business or personal bank accounts.³¹ The notice included some examples of suspicious activity, such as use of stolen identities, EINs, or Social Security Numbers to qualify for the COVID-19 EIDLs and advance grants. The notice also explained how to report suspicious banking activity to SBA.

As we continued our analysis post-Management Alert, we found more duplicate loans. We briefed the Administrator on August 10, 2020, about these potentially fraudulent loans. Shortly afterwards, SBA informally implemented and strengthened some of its controls to address vulnerabilities.

In addition to the other corrective actions SBA took on August 10, 2020, SBA also established a new informal policy requiring loan officers to automatically decline any loan applications flagged by the subcontractor for the following reasons:

- Suspicious online activity, device associated with fraud, high-risk IP addresses, or client is international;
- Related deals by bank accounts that are not the same business or person;
- Email addresses and phone numbers in somebody else's name; and
- Email addresses with periods that can be moved around (such as "jo.hn.do.e@gmail.com").³²

All such applications, including legitimate applications, if appealed by the borrower will be sent to the loan application reconsideration process, which will require the applicant to provide more supporting documentation.

²⁹ SBA Email to Disaster Assistance Processing and Disbursement personnel, *Duplicate and Related Logic*, August 12, 2020

³⁰ SBA OIG 20-16, *Serious Concerns of Potential Fraud in EIDL Program Pertaining to the Response to COVID-19* (July 28, 2020).

³¹ SBA Informational Notice, *Guidance Regarding Identification and Reporting of Suspicious Activity in the COVID-19 EIDL Loan Program*, July 22, 2020.

³² SBA Email to Disaster Assistance Processing and Disbursement Personnel, *[Subcontractor] Procedure Update Number 1*, August 10, 2020

EIDL Data was Inaccurate and Incomplete. On August 20, 2020, we told SBA and subcontractor officials that we have observed approved loans where the borrower's name is blank, "same," "NA," "not applicable," or "not available," in SBA Capital Access Financial System. We asked the subcontractor how the system would identify and flag duplicate loans with these borrower names. A subcontractor official claimed that the data in its system is accurate and this might be a problem with the accuracy of the digital feed from subcontractor Number 2's system to SBA's Capital Access Financial System.

We also explained that we have seen loan files with vague borrower names such as "Uber," "Lyft," and "AirBNB," as well as files in which the name field contains the borrower's address, year of birth, or other errors (See Table 9).

Table 9. Sample of Vague Borrower Names as of July 31, 2020

Borrower Name ^a	Number of Loans
Uber	1,148
Lyft	362
N/A	342
None	162
uber	160
UBER	148
Uber Driver	126
Independent Contractor	128
Uber driver	126
Uber Technologies	119
Doordash	117
Self employed	116
Instacart	109
NA	106
Self Employed	104

Source: OIG analysis of SBA Capital Access Financial System

^a The borrower name field is case sensitive.

We asked how the system could verify the accuracy of information and identify potential fraud with such unspecific data. Subcontractor and SBA officials were surprised by this issue and said they would research it.

Additionally, we found 249,432 approved loans and 136 disbursed loans without any bank account information. It is concerning these applications were approved without banking information and based on the data, we are unable to determine where the loans were deposited.

Such inaccuracies in data will present challenges for SBA in servicing loans. SBA officials said the agency has hired a major accounting firm to help fix data issues but did not explain exactly what the firm is doing to accomplish the task. We do not know if the accounting firm is addressing this issue or some other issue.

SBA should strengthen their controls further to lower fraud risk to an acceptable level. Without better controls, loans to potentially ineligible borrowers reduce the amount of available critical capital needed for eligible businesses to withstand the effects of the pandemic and increase the risk of financial loss.

SBA should flag all loans deemed ineligible for its FY 2021 improper payments estimation process.

Recommendations

We recommend the Administrator to direct the Associate Administrator for Disaster Assistance to:

3. Review duplicate loans to IP addresses, email addresses, business addresses, and bank accounts to determine if there are undisbursed funds that should be suspended until the duplicate loans are assessed for eligibility.
4. Cancel all ineligible loans that are not disbursed, recover funds from all loans disbursed to ineligible applicants, and flag those loans for the improper payments estimation process.
5. Strengthen or establish controls to ensure multiple loans are provided only to eligible applicants and prevent the erroneous duplication of loans.
6. Strengthen data integrity to make it possible to determine if the inaccurate information allowed loans to be made to ineligible entities and to strengthen SBA's ability to service loans appropriately.

Finding 3: SBA Approved Approximately \$1.1 Billion in Loans and Advance Grants to Potentially Ineligible Entities

We found that SBA approved 22,706 COVID-19 EIDLs totaling \$917.7 million and 45,385 advance grants totaling \$135.1 million to potentially ineligible entities. In our July 2020 Management Alert, we warned SBA that we had found approximately \$250 million in approved loans to ineligible entities. This finding is a continuation of that analysis.

The CARES Act requires that applicants had to be in business on January 31, 2020, to be eligible for COVID-19 EIDLs or advance grants.³³ To determine if applicants were in business on January 31, 2020, we cross-referenced a database of Employer Identification Number (EIN) registrations made between February 1, 2020, and July 31, 2020, and matched them to data in SBA's subcontractor Number 2's database as of August 5, 2020. We removed all sole proprietorships, because these businesses could have been in operation for some time and be eligible for a COVID-19 EIDL even though the EIN was registered after January 31, 2020.

Of these applications, SBA approved 22,706 COVID-19 EIDLs totaling \$917.7 million and 45,385 advance grants totaling \$135.1 million to applicants with EIN registration dates of February 1, 2020, or later. In total, SBA approved nearly \$1.1 billion to potentially ineligible applicants.

We believe this occurred because SBA did not require applicants to validate EIN registration dates. Instead, SBA relied on the applicant to self-certify the "Date Business Established." Applicants who certified their entity existed before February 1, 2020, were then evaluated by a loan officer or team lead. Loan officers or team leads searched the Internet to determine if a webpage indicated the entity was in operation before February 1. If the loan officer or team lead found evidence, the application was approved. If the loan officer or team lead did not find evidence, the processor attempted to contact the applicant for evidence that the entity existed before February 1, 2020.

We believe an Internet search is not sufficient to determine business eligibility, because websites can be fabricated to support the application. SBA should fully verify whether these entities were legitimately in business on or before January 31, 2020, by using a government resource (state or federal), and if they were not, SBA should recover the loan funds.

During this inspection, we also found that ineligible entities (such as "adult industry" businesses) received COVID-19 EIDLs. In addition, SBA received fraudulent applications for prominent national leaders that were obviously not legitimate applications and in one case paid the \$5,000 advance grant before denying the loan.

We also have received hotline complaints about identities being stolen and used for fraudulent applications. For example, SBA received fraudulent loan applications in the name of a prominent real estate developer, a major shoe manufacturer, and one of its own SBA District Office Directors. SBA appropriately denied the loan for the real estate developer. However, SBA approved and funded the fraudulent loan for the shoe manufacturer in the amount of \$150,000. The agency also approved but did not disburse the loan for its District Director because the director informed SBA of the identity theft. SBA also terminated several employees for approving loans to themselves.

³³ Public L. No. 116-136, Sec. 1110(c)

On August 14, 2020, SBA established a new policy, which stated if the subcontractor's system was unable to determine business eligibility through a public records search, loan officers should attempt to verify the business eligibility through an Internet search. If the loan officer is unable to locate a legitimate online presence for the business (not a website that looks like it was just created for the purposes of obtaining a loan), the loan application should be declined.

Loans to potentially ineligible borrowers reduce the amount of available critical capital needed for eligible businesses to withstand the effects of the pandemic and increase the risk of financial loss. These loans also constitute improper payments under the Payment Integrity Information Act of 2019.³⁴ SBA should flag these loans for its FY 2021 improper payments estimation process.

Recommendations

We recommend the Administrator to direct the Associate Administrator for Disaster Assistance to:

7. Review the applicants with approved loans to determine if there are undisbursed funds remaining that should be suspended until the business start date is verified and the applicant is deemed eligible based on the CARES Act eligibility requirements. If the applicant is deemed ineligible, recover any disbursed funds, deobligate any undisbursed funds, and flag the application as ineligible.
8. Review the advance grants to determine if the application was legitimate and the business met CARES Act eligibility requirements. If not, recover the funds and flag the application as ineligible.
9. Revise the FY 2021 Improper Payments Act Checklist to include checking EIN dates for COVID-19 EIDLs and advance grants or program the system to flag erroneously approved loans and advance grants as improper payments; the information should be used during the FY 2021 improper payments estimation process.
10. Strengthen controls for verifying an entity's start date to ensure applicants meet eligibility requirements.

³⁴ 31 U.S.C. §3351(4)

Analysis of Agency's Response and Summary of Actions to Close the Report

SBA management provided formal comments to the draft report. We have included those comments in Appendix III. SBA management requested, and we agreed not to include the final appendix of their response because it included confidential information such as corporate or individual identities associated with IP addresses, business addresses, email addresses, and bank accounts. Management disagreed with all the findings, partially agreed with recommendations 1 through 8 and 10, and disagreed with recommendation 9. We considered management's comments when preparing this final report.

OIG Analysis of Agency's Response

SBA management's comments assert that we do not provide enough evidence to prove that loans were provided to ineligible businesses or potentially fraudulent entities, and that our analyses are flawed. We strongly disagree. SBA attempts to diminish this review's findings that point to internal control weaknesses that our investigative results have confirmed.

OIG agrees that there are valid loans within the loan portfolio where there is little or no assurance of fraud prevention or of eligibility; however, such examples provide a scant retort in context of the billions of taxpayer dollars at stake. Notwithstanding, we recognize the significance of better understanding and accounting for such instances in context of the internal control condition. Unfortunately, SBA officials did not provide most of the information presented in their response at any point during the inspection process. While it would have been helpful to have this information, none of the information presented in SBA's response alters our findings.

SBA's management continues to insist that its controls are robust despite overwhelming evidence to the contrary. Our analysis of SBA's COVID-19 EIDL loan and application data highlights strong indicators of ongoing fraudulent activity in the COVID-19 EIDL Program. These indicators are backed by the following facts, which are strong indications that fraud has occurred on a large scale and continues to worsen:

- OIG's Investigation Division and other law enforcement agencies have already seized over \$450 million from more than 15,000 fraudulent COVID-19 EIDLs. OIG and other law enforcement partners continue to seize additional fraudulent loan funds stemming from the risk areas identified in this report.
- OIG's Investigations Division and other law enforcement organizations have more than 5,000 loans under investigation, and new investigations are being initiated daily using the risk profiles identified in this report.

In addition to criminal investigation, other government offices are seeking to assist the victims of this fraud. For example, the Federal Trade Commission indicates it received 223,995 reports involving fraud, identity theft, and other concerns associated with the nation's pandemic response as of October 14, 2020. SBA management is aware that numerous individuals' identities were stolen and used to embezzle or attempt to embezzle federal funds. Often when OIG finds one loan or grant based on a stolen identity, we find numerous other applications, loans, or grants used by the same IP address, email address, business address, or bank account.

At the same time FTC was reporting a spike in complaints, OIG was receiving an unprecedented number of complaints to its Hotline. By August 31, 2020, we had received a total of more than 42,000 hotline complaints. As of September 30, 2020, this total had increased to more than 77,000 hotline complaints. Hundreds of complaints continue to come in daily.

- Financial institutions across the country have contacted OIG about thousands of loans that they believe to be suspicious because the deposits were made to account holders claiming to use the funds to open a business, account holders attempting to transfer funds to foreign accounts, and other suspicious banking activity. As a result, millions of dollars in COVID-19 EIDLs have been returned to SBA by financial institutions. SBA receives funds returned from financial institutions on a regular basis.
- Two major financial institutions have fired hundreds of employees who were involved in schemes to defraud the COVID-19 EIDL Program and have warned all their remaining staff to report any instances of suspicious activity.
- SBA has fired employees and contractors who were involved in approving loans to themselves or who inappropriately influenced loan approval.

Throughout this report, our analysis identifies the amount of potential fraudulent COVID-19 EIDLs that SBA should review. We also provided some specific examples of suspect loans in each subpopulation of loans to demonstrate the ongoing suspicious activity.

The agency must address our findings to mitigate considerable risk and address obvious vulnerabilities in its internal control structure. The agency's controls should be strengthened to prevent such fraud and assure only eligible recipients receive relief funds.

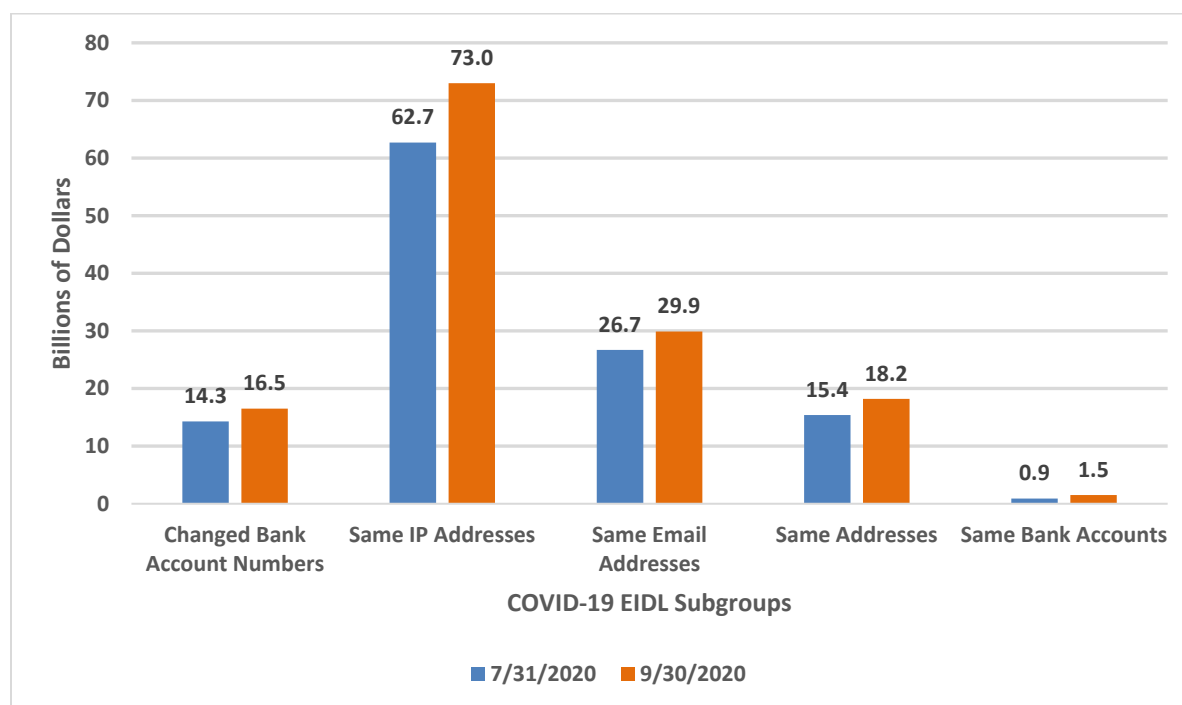
The agency continues to advocate the reasons these indicators could represent eligible recipients, while the fraudulent activity continues to rise, putting additional federal funds at risk. The existing internal controls offer little or no assurance of eligibility or fraud prevention.

Because of the amount of federal funds at risk and the breadth of the ongoing fraud, OIG has repeatedly alerted SBA of both ongoing and potential fraud in the COVID-19 EIDL Program. In July 2020, we briefed SBA and then issued a Management Alert warning SBA of potentially fraudulent activity in its COVID-19 EIDL Program, which represented the "tip of the iceberg." In August 2020, we briefed SBA again about the vast size of the potentially fraudulent activity.

This report specifically identifies the expanse of the potential fraud ongoing in the COVID-19 EIDL Program as of July 31, 2020. Even though we have repeatedly tried to sound the alarm with SBA, it is concerning that SBA's response to this report does not acknowledge the extent of ongoing fraud or a willingness to undertake all necessary steps to identify and strengthen the existing ineffective controls.

The potential fraud in the COVID-19 EIDL Program has continued to grow. Loan data from July 31, 2020 to September 30, 2020 indicates loans in the areas that we have identified continued to increase, as shown in Figure 10.

Figure 10. Approved COVID-19 EIDLs for OIG Identified Subgroups



Source: OIG analysis of SBA Capital Access Financial System

We note there is overlap among these groupings of COVID-19 EIDLs applicants, so they should not be added together. However, each overlap increases the likelihood of fraudulent activity.

We will continue to work with SBA management to ensure that proper controls are in place to mitigate the considerable risk of fraud in the COVID-19 EIDL Program.

Summary of Actions to Close the Report

SBA management partially agreed to 9 of the 10 recommendations, and the proposed actions generally satisfy the intent of the recommendations. The completion date for recommendation numbers 1 through 8 and 10 is September 30, 2021. It is important to note that although management stated they disagreed with the findings and only partially agreed with nine of the recommendations, in most cases, they are taking corrective actions to fully implement the recommendations.

The following list details the status of the recommendations and the actions necessary for OIG to close them:

1. **Resolved.** Management partially agreed with our recommendation, stating they will review a sampling of loans that had a bank account number changed before disbursement and which did not pass through established bank account validations. Management also stated they will forward any loans determined to be potentially fraudulent to the OIG for further investigation and place undisbursed funds on Agency Hold.

Although management only partially agreed with the recommendation, they are implementing corrective actions that satisfy the intent of the recommendation. This

recommendation can be closed when management provides evidence that it conducted a statistical sampling of the loans. The evidence should include the review timelines, number of sampled loans, review steps performed, and the results.

2. **Resolved.** Management partially agreed with our recommendation, stating where appropriate, SBA continues to work to expand and strengthen controls for the COVID-19 EIDL Program. Management agreed to strengthen controls to ensure loan deposits continue to be made to legitimate bank accounts for eligible borrowers. Management stated they will design and implement strategies and tools to respond to reports from banks involving suspicious activity in connection with deposits of the COVID-19 EIDL program.

Although management only partially agreed with the recommendation, they are implementing corrective actions that satisfy the intent of the recommendation. This recommendation can be closed when management provides procedural implementation of the strategies and tools designed and the outcomes.

3. **Resolved.** Management partially agreed with our recommendation. Management stated where appropriate, SBA continues to work to expand and strengthen controls for the COVID-19 EIDL Program. Management stated it will review the loans associated with the IP addresses, email addresses, business addresses, and bank accounts associated with the greatest number of loans approved to determine if additional controls are needed. In accordance with current protocols, SBA will forward any loans determined to be potentially fraudulent to the OIG for further investigation and place undisbursed funds on hold.

Although management only partially agreed with this recommendation, its proposed actions satisfy the intent of the recommendation. This recommendation can be closed when management provides evidence that it reviewed the loans or a valid statistical sampling of the loans to determine if there are undisbursed funds that should be suspended until the duplicate loans are assessed for eligibility.

4. **Unresolved.** Management partially agreed with our recommendation, stating it strongly disagreed with the findings associated with the recommendation because the methodology used for identifying potentially ineligible loans did not exclude legitimate reasons why loans would have changed bank accounts or have duplicate IP addresses, email addresses, business addresses, or bank accounts. However, management partially agrees with the recommendation to continue following their current protocols to cancel undisbursed loan funds if the applicant is determined to be ineligible and to forward to the OIG for further investigation any loans identified as potentially fraudulent.

SBA's response does not include recovering funds from all loans disbursed to ineligible applicants and flagging those loans for the improper payment estimation process, as recommended by OIG. As a result, management's proposed actions do not fully satisfy the intent of the recommendation. This recommendation can be closed when management provides evidence that the agency cancelled all ineligible loans that were not disbursed, recovered funds from all loans disbursed to ineligible applicants, and flagged those loans for the improper payments estimation process, as recommended.

5. **Resolved.** Management partially agreed with our recommendation stating where appropriate, SBA continues to work to expand and strengthen controls for the COVID-19 EIDL Program. Management also stated the agency will review the loans associated with the IP addresses, email addresses, business addresses, and bank accounts associated with the greatest number of loans approved to determine if additional controls are needed. In accordance with current protocols, SBA will forward any loans determined to be potentially fraudulent to the OIG for further investigation and place undisbursed funds on Agency Hold.

Although management only partially agreed with this recommendation, they are implementing corrective actions that satisfy the intent of the recommendation. This recommendation can be closed when management provides evidence that the agency strengthened or established controls to ensure multiple loans are only provided to eligible applicants and prevent the erroneous duplication of loans.

6. **Resolved.** Management partially agreed with our recommendation, stating where appropriate, SBA continues to work to expand and strengthen controls for the COVID-19 EIDL Program and partially agrees with the recommendation to strengthen data integrity to ensure loans can be serviced appropriately.

Although management only partially agreed with this recommendation, they are implementing corrective actions that satisfy the intent of the recommendation. This recommendation can be closed when management provides evidence that the agency strengthened data integrity to make it possible to determine if the inaccurate information allowed loans to be made to ineligible entities and to strengthen SBA's ability to service loans appropriately.

7. **Unresolved.** Management partially agreed with our recommendation, stating where appropriate, SBA continues to work to expand and strengthen controls for the COVID-19 EIDL Program. Management also stated the agency will explore developing and implementing additional controls to validate the self-certified business start date. However, SBA's proposed actions do not satisfy the intent of the recommendation.

The recommendation can be closed when management provides evidence that the agency reviewed approved loans to determine if there are undisbursed funds remaining that should be suspended until the business start date is verified and the applicant is deemed eligible under CARES Act eligibility requirements. If the applicant is deemed ineligible, SBA should provide evidence that it recovered any disbursed funds, deobligated any undisbursed funds, and flagged the application as ineligible or provide evidence it implemented an alternative solution that satisfied the intent of the recommendation.

8. **Resolved.** Management partially agreed with our recommendation. SBA stated it would review a sampling of EIDL advances to determine if they were not provided to eligible businesses. In accordance with current protocols, SBA will forward any EIDL advances determined to be potentially fraudulent to the OIG for further investigation and place undisbursed loan funds, if any, on Agency Hold. OIG considers the intent of the review is to determine if the business met eligibility requirements for the loans.

Although management only partially agreed with this recommendation, they are implementing corrective actions that satisfy the intent of the recommendation. This recommendation can be closed when management provides evidence that the agency reviewed a valid statistical sampling of the advance grants to determine if the application was legitimate and the business met CARES Act eligibility requirements.

9. **Unresolved.** Management disagreed with our recommendation, stating it does not agree with the recommendation to add EIN dates to the FY 2021 Improper Payments Act Checklist for the COVID-19 EIDL program because EIN dates are not a conclusive way to determine the business start date and have not been made available to SBA for the purpose of processing COVID-19 EIDL applications at this point. However, SBA will continue to explore alternative methods for validating the business start date.

Management also stated they do not agree with the recommendation to flag loans as improper based on items that were not available at the time the loan was approved added to a checklist after loan disbursement. OIG believes the loan files of applicants identified during the audit as having EIN registration dates after January 31, 2020, should be flagged for additional review during improper payment review for eligibility.

An EIN registered after the cutoff date is a potential indicator, even if not a conclusive method of determination, that a business may not have been in operation on January 31, 2020. SBA should obtain EIN registration data from the Department of the Treasury and document the loan files with the EIN registration dates outside the eligibility period to ensure that if these files are selected during the improper payment estimation process, potential ineligibility is considered.

This recommendation can be closed when management provides evidence the agency revised the FY 2021 Improper Payments Act Checklist to include checking EIN dates for COVID-19 EIDLs and advance grants or has programmed the system to flag erroneously approved loans and advance grants as improper payments. Management should also use the information during the FY 2021 Improper Payments Acts estimation process or provide an alternative solution to satisfy the intent of the recommendation.

10. **Resolved.** Management partially agreed with our recommendation. SBA stated that the agency will continue exploring alternative controls for validating the business start date and evaluate the feasibility of adding those controls to application processing and disbursement. Management also stated they made several attempts to gain access to EIN dates obtained directly from the Internal Revenue Service (IRS), both before and after the launch of the new streamlined COVID-19 EIDL application.

SBA's response also said OIG had access to the same EIN dates from their counterparts at IRS as SBA had requested but that, to date, OIG had been unwilling to share the information with SBA's Office of Disaster Assistance while simultaneously recommending that SBA add it as a new internal control and retroactively apply it to the improper payment analysis. We disagree with SBA's assertion, because we provided the necessary information on the potentially ineligible loans and grants as requested by SBA for use in responding to this report.

We are unable to provide the EIN registration date information because of our data sharing agreement with the U.S. Department of the Treasury. SBA can locate the EINs associated with each application in its loan and grant data, and SBA should establish an

agreement with Treasury to get access to EIN registration dates, which SBA can use to improve internal controls in its assessment of eligibility.

Although management only partially agreed with this recommendation, they are implementing corrective actions that satisfy the intent of the recommendation. This recommendation can be closed when SBA has provided evidence it strengthened controls for verifying an entity's start date to ensure applicants meet eligibility requirements.

Appendix 1: Objective, Scope, and Methodology

This report presents the results of our inspection of SBA's initial disaster assistance response to the coronavirus pandemic. Our objective was to assess SBA's initial disaster assistance response to COVID-19, including staffing adequacy, loan application volume, timeliness of disaster approvals, and customer service.

To meet our objective, we reviewed the following:

- Coronavirus Preparedness and Response Supplemental Appropriations Act
- Coronavirus Aid, Relief, and Economic Security Act
- Paycheck Protection Program and Healthcare Enhancement Act
- SOP 5030.9 Disaster Assistance Program
- Office of Disaster Assistance Memo 20-17 Coronavirus Processing Changes, Memo 20-18 Coronavirus Processing Changes Number 2; and Memo 20-19 Coronavirus Collateral and Insurance Changes
- Subcontractor Decision Guide

In addition, we interviewed officials of the Office of Disaster Assistance, field office personnel, and employees of the contractor and subcontractor. We reviewed public documents issued by SBA, including press releases, "Frequently Asked Questions," and talking points. We also periodically reviewed SBA's COVID-19 Resources web page.

Finally, we obtained loan data from SBA's ETRAN system and application data from the subcontractor's system. We attempted to assess the reliability of the data by performing limited testing. However, SBA and its subcontractor did not provide source information to us to perform data reliability testing. In addition, SBA acknowledged it has hired a vendor to research and correct anomalies in its data. We found significant accuracy problems with the data, such as vague names for the borrowers (See Table 9).

We determined that certain elements of SBA's EIDL data that the agency used to manage its program were not reliable because they were inaccurate, incomplete, or both. Specifically, we found 298 loans (117 Cancelled and 181 Active Undisbursed) that we could not tie back to an application in subcontractor Number 2's system, SBA's application system, or SBA's data warehouse. We also found loans where the borrower's name is blank, "same," "NA," "not applicable," or "not available." Additionally, we found loan data with vague borrower names such as "Uber," "Lyft," and "AirBNB," as well as files in which the name field contains the borrower's address, year of birth, or other errors. Finally, we found 249,432 approved loans and 136 disbursed loans without any bank account information. We provided SBA recommendations in this report to address the data reliability issues.

As a result, the reliability of the data is undetermined, but it is the best available data, and SBA uses the data to manage the program and derive program statistics. While we identified issues with the data, we believe the data we reviewed was sufficiently reliable to support our report conclusions.

We conducted this performance-based inspection in accordance with the Council of the Inspector General on Integrity and Efficiency's Quality Standards for Inspection and Evaluation. Those standards require that we plan and perform the inspection to obtain sufficient, appropriate

evidence to provide a reasonable basis for our conclusions and observations based on our inspection objective. We believe the evidence provides a reasonable basis for our conclusions based on the inspection objective.

Appendix 2: Summary of Prior OIG Reports Related to the SBA's EIDL Disaster Assistance Response to COVID-19

SBA OIG has issued two reports this year related to SBA's EIDL disaster assistance response to COVID-19. Those reports are:

SBA OIG 20-16, *Serious Concerns of Potential Fraud in EIDL Program Pertaining to the Response to COVID-19 (July 28, 2020)*. In this Management Alert, we informed SBA that OIG had been inundated with contacts to investigative field offices and the complaint Hotline. From the inception of the COVID-19 EIDL and advance grant Programs from early March until May 19, 2020, OIG received 465 hotline complaints. By June 26, 2020, the number of OIG hotline complaints had increased to 1,038. Of these, 692 complaints were about potential fraud or scams

OIG received complaints of more than 5,000 instances of suspected fraud from financial institutions receiving EIDL deposits. Nearly 3,800 of those reported instances of suspected fraud came from only six financial institutions. An additional 1,220 reports of suspected fraudulent transactions have come in from other financial institutions. Nine financial institutions have reported a combined total of \$187.3 million in suspected fraudulent transactions.

Our preliminary review revealed strong indicators of widespread potential fraud in the program. Additionally, we found indications of deficiencies with internal controls related to disaster assistance for the COVID-19 pandemic. Our review of SBA's initial disaster assistance response identified \$250 million in COVID-19 EIDLs and advance grants given to potentially ineligible recipients. We also found approximately \$45.6 million in potentially duplicate payments.

OIG suggested swift management action to engage financial institutions immediately to identify disbursements that may have been obtained fraudulently, recover disbursed funds, and prevent additional taxpayer losses.

SBA OIG 20-12, *Risk Awareness and Lessons Learned from Audits and Inspections of EIDLs (April 30, 2020)*. In this White Paper, we shared information from previous audits and inspections that SBA should consider in managing and reducing risks with pandemic-related loans. We pointed out that we had found significant issues, as follows:

- SBA had issued EIDLs (as well as other disaster loans) without fully vetting borrower credit or ability to repay.
- SBA had issued EIDLs (as well as other disaster loans) to businesses that had not sustained a disaster-related economic loss and after the official time period of a particular disaster.
- SBA had a history of encountering challenges with inexperienced and untrained staff who did not give accurate or appropriate assistance to borrowers during large-scale disasters.

Appendix 3: Management Comments

SBA RESPONSE TO INSPECTION REPORT



October 14, 2020

The Honorable Hannibal “Mike” Ware
Inspector General
U.S. Small Business Administration
409 3rd Street, SW
Washington, DC 20416

Dear Inspector Ware:

I write regarding the Office of Inspector General’s September 14, 2020 Draft Report, titled “*Small Business Administration’s Initial Disaster Assistance Response to the Coronavirus Pandemic*” (“Draft Report”). I recognize OIG’s important role, and SBA remains ready to receive and carefully consider OIG’s suggestions regarding the disaster assistance SBA is providing in response to the Coronavirus pandemic. The Small Business Administration has completed a careful and thorough examination of the Draft Report’s findings and recommendations. I now take this opportunity to respond to the Draft Report.

I appreciate the Draft Report’s acknowledgement of the speed with which SBA began offering pandemic-related EIDLs—on March 12, 2020, four days *before* any state formally was declared a statewide COVID-19 disaster area. I also appreciate the Draft Report’s recognition that “SBA has now approved and distributed more loans for COVID-19 relief than for all other disasters combined in the agency’s history.” Indeed, the \$211.8 billion in combined EIDL loans and emergency advance grants that SBA has approved thus far is more than **three times** the total amount of disaster loan funding that SBA previously has distributed during its entire 67-year history. I also appreciate the Draft Report’s recognition that SBA has accomplished this historic work volume on an extremely tight timeline as a result of legislation streamlining time-consuming, upfront credit-based loan approvals and allowing applicants to request payment of Advances within three days of application.

I am concerned, however, that the Draft Report does not fully and accurately portray SBA’s highly successful delivery of an unprecedented volume of disaster assistance. Rather, the Draft Report grossly overstates the risk of fraud, waste, and abuse in the COVID-19 EIDL program. In particular,

- ***The Draft Report fails to acknowledge the enhanced and effective system controls and validations that SBA is using to process COVID-19 EIDLs.*** Although legislation removed certain controls to streamline loan processing, SBA implemented other, stronger EIDL controls and validations. These rigorous controls and validations resulted in the rejection of 5.1 million loan applications and prevented the disbursement of almost \$184 billion in loans to ineligible entities. SBA has referred 80,965 COVID-19 EIDLs to OIG’s criminal investigative division for further investigation. The Draft Report does not credit these efforts or even remove the loans SBA already referred to OIG from the number of “potentially fraudulent loans” that OIG claims have not been detected.
- ***The Draft Report’s findings and figures are inflated and rest on hasty, incomplete conclusions.*** The Draft Report claims that SBA approved approximately \$14.3 billion in “potentially fraudulent loans” to accounts that differed from those listed on the loan applications, approximately \$62.7 billion in “potentially fraudulent loans” where applications used duplicate information, and approximately \$1.1 billion in loans and advance grants to “potentially ineligible businesses.” But these numbers, as shown by SBA’s analyses of the methodology OIG used and, where available, the source data, rest on faulty assumptions. OIG largely failed to investigate whether the “potentially fraudulent loans” raised more than the minimum quantum of suspicion. Indeed, as ODA discovered, OIG often mischaracterized legitimate loan activity as “potentially fraudulent.” For instance, all of the Draft Report’s “top 10” examples of shared IP addresses and shared e-mail addresses, which OIG classifies as evidence of fraud, involved loan applications by individuals who relied on certified public accountants, law firms, loan packagers, or religious and cultural centers to submit their loan applications. Likewise, all of the Draft Report’s “top 10” examples of physical addresses being associated with multiple loans, which again OIG classifies as evidence of fraud, involved independent contractors using on their loan applications the physical addresses of the corporate headquarters or regional offices of the companies for which they work. More than 82 percent of the applications with duplicate physical addresses were made by taxicab, ridesharing, and food delivery drivers. And most of the “top 10” examples of loans with shared bank accounts involved multiple rental properties incorporated and managed by single individuals who did not maintain separate bank accounts for each of their properties. In short, OIG mistakenly identifies legitimate loans and advances as examples of “potential fraud” and “potential ineligibility” because OIG did not complete its analyses. Yet, the Draft Report touts figures that erroneously count these legitimate loans and advances as fraud.

In the attached memorandum—which I request that you reproduce in full (except for the confidential second appendix), along with this cover letter, in your final report—SBA supplements and corrects much of the Draft Report’s information. Where available, SBA conducts the analyses of the source data that OIG stopped short of conducting. These supplements and corrections are necessary to ensure that the Draft Report fully and accurately portrays both SBA’s historic and tireless work to provide rapid disaster assistance to eligible recipients adversely impacted by the Coronavirus pandemic and the measures SBA has taken to mitigate the risk of fraud, waste, and abuse.

Indeed, OIG acknowledged that it has not conducted a review of the individual loans on which it bases the Draft Report's findings, which is the only way to accurately assess the true extent of fraud in the EIDL program. As you testified before the House Small Business Subcommittee on Investigations, Oversight and Regulations on October 1 2020, "[OIG's] report[] speaks to significant potential fraud in . . . EIDL. It is remarked as 'potential' only because we have not reviewed each loan associated with the area of finding" SBA picked up where you left off. Where possible, we conducted our own review of the loans associated with each of the Draft Report's findings. This more rigorous analysis—which you concede OIG has not conducted—shows that much of what OIG labels in the Draft Report as "potentially fraudulent" or "ineligible" loan activity is in fact legitimate efforts by eligible businesses to obtain disaster assistance. SBA's analysis fatally undermines much of the Draft Report's findings and shows that the Draft Report has significantly overstated the extent of "potential" COVID-19 EIDL fraud.

Sincerely,

Jovita Carranza

Memorandum

To: Inspector General Mike Ware

From: James Rivera, Associate Administrator, Office of Disaster Assistance

Re: September 14, 2020 Draft Report: Small Business Administration's Initial Disaster Assistance Response to the Coronavirus Pandemic

The Draft Report Overlooks the Significant and Successful Internal Controls that SBA Has Put in Place and, Even Taking Its Inflated "Potential Fraud" Figures at Face Value, Fails to Discount Them with the Referrals that SBA Has Made to OIG.

The Draft Report asserts that, "[t]o expedite the process, SBA 'lowered the guardrails' or relaxed internal controls, which significantly increased the risk of program fraud." While legislation did indeed take certain control measures off the table, the Draft Report's assertion disregards the numerous enhanced control measures that SBA instituted to handle the influx of COVID-19-related EIDL applications and fails to account for their success.

1. To process COVID-19-related EIDL applications, SBA launched a new streamlined application that handled loan intake, processing, and closing for millions of applications. Historically, the disaster loan program's strongest internal control is the ability to receive directly from the IRS recent tax transcripts. The CARES Act removed that control. However, SBA leveraged technological solutions to add dozens of novel validations and internal controls to the new streamlined application process.

Indeed, SBA's system controls and validations have been strengthened far beyond the recommendations included in OIG's July 28, 2020 management alert; they include over a dozen that are new; and, as detailed *infra*, they have proven highly effective in detecting and preventing potentially fraudulent loans and loans to potentially ineligible applicants. The system controls and validations for COVID-19 EIDL loan and advance processing include the following (controls that are new and in use specifically for COVID-19 EIDL are noted with an asterisk):

Data Validation & Controls:

- Intake Application form field validations for correct data types and completeness
- Intake form user input review prior to submission
- Applicant data submission certification requirement
- Identity information application velocity check*
- Identity Information validation*
- Email address validation*
- Phone number validation*
- User identity validation with out of wallet questions*
- Public records lookups
- Bank account data validation check*
- Bank account ownership check*
- IP address and device screening*

- Credit report for score and fraud flags

System Decision Controls:

- Duplicate application detection
- Related application linking on multiple data attributes*
- Red flag alerts for data attributes indicating potential for suspicious activity*
- ODA Rule of Two requirement for loan approval
- 70+ business rules to determine business eligibility & loan/advance amounts*
- Role-based approval restrictions
- Role limited reconsideration workflow
- User restricted failed disbursement processing
- User action logging and notes updates
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System Access and Workflow Controls:

- Segmented Workflows with Role Access Limitations
- Two-Factor Authentication
- Multiple failed login attempt lockouts
- IP Address velocity restrictions and blocking*
- Bank account update access tokenization (Advance Reconsideration)*

Network & Application Security:

- Azure Front Door – MSFT threat intelligence and identification to guard against SQL injection and other malicious hacking attempts
- Azure – Network Security Group IP rules
- Rapid Server Level Firewall Rules
- Webroot Secure – Server level endpoint protection
- Application level rules – IP blacklisting & whitelisting, User level behavioral blocking, cross site scripting controls, permission based user access to only associated active applications
- Data encryption at rest (MSFT TDE) and in transit (TLS 1.2)

Attack Mitigation and Security Monitoring:

- Azure Defender Security Center - Intrusion detection, vulnerability assessment and overall environment monitoring
- Azure DDOS protection
- OCIO Penetration Testing
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These system controls and validations continuously have been updated, as warranted, throughout SBA's delivery of COVID-19 disaster assistance. Major system enhancements include the following (validation and controls enhancements noted by an asterisk):

Date	Enhancement(s)
March 29	EIDL COVID-19 Application Intake Form Launched*
April 6	Applicant Portal & Loan/Advance Decisioning Platform Launched*
April 24	Assigned Task Username Display*; Fully Rendered Credit Report*; Additional Permissions for Batch Approval*; User Creation Enhancements*; Display Bank Info Validation Errors to Users*; Loan Resizing; Additional Phone and Email Validations*; Letter Enhancements; Ownership Percentage Validations*
April 30	Accept Agricultural Entity Applications; Advance Express Grant Machine; Post Loan Approval Advance Funding*; Enhanced LO Display of Unvalidated Bank Info*
May 6	Create Obligating and Funding Error Tasks*; Contact Info Data Processing Enhancements*; Enhanced Field Validations*; Decline Letter & Email Enhancements; Update to EI Formula*; Increase Server Capacity; Add Account Ownership to CBR*
May 19	Intake Form Additional Field Validations*; Application Search Filtering Enhancements*; Pass Non-Profit Flag to ETRAN*; Routing Number Validation on Intake Form, Client Portal & ETRAN*; Enhanced SSN Validation*; ZIP Code to State Validation*; System Performance Enhancements; Signatory Enhancements*; Client Portal Help Enhancements
June 3	Email Reminders for Inactivity; Advance Reconsideration Portal*; Additional Data Modification Restrictions based on Stage and Role*; Display Funded Status; Create Funding Hold Checkbox*; Interest Rate Validation for Entity Type Changes*; System Text Updates
June 18	Auto-Disposition Inactive Applications*; Add Loan Disclosure Language; Task Search Capability*; LA&A Updates, Allow Funding Hold at Any Stage*; Default Check Advance Request Box; Client Portal Text & Display Changes
July 9	Advance Recon for Non-Request Applicants*; ETRAN Interaction and Notes Enhancements*; Invalid Email Error Handling*; Enhanced Bank RTN Validation*; Loan & Advance Amount Exceptions with Permission Limitations*; Tax ID/Entity Type mismatch logic and LO Messaging*; Client Portal Text Modifications
July 30	Intake Form Modifications; Intake Form Field Validation Enhancements*; Advance Decision History*; Notes for Historic ETRAN Errors*; Automated ETRAN Error Daily Monitoring*; Bulk Document Upload with Notes*; Enhances Email Syntax Validations*
August 14	Task for Unsigned Closing Docs; Advance Decision History in Notes*; Decision Engine Label Text Changes*; Bank info History Table*; Tracking and Notes for Application Hold Actions*; Additions to Decline Reasons
September 2	Intake App Lookup Screen*; Text Edits for Loans >\$200K; Enable Funding Hold at Any Stage*
September 15	Loan Reconsideration Process Phase 1*; Update Decline Letter Functionality
October 8	Multifactor Authentication Enhancements*; Servicing Office Update*; Loan Reconsideration Process Phase 2*

2. SBA’s robust front-end controls were supplemented by back-end measures to detect instances of suspected fraud. On June 3, certain SBA personnel were given the capability to hold funding on EIDL loan and advance files with suspected fraud. On June 28, two fraud-reporting e-mail boxes were established to enable SBA personnel to report suspected fraud to the team charged making OIG referrals. In July, that team received additional staffing. And on July 22, 2020, SBA proactively issued to all lenders and SBA staff an EIDL suspected fraud notice. That notice alerted depository financial institutions to the potential for suspicious activity related to COVID-19 EIDL funds deposited into business or personal accounts and provided points of contact at SBA for those institutions to report such activity. Along with directing lenders to OIG’s complaint submission form, SBA established an e-mail address for lenders to report suspected fraud to ODA and made them aware of an already-existing team at the Processing and Disbursement Center that would be monitoring the mailbox and investigating applications, placing applications on agency hold, and reporting cases of suspected fraud to OIG’s criminal investigative division.

3. The Draft Report makes several missteps in asserting that these robust internal controls constituted a lowering of the guardrails. First, in asserting that “SBA abandoned the rule of two,” the Draft Report gives short shrift to the first-tier automated review process that SBA instituted. Before manual review, each application was subjected to a robust automated internal control process. This two-tiered, automated-then-manual review—necessitated by the unprecedented influx of EIDL applications—leveraged both human and technological resources and provided at least as robust a control as two tiers of manual review. In arguing otherwise, the Draft Report claims that “SBA employees could potentially see trends in fraudulent applications that a system potentially could not identify.” However, the Draft Report provides no support for the counterintuitive notion that individuals manually examining individual applications can spot trends that an algorithm cannot.

The Draft Report also takes issue with SBA’s timing goals for loan decisions, calling SBA’s manual reviews “ cursory.” This characterization yet again declines to recognize that manual review occurred only after an automated review that employed robust internal controls and validations.

In addition, the Draft Report notes some actions that SBA took to address OIG’s July management alert on duplicate loans. However, the Draft Report neglects to acknowledge that SBA already was taking actions to address the issue. On June 18, SBA’s contractor put into place various additional controls, including a “hold” feature, related to fraud prevention. Moreover, a subsequent July 9 build put in place additional bank validation checks. These builds were implemented prior to the management alert. In any event, the later actions that SBA took in response to the management alert are an example of the successful, cooperative partnership between SBA and OIG.

4. In the following sections, SBA demonstrates that the Draft Report’s analyses suffer from significant errors, causing it to erroneously label “potentially fraudulent” or “potentially ineligible” many legitimate EIDL loans and advances. But putting aside those significant errors—and taking at face value the Draft Report’s conclusion that certain loans and advances were potentially fraudulent—it fails to account for the successes of SBA’s enhanced internal controls, and for the loans that SBA has on its own initiative referred to OIG’s criminal investigative division for further investigation.

Not including declines for low credit score or lack of economic injury, as of September 30, 2020, SBA's system controls and validations helped to reject over 5.1 million loan applications and stop almost \$184 billion from being disbursed to ineligible entities. Moreover, as of September 30, SBA has placed 80,965 COVID-19 EIDL loans on agency hold and referred them to OIG's criminal investigative division for further investigation. Of those potentially fraudulent or ineligible loans placed on agency hold, 33,590 (almost \$1.7 billion in COVID-19 EIDL loan funds) were never disbursed. And of the disbursed loans placed on agency hold and referred to OIG, 15,284 loans (over \$753 million in COVID-19 EIDL loan funds) were returned to SBA.

In reporting figures on what it labels "potentially fraudulent loans" and "loans to potentially ineligible businesses," the Draft Report both fails to place its figures into context (by acknowledging the far greater amount of loan funds that SBA's system controls and validations helped to decline) and fails to discount its figures by the loans that SBA has placed on agency hold and referred to OIG for investigation. Thus, even taking at face value the Draft Report's figures—which the following sections firmly cast into doubt—those figures do not paint a complete and accurate picture of the success of SBA's system controls and validations.

The Draft Report Overlooks that SBA Created a Process for Updating Bank Account Information, Subject to Strong Internal Controls, and Fails to Acknowledge the Legitimate Reasons Why Applicants May Change Their Bank Account Information.

As its first finding, the Draft Report asserts that "SBA approved \$14.3 billion in potentially fraudulent loans to accounts that differed from the original bank accounts listed on applications[.]" OIG did not provide to SBA the source data for this finding, so SBA has not been able to review the individual loans associated with this finding. But in any event, the Draft Report overlooks that, in many instances, bank account information was changed with SBA's knowledge and pursuant to a controlled process that SBA established. Moreover, the indicators that the Draft Report deems particularly suspicious are entirely consistent with legitimate loan and advance activity.

1. A part of ODA's internal controls are its connection to third-party bank account validation services. This internal control allows ODA to confirm whether bank account information (routing number, account number, EIN of business, address of business, SSN of individual, address of individual, name on account) matches the information provided on the application. Throughout the COVID-19 EIDL process, ODA confirmed banking information prior to advance disbursements and, later, loan disbursements.

The banking validations and internal controls that SBA established to process EIDL advances—part of the fully automated process necessary to accommodate the CARES Act's 3-day funding provision—were extremely effective at detecting inconsistencies between the business applicant and the listed bank account information. As a result, millions of potentially eligible businesses did not receive the EIDL advance in the first round of processing. SBA reviewed the underlying validation issues that were preventing the applications from moving forward to disbursement and determined that many applicant businesses entered bank account and routing numbers with minor errors or used personal bank accounts instead of a business bank account.

On June 3, 2020, SBA began sending e-mail communications to more than 2 million applicants that had requested but did not receive the EIDL advance due to business information or bank account validation failures. The e-mail informed the affected applicants that SBA was unable to successfully verify and validate all of the information in the application to process the EIDL

advance, and it invited them to update the application with corrected business and bank account information. Updated advance applications were then run through the same set of validations and internal controls used to process all other EIDL advance applications. Ultimately, SBA successfully approved over \$1 billion in EIDL advance funds to more than 338,000 businesses that updated their information and passed the business and bank validations, while second-attempt validation failed more than 761,000 times.

The Draft Report's finding that SBA approved loans with a bank account that was changed from the original application neglects the important fact that SBA, with the goal of quickly providing struggling small businesses with needed funding, invited more than 2 million applicants to update their application information, including, under certain circumstances, changing the bank account information. And it fails to appreciate that these updated applications underwent SBA's robust system controls and validations.

2. The Draft Report acknowledges that minor changes—for example, correction of typographical errors, or switching the bank account and routing numbers—were not suspicious. Nonetheless, it deems “highly suspicious” those instances when bank account numbers were significantly different, routing numbers were for entirely different banks, and the change was to an online-only debit-card financial institution rather than a checking account at the original brick-and-mortar bank. These scenarios, however, are entirely consistent with legitimate application activity.

Advance applicants often had legitimate cause to provide different accounts, including accounts with different banks. As described above, SBA has determined that many otherwise eligible applicants initially had their applications rejected because they used personal bank accounts instead of a business bank account. SBA's reconsideration process allowed for corrections of such an innocent error. And correction of such an error would involve submission of a significantly different bank account number, even one from a different bank. Likewise, in instances when an applicant may have closed its business bank account and opened one at another banking institution (due to any number of legitimate reasons), the update would involve submission of a significantly different account number. Thus, the fact that a bank account number significantly differed between an initial and an updated application—and even may have been associated with a different bank—is not itself “highly suspicious.” It is entirely consistent with an applicant correcting submission of a personal bank account with submission of a business bank account, or closing its business bank account and opening one elsewhere.

Likewise, that the change might be from a brick-and-mortar bank account to an account at an online-only financial institution is not itself suspicious. The Draft Report not only fails to elaborate on its assertion to the contrary; it also fails to acknowledge the impact that the pandemic, stay-at-home orders, and business closures had on consumer activity. It is not surprising that during a time when many Americans are staying home on the advice of public-health officials or the orders of public authorities, online-only banks would see an increase in new account openings versus brick-and-mortar banks. Otherwise eligible applicants that, in their initial application, erroneously used a personal bank account rather than a business bank account, or applicants that closed their business bank account after their initial application, thus had ample cause to look to online-only banking institutions rather than brick-and-mortar ones.

3. Based on its significantly flawed first finding, the Draft Report first recommends that SBA “[r]eview all loans that had a bank account number changed from that shown on the original application to determine if the changes were legitimate or fraudulent. If not legitimate, work to recover the funds, deobligate any undisbursed funds, and refer to the OIG.” As detailed above, SBA strongly disagrees with the finding associated with this recommendation because there was insufficient evidence that loans should be considered potentially fraudulent based on a changed bank account. However, where appropriate, SBA continues to work to expand and strengthen controls for the COVID-19 EIDL program and partially agrees with the recommendation to review a sampling of loans that had a bank account number changed prior to disbursement which did not pass through the established bank account validations. In accordance with current protocols, SBA will forward any loans determined to be potentially fraudulent to the OIG for further investigation and place undisbursed funds on Agency Hold.

The Draft Report next recommends that SBA “[e]stablish or strengthen controls to ensure loan deposits are made to legitimate bank accounts for eligible borrowers only.” Again, SBA strongly disagrees with the finding associated with this recommendation. However, where appropriate, SBA continues to work to expand and strengthen controls for the COVID-19 EIDL program and partially agrees with the recommendation to strengthen controls to ensure loan deposits continue to be made to legitimate bank accounts for eligible borrowers. SBA will design and implement strategies and tools to respond to reports from banks involving suspicious activity in connection with deposits in the COVID-19 EIDL program.

The Draft Report Overlooks the Legitimate Reasons Why Applicants Commonly Use Shared IP Addresses, E-mail Addresses, Business Addresses, and Bank Accounts, and SBA’s Analyses of the Source Data Show that the Draft Report Drastically Overstates the Incidence of EIDL Fraud.

The Draft Report next finds that “SBA approved billions of dollars in potentially fraudulent loans to applicants using duplicate information (IP addresses, email addresses, business addresses, and bank accounts)[.]” However, SBA’s analyses of the underlying source data reveal that most of what the Draft Report labels “potential fraud” is, instead, legitimate loan activity. The Draft Report’s contrary conclusions rest on both a failure to acknowledge the many legitimate reasons why applicants used duplicate loan information and a failure to adequately investigate the individual loans associated with its finding.

1. The Draft Report includes a sampling of the top 10 IP addresses receiving most multiple loans (see Table 5), but the IP addresses are redacted to protect personally identifiable information. OIG provided to SBA the source data, including the individual IP addresses associated with the borrowers in Table 5. SBA researched each IP address and found that addresses 2–10 belonged to law firms, loan packagers, and certified public accountants (CPAs). SBA attempted to contact all of the borrowers by phone, and where SBA established contact, all confirmed that they employed the services of attorneys, accountants, and other representatives in order to apply for COVID-19 EIDL assistance. In most cases, the borrowers reported they were concerned about making mistakes on their application, so they used professionals to ensure timely and accurate loan consideration. One of the IP addresses belongs to a branch of a large consumer/commercial bank that serves customers across the South, Midwest, and Texas. SBA contacted the branch, and a bank representative confirmed that the bank helped over 150 business customers apply for

COVID-19 EIDL assistance. In other words, SBA's analysis confirms that these uses of shared IP addresses were legitimate, not fraudulent.

SBA's analysis of OIG's source data also showed that the remaining IP address—the one with the greatest number of approved loans cited in Table 5—is associated with a WiFi belonging to a religious or cultural center in Brooklyn, New York. This is not surprising given the unprecedented and widespread impact the pandemic has had on communities nationwide. Small businesses often seek additional help for relief programs through trusted community resources such as chambers of commerce, churches, and cultural centers. The reasons could vary from simply needing internet access in order to submit applications to needing language assistance, but whatever the reason, use of a religious or cultural center's WiFi does not indicate a high probability of fraud as claimed in the Draft Report.

2. The Draft Report also includes a sampling of the top 10 e-mail addresses receiving the greatest number of multiple loans (see Table 6), but the e-mail addresses are redacted. SBA analyzed the source data used for Table 6 and found legitimate cause for each of the associated e-mail addresses to receive multiple loans, yet again undermining the Draft Report's findings. All of the e-mail addresses associated with the list of borrowers in Table 6 belong to CPAs, law firms, and tax preparers who submitted COVID-19 EIDL applications on behalf of their clients. Further underscoring the legitimacy of the loans associated with these e-mail addresses, and further demonstrating the flaws in the Draft Report's analysis, the sampling of duplicate e-mail addresses significantly overlaps with the legitimately used IP addresses that are compiled in Table 5.

3. Table 7 includes a sampling of the top 10 physical addresses receiving the greatest number of multiple loans. Here again, the Draft Report's assertions of impropriety do not withstand scrutiny. SBA's review of the source data revealed that the duplicate physical addresses are for corporate headquarters or regional offices entered by independent contractors—an entirely unremarkable result that does not suggest fraud. Half of the addresses that the Draft Report cites belong to taxicab companies, and another three addresses are variations of a ridesharing and food delivery company's corporate headquarters. Altogether, taxicab, ridesharing, and food delivery drivers applying as independent contractors for COVID-19 EIDL assistance account for more than 82 percent of the duplicate addresses cited in the Draft Report. SBA reviewed a sampling of the loan authorization and agreements for loans under all 10 duplicate addresses and found that all of them were signed by individual loan borrowers in accordance with disaster loan rules and regulations.

4. The Draft Report also includes a sampling of the top 10 bank accounts that received multiple loans (see Table 8). Here again, the Draft Report's analysis of the data is incomplete and fails to account for important details about the businesses associated with the bank accounts. A look at the source data shows that most of the bank accounts associated with multiple loans are for legitimate business reasons, and their use for multiple loans does not constitute fraud or improper activity. For example, most of the loans identified in Table 8 were provided for rental properties that are incorporated and managed by individuals. That landlords and rental property owners might have EIDL loans associated with multiple properties deposited into a single bank account is unremarkable. Landlords and rental property owners often use a single bank account to manage finances for multiple properties, and they are eligible for EIDL assistance for lost rents on each property. Thus, their use of a single bank account is not an indicator of fraud.

5. The Draft Report also includes, in Table 9, a sampling of the top 15 borrower names with multiple loans. The few thousand loans out of 3.6 million loan approvals with common names may at first blush appear unusual, but here again, there is a simple and logical explanation that appears upon minimal additional investigation. More than half of the business names in Table 9 are some variation of a ridesharing and food delivery company and were used by independent contractors who likely were unsure whether to include their name or the name of the company. SBA conducted a detailed analysis of the loans associated with Table 9 and confirmed that the loan authorization and agreement for the approved loans were signed by individuals and funded to individual bank accounts. In other words, the loans were approved and disbursed in accordance with SBA's rules and regulations and there is no indication of fraud or improper activity.

6. Based on its significantly flawed second finding, the Draft Report recommends that SBA "[r]eview duplicate loans to IP addresses, email addresses, business addresses, and bank accounts to determine if there are undisbursed funds that should be suspended until the duplicate loans are assessed for eligibility." As detailed above, SBA strongly disagrees with the finding associated with this recommendation because there was insufficient evidence that loans should be considered potentially fraudulent based on duplicate IP addresses, e-mail addresses, business addresses, or bank accounts for multiple loans. However, where appropriate, SBA continues to work to expand and strengthen controls for the COVID-19 EIDL program and partially agrees with the recommendation to review the loans associated with the IP addresses, e-mail addresses, business addresses, and bank accounts associated with the greatest number of loans approved to determine if additional controls are needed. In accordance with current protocols, SBA will forward any loans determined to be potentially fraudulent to the OIG for further investigation and place undisbursed funds on Agency Hold.

The Draft Report next recommends that SBA "[c]ancel all ineligible loans that are not disbursed, recover funds from all loans disbursed to ineligible applicants, and flag those loans for the improper payments estimation process." Again, SBA strongly disagrees with the finding associated with this recommendation. However, where appropriate, SBA continues to work to expand and strengthen controls for the COVID-19 EIDL program and partially agrees with the recommendation to continue following our current protocols to cancel undisbursed loan funds if the applicant is determined to be ineligible, and to forward to the OIG for further investigation any loans identified as potentially fraudulent.

The Draft Report next recommends that SBA "[s]trengthen or establish controls to ensure multiple loans are provided only to eligible applicants and prevent the erroneous duplication of loans." Again, SBA strongly disagrees with the finding associated with this recommendation. However, where appropriate, SBA continues to work to expand and strengthen controls for the COVID-19 EIDL program and partially agrees with the recommendation to review the loans associated with the IP addresses, e-mail addresses, business addresses, and bank accounts associated with the greatest number of loans approved to determine if additional controls are needed. In accordance with current protocols, SBA will forward any loans determined to be potentially fraudulent to the OIG for further investigation and place undisbursed funds on Agency Hold.

The Draft Report next recommends that SBA "[s]trengthen data integrity to make it possible to determine if the inaccurate information allowed loans to be made to ineligible entities and to strengthen SBA's ability to service loans appropriately." Again, SBA strongly disagrees with the

finding associated with this recommendation. However, where appropriate, SBA continues to work to expand and strengthen controls for the COVID-19 EIDL program and partially agrees with the recommendation to strengthen data integrity to ensure that loans can be serviced appropriately.

The Draft Report's Finding that SBA Approved EIDLs and Advance Grants to Ineligible Entities Wrongly Equates Having an EIN with Being in Business and Fails to Account for the Legitimate Reasons Why Eligible Businesses May Register EINs After January 31, 2020.

In its third finding, the Draft Report asserts that “SBA approved approximately \$1.1 billion in loans and advance grants to potentially ineligible entities.” The Draft report explains that, “[t]o determine if applicants were in business on January 31, 2020, we cross-referenced a database of Employer Identification Number (EIN) registrations made between February 1, 2020, and July 31, 2020, and matched them to data in SBA’s subcontractor Number 2’s database as of August 5, 2020,” then “removed all sole proprietorships.” This analysis—which equates having an EIN with being in business—underpins the Draft Report’s conclusion that 22,706 EIDL loans and 45,385 advances were approved to potentially ineligible businesses. The Draft Report’s shallow analysis fails to account for the legitimate reasons why eligible businesses in operation by January 31, 2020—and not just sole proprietors—may have registered EINs after that date.

1. The equivalence that undergirds the Draft Report’s finding is a false one, as there are many reasons why a business in operation on or before January 31, 2020, might register an EIN after that date.

Generally, EINs are required if the business has employees; operates as a corporation or partnership; files employment, excise, or alcohol, tobacco, or firearms tax; withholds taxes on income, other than wages, paid to a non-resident alien; or has a Keogh plan. Businesses often incorporate during tax preparation season in anticipation of filing their returns. Indeed, there are several legitimate reasons why a business required to have an EIN and already in operation on January 31, 2020, might register an EIN after that date. These reasons include, for example:

- Recently formed, covered businesses prepare to enter their first tax year.
- Recently sold, covered businesses prepare to enter their first tax year after the change in ownership.
- A corporation receives a new charter.
- A subsidiary of a corporation is using the parent corporation’s EIN.
- A new corporation is created after a statutory merger.

The Draft Report also fails to acknowledge that businesses other than sole proprietors— independent contractors, for example—may not have been required to register EINs but may nonetheless have chosen to do so. There are many reasons why a business already in operation but not required to register an EIN might nonetheless choose to register one. These reasons include:

- EINs may help separate personal and business finances and limit liability in case of a lawsuit.
- EINs may be used to file business taxes and avoid tax penalties in case a business has erroneously determined that it was not required to register an EIN.
- Tax advisors may suggest that certain business tax deductions are less likely to be audited by the IRS if filed using an EIN.
- Use of an EIN may be an effective way to protect against identity theft because it separates personal and business finances and allows one can avoid using an SSN.
- Use of an EIN may add credibility to businesses operating as freelancers or independent contractors.
- Businesses may prefer to hire independent contractors using an EIN to make clear that they are not employees.
- Having an EIN may improve chances that vendors will work with independent contractors because they enable business credit checks.
- Some wholesale distributors may require that retailers have EINs.
- For other forms of business lending, use of an EIN may expedite the process. Banks may not require an EIN for the business loan, but they do require a business bank account, and for most lending institutions, one must have an EIN to obtain a business bank account.
- Having an EIN may help build business credit.

In short, the equivalence between having an EIN and being in business is a false one. Indeed, the Draft Report briefly acknowledges its own logic gap. In a footnote, the Draft Report admits that “[t]hese businesses could have been in business for some time and be eligible for a COVID-19 EIDL even though the EIN is dated after January 31, 2020.” Nevertheless, without any apparent investigation into the underlying reasons why they registered EINs after January 31, 2020, the Draft Report proceeds to label “potentially ineligible” *all* of the applicants with such EINs. In other words, the Draft Report admits that further inquiry may well clear up doubts regarding these applicants’ eligibility, but it nonetheless fails to conduct any such further inquiry. The admitted incompleteness of the audit’s inquiry thus casts significant doubt on the Draft Report’s finding.

2. Even putting aside the false equivalence on which its finding rests, the Draft Report faults SBA for failing to investigate data to which OIG has denied it access. SBA has made several requests to gain access to the same database of EIN registrations that OIG used for the Draft Report and its investigative activities; however, OIG repeatedly has denied those requests. Dating back as far as April 8, 2020, SBA was working with representatives from the SBA OIG Investigations Division and the U.S. Treasury Inspector General for Tax Administration

(TIGTA) to obtain access to the EIN registration database. TIGTA advised representatives from SBA's Office of Disaster Assistance (ODA) that TIGTA was willing to share with ODA the requested information, which could be used to identify businesses with recently registered EINs so further validations could take place. The EIN data were instead provided to the SBA OIG, and OIG has refused SBA's repeated requests to share the information with ODA. SBA recently requested a listing of the 22,706 loans with EINs registered after January 31, 2020, so SBA could validate the Draft Report's findings, but once again, OIG's audit team refused to share the information with SBA's teams. It is unreasonable for the Draft Report to claim that it has taken extraordinary steps to warn SBA of the potential for fraud based on EIN registration dates while at the same time withholding that same information from the program office responsible for administering the EIDL program.

3. The Draft Report also gives short shrift to the legislatively imposed restraints within which SBA has operated. The Draft Report correctly states that for an applicant to be eligible for EIDL assistance, it had to be in operation on or before January 31, 2020. SBA normally requires all disaster loan applicants to sign and return an IRS Form 4506-T as an application filing requirement, thus allowing SBA to obtain tax transcripts directly from the IRS. Businesses and nonprofit organizations also typically are required to provide a copy of the most recent year's Federal tax return, including all schedules. Collecting tax returns and tax transcripts from disaster loan applicants not only helps establish repayment ability and approve the loan, but also serves as one of the SBA's strongest internal controls to validate eligibility.

As detailed above, SBA has instituted a system of rigorous system controls and validations. But a requirement of tax returns and tax transcripts is not among them. This is because the CARES Act, in streamlining the COVID-19 EIDL application process, prohibited SBA from requiring applicants to submit a tax return or tax transcript. Throughout the Draft Report, and in your recent testimony on October 1, 2020, before the House Small Business Subcommittee on Investigations, Oversight and Regulations, OIG describes this move as a "lowering of guardrails" and incorrectly characterizes this pivotal change as a unilateral action taken by SBA. In truth, SBA implemented the COVID-19 EIDL program with rigorous system controls and validations, but it did so in accordance with the statutory requirements set by the CARES Act.

4. Based on its significantly flawed third finding, the Draft Report recommends that SBA "[r]eview the applicants with approved loans to determine if there are undisbursed funds remaining that should be suspended until the business start date is verified and the applicant is deemed eligible based on the CARES Act eligibility requirements. If the applicant is deemed ineligible, recover any disbursed funds, deobligate any undisbursed funds, and flag the application as ineligible." As more fully explained above, SBA strongly disagrees with the finding associated with this recommendation because there was insufficient evidence that loans were provided to businesses not eligible based on the CARES Act eligibility requirements. However, where appropriate, SBA continues to work to expand and strengthen controls for the COVID-19 EIDL program and partially agrees with the recommendation to explore developing and implementing additional controls to validate the self-certified business start date.

The Draft Report next recommends that SBA "[r]eview the advance grants to determine if the application was legitimate and the business met CARES Act eligibility requirements. If not, recover the funds and flag the application as ineligible." Again, SBA strongly disagrees with the findings associated with the recommendation. However, where appropriate, SBA continues to work to expand and strengthen controls for the COVID-19 EIDL program and partially agrees

with the recommendation to review a sampling of EIDL advances to determine if they were not provided to eligible businesses. In accordance with current protocols, SBA will forward any EIDL advances determined to be potentially fraudulent to the OIG for further investigation and place undisbursed loan funds, if any, on Agency Hold.

The Draft Report next recommends that SBA “[r]evise the FY 2021 Improper Payments Act Checklist to include checking EIN dates for COVID-19 EIDLs and advance grants or program the system to flag erroneously approved loans and advance grants as improper payments; the information should be used during the FY 2021 improper payments estimation process.” SBA does not agree with the recommendation to add EIN dates to the FY 2021 Improper Payments Act Checklist for the COVID-19 EIDL program because EIN dates are not a conclusive way to determine the business start date and, to date, have not been made available to SBA for the purpose of processing COVID-19 EIDL applications. However, SBA will continue to explore alternative methods for validating the business start date. Furthermore, SBA does not agree with the recommendation to flag loans as improper based on checklist items added post-disbursement which were not available at the time the loan was approved and which continue to not be available to SBA.

Finally, the Draft Report recommends that SBA “[s]trengthen controls for verifying an entity’s start date to ensure applicants meet eligibility requirements.” SBA partially agrees with this recommendation and will continue exploring alternative controls for validating the business start date, and SBA will evaluate the feasibility of adding those controls to application processing and disbursement. SBA has made several attempts to gain access to EIN dates obtained directly from the IRS, both before and after the launch of the new streamlined COVID-19 EIDL application. The SBA OIG gained access to the same EIN dates from its counterparts at IRS, but to date it has been unwilling to share the information with SBA’s Office of Disaster Assistance, while simultaneously recommending that SBA add it as a new internal control and retroactively apply it to the improper payment analysis.

SBA takes very seriously its stewardship of taxpayer funds and is committed to mitigating risks of fraud, waste, and abuse in the programs it administers. As you previously recognized in your October 16, 2019, testimony before the House Small Business Committee, “[t]o its credit, SBA has prioritized remediation of control weaknesses. The impact of these efforts includes reducing the possibility of fraud and waste . . .” SBA diligently is working to ensure that the EIDL program provided in response to COVID-19 meets these same high standards.

SBA is proud of its role in providing economic relief to small businesses impacted by COVID-19. EIDL loans and advances have been a critical part of that relief. As of October 11, 2020, SBA has approved over 3.6 million EIDL loans for a total of almost \$191.6 billion, and over 5.7 million Advances for a total of \$20 billion. The performance of SBA staff during these trying times—providing essential financial support to millions of legitimate small business in need of assistance—has been nothing short of remarkable.

While SBA is proud of its historic success in delivering EIDL assistance over these past few months, SBA stands ready to consider suggestions for how it might strengthen internal controls in its disaster response to the Coronavirus pandemic. But to be productive, such suggestions must have foundation in fact and must stem from thorough analysis and due diligence that accurately identifies the scope of the problem to be mitigated. In this regard, it is disappointing that the

process leading to the Draft Report did not afford SBA a meaningful opportunity to assist OIG in its analyses of the source data and loan processes. In past audits, OIG has reviewed preliminary findings with SBA to better understand the source data and loan processes prior to drafting its report. Unfortunately, for this audit, OIG did not provide SBA with an opportunity to review the ongoing audit work. Had such an opportunity been afforded, SBA would have been able to correct OIG's misinterpretations of the loan data and loan processes before the audit team developed its findings and recommendations, and could have helped to ensure that those findings and recommendations complied with the applicable reporting standards for performance audits that report on instances of fraud.³⁵ SBA hopes that in its future audit work, OIG will resume the cooperative procedures it previously has employed—cooperative procedures that safeguard taxpayer money by making OIG's and SBA's partnership more efficient and more productive.

SBA is not inclined to take valuable resources that are committed to helping small businesses recover and redirect them towards implementing recommendations that are based on unreliable audit findings. On the other hand, where recommendations have a basis in reliable audit findings, SBA will carefully consider and, as appropriate, implement them as it seeks to continuously improve its delivery of disaster assistance. As more fully explained above, because of the Draft Report's critical flaws, none of its recommendations will be implemented as they were framed in the Draft Report. But SBA can partially agree to most of them, and it will continue to seek ways to improve its COVID-19 disaster response.

Sincerely,

James Rivera
Associate Administrator, Office of Disaster Assistance

³⁵ See *Government Auditing Standards* (2018 Rev.) § 9.40 ("Auditors should report a matter as a finding when they conclude, based on sufficient, appropriate evidence, that fraud either *has occurred* or is *likely to have occurred* that is significant to the audit objectives." (emphases added)).

Appendix I: Technical Comments and Corrections

Executive Summary

1. Paragraph 1: “SBA provides Economic Injury Disaster Loans (EIDLs) of up to \$2 million to eligible entities (e.g. small businesses, nonprofits, farms, etc.).”
 - a. Response: The EIDL program provides working capital loans of up to \$2 million to small non-farm businesses, small agricultural cooperatives, small businesses engaged in aquaculture and most private nonprofit organizations of any size. For COVID-19, eligibility was expanded to agricultural enterprises.
2. Paragraph 5: “To expedite the process, SBA ‘lowered the guardrails’ or relaxed internal controls, which significantly increased the risk of program fraud.”
 - a. Response: This is a mischaracterization of how the COVID-19 EIDL program was implemented. To process COVID-19-related EIDL applications, SBA launched a new streamlined application that handled loan intake, processing, and closing for millions of applications. Historically, the disaster loan program’s strongest internal control is the ability to receive directly from the IRS recent tax transcripts. The CARES Act removed that control. However, SBA leveraged technological solutions to add dozens of novel validations and internal controls to the new streamlined application process.
3. Paragraph 5: “The unprecedented demand for COVID-19 EIDLs and the equally unprecedented challenges SBA had in responding to this pandemic combined with lowered controls resulted in billions of dollars in potentially fraudulent loans and loans to potentially ineligible businesses.”
 - a. Response: Beyond unprecedented demand, the COVID-19 response also was unique for many reasons, including: it entailed a national emergency with all 50 states, 6 US territories, and the District of Colombia declared at essentially the same time; it required a virtual response with no physical disaster recovery centers or business recovery centers opened to meet in-person with businesses; it involved a novel grant program, where the preexisting system was set up to process loans, not grants; and it was the first time in decades that SBA provided disaster loan assistance to agricultural enterprises. As to the Draft Report’s assertion of lowered controls, this is a mischaracterization of how the COVID-19 EIDL program was implemented. To process COVID-19-related EIDL applications, SBA launched a new streamlined application that handled loan intake, processing, and closing for millions of applications. Historically, the disaster loan program’s strongest internal control is the ability to receive directly from the IRS recent tax transcripts. The CARES Act removed that control. However, SBA leveraged technological solutions to add dozens of novel validations and internal controls to the new streamlined application process.
4. Paragraph 6: “Based on our analysis of SBA’s COVID-19 EIDL data, as of July 31, 2020, we found SBA approved \$14.3 billion (\$13.4 billion disbursed) in COVID-19 EIDLs to accounts that differed from the original bank accounts listed on the loan applications; \$62.7 billion (\$58.0 billion disbursed) in multiple (between 2 and 245) COVID-19 EIDLs to applicants using the same IP addresses, email addresses, bank accounts, or businesses listed at the same addresses; and approximately \$1.1 billion in COVID-19 EIDLs and emergency advance grants to potentially ineligible businesses.”

- a. As more fully described in SBA’s narrative response, these findings rest on flawed analyses.

Introduction

- 5. Page 1, Paragraph 2: “SBA was tasked with lending more than \$373 billion in COVID-19 EIDLs and \$20 billion in COVID-19 emergency advance grants, which is more disaster loan funding than all years combined since the agency was created in 1953.”
 - a. Response: To be more precise, the more than \$413 billion in combined EIDL loan and emergency advance grant funds is nearly 6 times the total amount of disaster loan funding for all years combined since SBA was created.
- 6. Page 1, Paragraph 3: “Additional laws passed in response to the COVID-19 pandemic and discussed in this report expanded the types of organizations that qualify as eligible entities.”
 - a. Response: The additional laws referenced in this statement went beyond expanding eligibility to other types of organizations; they restricted internal controls and created a new emergency advance grant program.
- 7. Page 2, Figure 1: “3/25 – SBA’s DLAP portal crashes and data breach; SBA outsources the application process”
 - a. Response: This statement is not accurate. The portal was experiencing latency issues and SBA did take it offline periodically for maintenance and upgrades. One of the upgrades led to a data “exposure,” not a breach. The new streamlined application portal was implemented to better handle the high volume of applications SBA was expecting, along with the launch of a new Advance program.
- 8. Page 2, Figure 1: “3/27 – CARES Act provide additional EIDL funding and creates Grant program”
 - a. Response: The CARES Act did not provide any additional loan authority for the EIDL program; it created the Advance program with an initial amount of \$10 billion.
- 9. Page 2, Figure 1: “4/3 – SBA lowers maximum EIDL to \$15,000”
 - a. Response: This should be “temporarily lowers” because the action was reversed 2 days later. Additionally, SBA went back and increased all of the loans that were subject to the temporary \$15,000 loan limit.

Background

- 10. Page 2, Paragraph 2: “SBA typically determines repayment ability from the business’s federal tax return and other income and expense information.”
 - a. Response: The tax returns also serve as a critical internal control to help validate legitimate businesses, but the ability to require tax returns was removed by the CARES Act.
- 11. Page 2, Paragraph 3: “For COVID-19 EIDLs, SBA lowered the maximum amount to \$500,000 on March 16, 2020.”
 - a. Response: This is not accurate. SBA did not lower the maximum loan amount to \$500,000. This amount was only intended to be Phase 1. The intent was if the business were eligible for more, SBA would go to Phase 2, which provides up to

\$2 million, but SBA would have required any real estate owned to be included as collateral. SBA also would have added a full repayment analysis.

12. Page 2, Paragraph 3: “That same day, SBA also set the minimum credit score at [REDACTED] for application approval.”
 - a. Response: SBA requests that this information be redacted. SBA does not disclose certain underwriting details, such as the credit score used for auto-decline business rules. Credit score can be used to establish repayment ability, but SBA can still approve loans for applicants with credit scores below [REDACTED] if SBA can establish repayment ability through other methods. If the [REDACTED] credit score were publicized, then potentially qualifying applicants with scores below [REDACTED] might not apply for assistance.

Unprecedented COVID-19 EIDL Application Volumes

13. Page 3, Paragraph 3: “SBA has now approved and distributed more loans for COVID-19 relief than for all other disasters combined in the agency’s history.”
 - a. Response: To be more accurate, SBA has now approved and disbursed more than 3 times the funds for COVID-19 relief than for all other disasters combined in the agency’s history.
14. Page 3, Paragraph 4: “To further reemphasize the unprecedented volume, SBA approved the following multibillion-dollar loan volumes in recent disasters.”
 - a. Response: It should be noted that for Hurricanes Katrina, Rita, and Wilma, and for Superstorm Sandy, it took 90 days to approve the first \$1 billion, and for Hurricanes Harvey, Irma, and Maria, it took 45 days to approve the first \$1 billion. At the peak of the COVID-19 response, SBA approved approximately \$2 billion per day.

Loan Portal

15. Page 4, Table 2, Column 3, Row 1: “Federal Tax Returns – Not Required”
 - a. Response: This was a direct result of the IRS refusing to provide the transcripts to SBA, and later the exclusion of tax returns in the CARES Act.
16. Page 4, Table 2, Column 2, Row 6: “Delinquent Federal Debt – Automatic Disapproval”
 - a. Response: This is not accurate. SBA’s standard policy is not an automatic disapproval. The statute as well as SBA’s SOP allow for Disaster Loans to be approved with outstanding Federal Debt.
17. Page 4, Table 2, Column 1, Row 10: “Furniture and Fixtures Collateral”
 - a. Response: SBA’s UCC filing covers much more than just furniture and fixtures.

Volume Leads SBA to Outsource the Receiving and Processing of Applications to an Existing Contractor

18. Page 5, Paragraph 2: “SBA turned to a contractor that had been hired on December 7, 2018, to analyze data and underwrite loans.”
 - a. Response: More accurately stated, the contractor was hired to help streamline application processing through data analysis and loan underwriting.
19. Page 5, Paragraph 2: “The contractor’s work was delayed by a bid protest but the Government Accountability Office denied the protest on March 25, 2019.”

- a. Response: To be more complete, this passage should include that GAO also approved the contract to proceed.
20. Page 5, Paragraph 2: “The contractor had done only limited work on disaster loans before the COVID-19 pandemic.”
- a. Response: The contractor is a certified participant in SBA’s 8(a) Business Development Program, which is designed to level the playing field in government contracting for small businesses that are majority-owned and controlled by economically and socially disadvantaged U.S. citizens. The contractor was awarded the SBA contract through a small business set-aside. Like many small businesses competing for government contracts, the contractor teamed with a large subcontractor to compete for the SBA contract. Teaming arrangements, which are authorized by Federal Acquisition Regulations, help small businesses enhance their experience, capability, and capacity. In a competitive procurement process involving several small businesses, the contractor received excellent ratings for its technical approach, IT security, and past performance. The contractor’s price also was deemed fair and reasonable. Because the contractor—of all the small businesses competing for the contract—was determined to offer the best value to the government, SBA awarded it the contract in December 2018. Later, when SBA experienced an unprecedented surge in EIDL loan and grant applications in connection with the COVID-19 pandemic, SBA expanded the contract. SBA has received millions of COVID-19-related EIDL loan and Advance applications. In a single day—March 31, 2020—SBA received more than 680,000 applications. The processing of COVID-19-related EIDL loan and Advance applications would have been delayed significantly had SBA undertaken a new competitive procurement process to solicit new offers from new contractors to provide the same type of data analysis and loan recommendations for the COVID-19-related loans and grants that the contractor already was providing for SBA’s traditional Disaster Loan Program. Therefore, SBA determined that expanding the existing contract would provide the most efficient and effective solution to process the millions of COVID-19-related EIDL loan and advance applications. Because the contractor was an established SBA contractor, it was positioned to ramp up and quickly process the influx of applications. SBA followed established contracting procedures and complied with all applicable statutes and regulations to modify the contract. With the contractor’s assistance, SBA has approved and disbursed over 3.6 million EIDL loans for a total of \$191.6 billion, and over 5.7 million Advances for a total of \$20 billion. In the span of 71 days, SBA, working with the contractor, approved more loans—in terms of dollar amount—than SBA previously approved in its entire history for all other declared disasters combined. The contractor helped SBA process and approve in one day nearly as much loan value as SBA typically processes in a year. The contractor also launched a new intake portal, allowing SBA to process EIDL advances only two days after the emergency grants were created by the CARES Act.
21. Page 5, Paragraph 4: “However, subcontractor Number 1’s system was not suited well to process business loans like COVID-19 EIDLs, so it delegated the loan processing and advance grant tasks to its sister company, also a subcontractor.”

- a. Response: This is not accurate. The subcontractor was not delegated the responsibility as a result of the contract modification. The subcontractor was part of the original contract request to provide loan recommendation and data analysis. The subcontractor also provided the back-end data integrations for the COVID-19 loans.
- 22. Page 5, Paragraph 5: “Subcontractor Number 2 took over the reviewing process of COVID-19 EIDL applications, recommending either approval or denial of each application.”
 - a. Response: This should be more accurately worded to describe that the contractor built a portal and loan decisioning engine based on underwriting guidelines and businesses rules provide by SBA to make system generated loan recommendations for SBA loan officers to review.
- 23. Page 5, Paragraph 6: “SBA rerouted Disaster Loan Application Portal 2.0 so applications would go directly to subcontractor Number 2, which started receiving the applications on March 29, 2020, and began processing loans on April 6, 2020.”
 - a. Response: This omits that a new webform was approved by OMB and a streamlined application portal was launched. It was not a simple rerouting of DLAP 2.0.
- 24. Page 5, Paragraph 7: “Figure 2 shows the number of applications processed by the subcontractor by day between March 29, 2020, and July 31, 2020.”
 - a. Response: This is not what figure 2 shows—it shows the number of applications received, not the number of applications processed.
- 25. Page 6, Note accompanying Figure 2: “Note: Disaster Loan Application Portal 2.0 was closed between April 15, 2020 and May 3, 2020, to all eligible entities. SBA reopened the portal between May 4, 2020 and June 14, 2020, to agricultural enterprises and reopened to all eligible entities on June 15, 2020 (See p. 11). The openings and closings of the portal represent the low application volume on certain days.”
 - a. Response: This is misleading by suggesting that SBA closed the portal without sufficient reason. In truth, SBA closed the portal upon a lapse in funding, and SBA re-opened the portal after Congress appropriated additional funds.
- 26. Page 6, Paragraph 2: “On March 25, 2020, SBA lowered the required credit score for application approval from [REDACTED] to [REDACTED]. An SBA official said the change was due to ‘policy decisions’ but did not give any further explanation.”
 - a. Response: All that SBA did was within its discretion and designed to make the available funds go as far as possible and serve as many businesses as possible while also ensuring repayment ability and protecting taxpayer dollars.
 - b. Response: In addition, SBA requests that the credit score information be redacted. SBA does not disclose certain underwriting details, such as the credit score used for auto-decline business rules. Credit score can be used to establish repayment ability, but SBA can still approve loans for applicants with credit scores below [REDACTED] if SBA can establish repayment ability through other methods. If the [REDACTED] credit score were publicized, then potentially qualifying applicants with scores below [REDACTED] might not apply for assistance.

Additional Criteria Changes – Coronavirus Aid, Relief, and Economic Security Act

27. Page 6, Paragraph 3: “Most notably, the Act alleviated the requirements for tax returns and the credit elsewhere test. These changes allowed SBA to approve an eligible applicant based solely on its credit score.”
- a. Response: The CARES Act states that SBA may either (1) approve an applicant based solely on credit score and shall not require a tax return; or (2) use an alternative method to determine repayment ability. So, when approving the loan based on credit score alone, SBA cannot require a tax return. This passage also omits to mention that loan approval also was based on a self-certification of the business start date, activity, annual gross revenues, and cost of goods sold, among other things. Additionally, CFR Title 13, section 123.6 allows for approval based on a credit score. This has been in the CFR since April 25, 2014.
28. Page 7, Table 3, Column 1, Row 10: Furniture and Fixtures Collateral
- a. Response: The UCC Filings/Security Agreement is much more extensive than Furniture and Fixtures.
29. Page 7, Paragraph 1: “The CARES Act also expanded COVID-19 EIDL eligible entities to include businesses, cooperatives, Employee Owned Stock Ownership Plans, and tribal concerns with not more than 500 employees; sole proprietorships with or without employees; and independent contractors affected by COVID-19.”
- a. As worded, this is inaccurate, as some of these entities already were eligible.
30. Page 7, Paragraph 2: “The CARES Act designated \$10 billion for COVID-19 emergency grants.”
- a. Response: It is important to note that the CARES Act created the EIDL Advance program, which resulted in a surge of new loan applications because businesses were required apply for the loan in order to receive the Advance, but the Act did not provide additional loan subsidy for the EIDL loans. Ultimately, there was a lapse in funding and the application portal was taken offline as result.
31. Page 7, Paragraph 2: “The Act allows eligible entities to request an advance of up to \$10,000 and requires SBA to pay out the funds within 3 days of receiving an application.”
- a. Response: This is not accurate. The Act states that the applicant “may request” that SBA pay the Advance within 3 days. It does not require that SBA pay the Advance within 3 days.
32. Page 8, Paragraph 1: “SBA decided that ‘up to \$10,000’ meant that each applicant would receive \$1,000 per employee up to 10 employees.”
- a. Response: All EIDL advances were subject to this policy. The \$1,000 per employee calculation was in place from the start, not a mid-course change. Moreover, SBA did not simply “decide” this with no justification, as this passage implies. Rather, SBA acted within its discretion to make the available funds go as far as possible and serve as many businesses as possible.
 - b. Response: In addition, this statement misquotes the CARES Act. The CARES Act states that the advance amount provided “shall be not more than \$10,000.” It does not require all advances paid to be for the maximum amount of \$10,000.

SBA and Subcontractor’s Processes for Recommending Approval or Decline of COVID-19 EIDLs

33. Page 8, Paragraphs 2, 3, and 4: “It is important to note that subcontractor Number 2’s system electronically checks the application; each application is not reviewed by the subcontractor’s personnel. Subcontractor Number 2’s system uses public domain information and certain fraud indicators in accessing and verifying loan application information. The subcontractor’s system verification check of the bank accounts is contingent on each bank’s Customer Identification Program and the amount of customer information collected as required under 31 C.F.R. § 1020.220. The subcontractor estimates that 40 percent of banks do not collect enough information for its system to verify a bank account. We were told the system makes these checks before the credit check to determine loan eligibility based on application information. The main reasons the system would deem an application ineligible are insufficient economic injury, ineligible business type, or ineligible answers to other application questions, such as felony convictions, etc.”

- a. Response: It is important to note that SBA provides the business rules used in the loan recommendations. In addition, below is a chart describing possible reasons for decline, disqualification, or potential fraud. This chart shows the multitude of processes that exist within the subcontractor’s system and the various checks done. The Draft Report fails to provide the actual dollar amount associated with the successes in this process. These numbers represent over \$258 billion in negative decisions based on the subcontractor’s/ODA’s systematic requirements:

Category	Sub-Category	Units	MaxLoanPotential
1. Duplicate	NULL	4,027,887	\$ 151,284,277,300
2. Declined/Unqualified	Suspicious online behavior	301,964	\$ 13,267,078,200
2. Declined/Unqualified	Fraud Alert on Credit Report	171,001	\$ 4,203,019,400
2. Declined/Unqualified	Applicant information failed validation	169,842	\$ 5,041,085,900
2. Declined/Unqualified	Failed online identity verification	81,157	\$ 2,345,217,300
2. Declined/Unqualified	Loan Officer declined for fraud	33,266	\$ 1,024,766,600
2. Declined/Unqualified	Applicant has large number of applications with other providers	19,769	\$ 524,179,100
2. Declined/Unqualified	High risk IP address	14,571	\$ 550,738,100
2. Declined/Unqualified	Applicant device(s) associated with fraud	5,059	\$ 171,792,300
2. Declined/Unqualified	Applicant location is international	4,458	\$ 146,532,900
2. Declined/Unqualified	Other Validation Issues	1,839	\$ 89,065,800
2. Declined/Unqualified	Business Started after Disaster Date	162,381	\$ 1,057,319,900
2. Declined/Unqualified	Prohibited Business Type	119,148	\$ 4,061,353,300
2. Declined/Unqualified	Convicted Of A Criminal Offense In Past Year	5,258	\$ 131,071,600
2. Declined/Unqualified	Business Suspended From Government	2,034	\$ 54,620,700
2. Declined/Unqualified	Insufficient Gross Economic Injury	1,483,480	\$ 68,055,600
2. Declined/Unqualified	Credit Score <threshold	1,983,495	\$ 51,869,370,700
2. Declined/Unqualified	Declined at Loan Officer Discretion	526,922	\$ 18,035,168,233
3. On Hold	a. Not Disbursed	33,590	\$ 1,673,599,350
3. On Hold	b. Disbursed	32,091	\$ 1,790,324,489
3. On Hold	c. Returned	15,284	\$ 753,384,700

In addition, ODA and the subcontractor consistently have made systematic enhancements in response to internal and external comments. ODA continues to listen to all partners to ensure good stewardship of taxpayer dollars. These enhancements include:

Date	Enhancement(s)
March 29	EIDL COVID-19 Application Intake Form Launched
April 6	Applicant Portal & Loan/Advance Decisioning Platform Launched
April 24	Assigned Task Username Display; Fully Rendered Credit Report; Additional Permissions for Batch Approval; User Creation Enhancements; Display Bank Info Validation Errors to Users; Loan Resizing; Additional Phone and Email Validations; Letter Enhancements; Ownership Percentage Validations
April 30	Accept Agricultural Entity Applications; Advance Express Grant Machine; Post Loan Approval Advance Funding; Enhanced LO Display of Unvalidated Bank Info
May 6	Create Obligating and Funding Error Tasks; Contact Info Data Processing Enhancements; Enhanced Field Validations; Decline Letter & Email Enhancements; Update to EI Formula; Increase Server Capacity; Add Account Ownership to CBR
May 19	Intake Form Additional Field Validations; Application Search Filtering Enhancements; Pass Non-Profit Flag to ETRAN; Routing Number Validation on Intake Form, Client Portal & ETRAN; Enhanced SSN Validation; ZIP Code to State Validation; System Performance Enhancements; Signatory Enhancements; Client Portal Help Enhancements
June 3	Email Reminders for Inactivity; Advance Reconsideration Portal; Additional Data Modification Restrictions based on Stage and Role; Display Funded Status; Create Funding Hold Checkbox; Interest Rate Validation for Entity Type Changes; System Text Updates
June 18	Auto-Disposition Inactive Applications; Add Loan Disclosure Language; Task Search Capability; LA&A Updates, Allow Funding Hold at Any Stage; Default Check Advance Request Box; Client Portal Text & Display Changes
July 9	Advance Recon for Non-Request Applicants; ETRAN Interaction and Notes Enhancements; Invalid Email Error Handling; Enhanced Bank RTN Validation; Loan & Advance Amount Exceptions with Permission Limitations; Tax ID/Entity Type mismatch logic and LO Messaging; Client Portal Text Modifications
July 30	Intake Form Modifications; Intake Form Field Validation Enhancements; Advance Decision History; Notes for Historic ETRAN Errors; Automated ETRAN Error Daily Monitoring; Bulk Document Upload with Notes; Enhances Email Syntax Validations
August 14	Task for Unsigned Closing Docs; Advance Decision History in Notes; Decision Engine Label Text Changes; Bank info History Table; Tracking and Notes for Application Hold Actions; Additions to Decline Reasons
September 2	Intake App Lookup Screen; Text Edits for Loans >\$200K; Enable Funding Hold at Any Stage
September 15	Loan Reconsideration Process Phase 1; Update Decline Letter Functionality
October 8	Multifactor Authentication Enhancements; Servicing Office Update; Loan Reconsideration Process Phase 2

34. Page 9, Paragraphs 2 and 3: “Both were encouraged to reapply using the Disaster Loan Application Portal 2.0. If those applicants did not reapply, they did not receive an advance grant. SBA required reapplication to ensure the applications went directly to subcontractor Number 2’s processing system. SBA’s message told the applicant that the new application would be used for both the COVID-19 EIDL and the advance grant. SBA also mailed notices to the applicants to notify them of the requirement to reapply. Unlike the mail-in applications (hard copy applications), SBA officials said they maintained these applicants’ places in line according to the receipt date of their previous unprocessed digital application.”

- a. Response: This passage fails to account for why SBA established this process and neglects to acknowledge that applicants who did not apply after enactment of the CARES Act on the new streamlined application portal did not provide the required information and self-certifications required to consider them for the advance. The CARES Act established the EIDL advance (grant) program, but to receive an advance, the applicant first had to request one. The EIDL applications being used before the advance program was launched did not include an option for the business to request the advance. The original application also did not require the business to provide the number of employees, which was used to calculate the amount of the advance. The original application did not collect from the applicant the bank account and routing number to deposit the advance funds. All of that had to be added to the new streamlined application, in addition to the validations and internal controls used to qualify applicants for a new application.

April Policy Changes to Extend COVID Injury Loan Funds

35. Page 10, Paragraph 1: “However, a week later on April 11, 2020, SBA restored the maximum amount of a COVID-19 EIDL to \$500,000 and the minimum required credit score back to the original [REDACTED]. According to an SBA official, the changes were ‘policy decisions.’ The official did not give any additional explanation.”

- a. Response: SBA reiterates its request that the credit score information be redacted, for reasons already discussed.
- b. Response: Also, this paragraph is incorrect. The \$15,000 loan limit was temporary and was raised two days later. Furthermore, SBA increased all loans that were subject to the temporary \$15,000 limit. Also, there was no initial \$500,000 loan limit; that was just the Phase 1 calculation. The \$500,000 referenced by this paragraph is not a true loan limit in the way that the \$150,000 has been applied, because applicants could get more than \$500,000 using the Phase 2 calculation.
- c. Response: Finally, the reason that an SBA official said the changes were “policy decisions” was because OIG was inquiring into privileged information.

36. Page 10, Paragraph 5: “On April 15, 2020, SBA closed the Disaster Loan Application Portal 2.0 to new applications again.”

- a. Response: The statement is incorrect because this was the first occurrence of the 2.0 portal being closed to new applications. The word “again” implies that it was taken offline before April 15, 2020, which it was not.

Paycheck Protection Program and Health Care Enhancement Act

37. Page 10, Paragraph 6: “On May 3, 2020, SBA made the decision to cut the COVID-19 EIDL maximum from \$500,000 to \$150,000.”

- a. Response: Again, the \$500,000 was never a true loan limit, it was only the limit for a Phase 1 calculation.

Funding Still Available as of July 31, 2020

38. Page 11, note b accompanying Table 4: “This includes 298 loans (117 Cancelled and 181 Active Undisbursed) that we could not tie back to an application in the subcontractor Number 2’s system, SBA’s application system, or the SBA data warehouse.”

- a. Response: Bank details are provided only on disbursement, not when a loan is approved. OIG provided ODA with a list of 298 loans that do not have bank accounts in the ETRAN system. OIG appears to be unfamiliar with the process of disbursing. Of the 298 loans referenced, 117 were cancelled and never disbursed, and 181 are awaiting additional documentation and have not yet been disbursed. None of the 298 loans have been disbursed, which means they would not have bank information exported to ETRAN. Once again, there is no risk with any of the 298 loans referenced by OIG.

Timing of COVID-19 EIDLs and Advance Grants

39. Page 11, Paragraph 1: “SBA took an average of 49 days to receive, underwrite, and fund loan applications for 2,783,852 COVID-19 EIDLs disbursed as of July 31, 2020. In some cases, the process took up to 124 days to fund loan applications, but some were funded on the same day the application was received (see Figure 4).”

- a. Response: This is a misleading summarization of loan processing times. Less than 100 loans took 124 days to fund, but over 60,000 were funded on the same day, over 110,000 took just one day, and nearly 80,000 were funded in just two days. In addition, this summarization fails to provide context for certain longer processing times—including, for example, closure of the portal due to lack of appropriation and instances when SBA was waiting on borrowers to complete their applications.

40. Page 12, Paragraph 2: “From the beginning of the program through July 31, 2020, SBA took between 0 days (same day) and 106 days (average of 22 days) to pay out advance grant funds (See Figure 5). The Act required that grants be disbursed within 3 days.”

- a. Response: This is not accurate. The Act provides only that the loan applicant “may request” that SBA provide the Advance within 3 days; it does not “require” that such a request be granted. The Draft Report should provide an accurate interpretation of the Act.

41. Page 12, Paragraph 3: “For example, 446,700 advance grants were funded 24 days after the application was received.”

- a. Response: Again, the Draft Response is providing misleading information by omitting shorter response times. For example, over 400,000 advances were funded in one day and over a different 3-day span SBA disbursed 933,000 advances.

Staffing

42. Page 15, Figure 8: “Longest Wait Times by SBA’s Customer Service Center”

- a. Response: SBA provided to OIG the data for longest and shortest call wait times, but the Draft Report uses one caller per day to represent longest possible wait time, which misrepresents the overall wait times.

Hotline Complaints

- 43. Page 15, Paragraph 2: “In the Management Alert issued in July 2020, we reported that OIG had received more than 1,000 complaints. By August 31, 2020, OIG had received approximately 42,000 hotline complaints about SBA’s initial response to COVID-19, which is significantly higher than the approximately 900 hotline complaints we received the previous year. We are in the process of evaluating all of the complaints.”
 - a. Response: If the Draft Report is comparing FY19 to FY20, it should include the total number of disaster loan applications processed for context. In FY19, SBA processed 95,626 applications and OIG received 900 hotline complaints (0.9%). In FY20, SBA has processed 14 million COVID-19 applications and OIG has received 42k hotline complaints (0.3%). Hotline complaints are down significantly in terms of percentage of total applications processed. In addition, the Draft Report implies that complaints suggest a material issue, but it does not reveal the substance of the complaints and has refused to make the complaints available to SBA. The Draft Report declines to acknowledge that complaints can be unfounded or otherwise not raise a material issue, and that the filing of a complaint—by itself—reveals nothing.
 - b. Response: The Draft Report states that OIG has received 42 times the volume of hotline complaints compared to the previous year, but SBA has received 400 times the application activity.

Results

- 44. Page 15, Paragraph 3: “However, the unprecedented demand for COVID-19 EIDLs and equally unprecedented challenges SBA had in responding resulted in billions of dollars being distributed to ineligible entities or fraudsters.”
 - a. Response: The Draft Report, even on its own terms, provides no support for this assertion. At most, the Draft Report’s unreliable findings may suggest that “disaster loan funds could have been disbursed to *potentially* ineligible entities.”
- 45. Page 16, Bullets 1-3
 - a. Response: There are many legitimate reasons why an eligible borrower would need/want to change their bank account for disbursement. It does not automatically mean they are potentially fraudulent disbursements.
 - b. Response: There are many legitimate reasons why multiple applications are submitted through the same IP address, e.g. law firms and accountants filing on behalf of their clients.
 - c. Response: No explanation provided for bullet #3 for why the Draft Report approximates these loans that went to potentially ineligible businesses.

Finding 1

- 46. Page 17, Paragraph 2: “We found 281,414 differences between the bank account number on the application and the number recorded in Capital Access Financial System. In some cases, the applicant made mistakes when completing the application.”

- a. Response: This number does not distinguish between differences due to apparent mistakes and those due to other reasons. The examples provided are of only 22 and 3 loans.
- 47. Page 17, Paragraph 4: “However, other scenarios we found are highly suspicious and strong indicators of potential fraud. Suspicious examples include bank account numbers being significantly different or routing numbers of entirely different banks than the account numbers on the original application. It is also suspicious when the change is to an online-only debit card financial institution instead of a checking account at the brick-and-mortar banking institution listed on the original application.”
 - a. As more fully detailed in SBA’s narrative response, this assertion fails to acknowledge innocent explanations.

Finding 2

- 48. Page 19, first paragraph: “We found that as of July 31, 2020, SBA had approved more than one loan to applicants that used the same IP addresses, email addresses, business addresses, or bank accounts. Although there may be some legitimate reasons for individual occurrences, multiple occurrences indicate a strong probability of fraud. Specifically, SBA: approved 977,086 potentially fraudulent COVID-19 EIDLs totaling \$62.7 billion, of which \$58 billion had been disbursed, to applicants using the same IP addresses (an additional \$614.8 million was disbursed in advance grants); approved 319,936 potentially fraudulent COVID-19 EIDLs for \$26.7 billion, of which \$25.4 billion has been disbursed, to applicants using the same email addresses (an additional \$172.2 million was disbursed in advance grants); approved 260,109 potentially fraudulent COVID-19 EIDLs totaling \$15.4 billion, of which \$14.5 billion had been disbursed, to businesses listed at the same address (street, city, and the zone improvement plan, or ZIP code) on their applications (an additional \$134.9 million was disbursed in advance grants); and approved 16,015 potentially fraudulent COVID-19 EIDLs for \$928.1 million, of which \$811.5 million had been disbursed, to the same bank accounts (an additional \$2.5 million was disbursed in advance grants).”
 - a. Response: As more fully explained in SBA’s narrative response, SBA’s analyses of the source data for the top ten examples that the Draft Report gives to support each of these findings show that the examples involve legitimate loan activity, and that the Draft Report has overlooked the entirely legitimate reasons why applicants used duplicate information. SBA’s analyses, therefore, call these figures into serious question.

Multiple Loans to Applicants Using the Same IP Addresses

- 49. Page 21, Paragraphs 1 – 4: [Listing various examples of IP addresses from which multiple applications were sent]
 - a. Response: While SBA cannot fully respond to specific examples without the underlying source data, it appears that the auditors have not validated their own information, as the Draft Report employs cautious language, such as “what looks like an email address at a fish market.” But generally speaking, as more fully detailed in SBA’s narrative response and its analysis of the Draft Report’s top ten examples, use of the same IP address, by itself, is not a reason to suspect fraud.

Multiple Loans to Applicants Using the Same Email Addresses

50. Page 22, Paragraphs 3 – 4: [Listing various examples of e-mail addresses from which multiple applications were sent]
- a. Response: While SBA cannot fully respond to specific examples without the underlying source data, generally speaking, and as more fully detailed in SBA’s narrative response and its analysis of the Draft Report’s top ten examples, a similar e-mail address, by itself, is not a reason to suspect fraud.

Multiple Loans to the Businesses with the Same Address on the Loan Application

51. Page 23, Paragraphs 2 – 4: [Listing various examples of loans to businesses with the same address on the loan application]
- a. Response: While SBA cannot fully respond to specific examples without the underlying source data, generally speaking, and as more fully detailed in SBA’s narrative response and its analysis of the Draft Report’s top ten examples, a similar address, by itself, is not a reason to suspect fraud.

Multiple Loans to the Same Bank Accounts

52. Page 24, Paragraph 1: “For example, 13 different types of businesses (financial, automotive, gymnastics, etc.) received loans for \$1,167,800 to the same bank account. It is possible these are legitimate different types of business run out of one bank account. However, it is suspicious behavior and should be researched by SBA to determine if these are legitimate businesses.”
- a. Response: While SBA cannot fully respond to specific examples without the underlying source data, generally speaking, and as more fully detailed in SBA’s narrative response and its analysis of the Draft Report’s top ten examples, use of the same bank account, by itself, is not a reason to suspect fraud.
53. Page 24, Paragraphs 4 – 6: [SBA Abandoned the Rule of Two]
- a. Response: As more fully detailed in SBA’s narrative response, this is not an accurate characterization of the robust, two-tiered review process that SBA employed.
54. Page 25, Paragraph 1: “Further, SBA employees could potentially see trends in fraudulent applications that a system potentially could not identify.”
- a. Response: The Draft Report provides no support for the counterintuitive notion that individuals manually examining individual applications can spot trends that an algorithm cannot.
55. Page 25, Paragraphs 2 – 3: [Timing Goals for Loan Decisions]
- a. Response: These paragraphs fail to recognize that manual review occurred only after an automated review that employed robust internal controls and validations.
56. Page 26, Paragraphs 3 – 7: [SBA Action to Address our July 2020 Management Alert on Duplicate Loans]
- a. Response: The Draft Report neglects to acknowledge that SBA already was taking actions to address the issue. On June 18, SBA’s contractor put into place various additional controls, including a “hold” feature, related to fraud prevention. Moreover, a subsequent July 9 build put in place additional bank validation checks. These builds were in place prior to the management alert. In any event,

the later actions that SBA took in response to the management alert are an example of the successful, cooperative partnership between SBA and OIG.

Finding 3

57. Page 29, Paragraph 2: “The CARES Act requires that applicants had to be in business on January 31, 2020, to be eligible for COVID-19 EIDLs or advance grants. To determine if applicants were in business on January 31, 2020, we cross-referenced a database of Employer Identification Number (EIN) registrations made between February 1, 2020, and July 31, 2020, and matched them to data in SBA’s subcontractor Number 2’s database as of August 5, 2020. We removed all sole proprietorships.”
- a. Response: As more fully explained in SBA’s narrative response, this analysis rests on a false equivalence between registration of an EIN and being in business.
58. Page 29, Paragraph 6: “During this inspection, we also found that ineligible entities (such as “adult industry” businesses) received COVID-19 EIDLs. In addition, SBA received fraudulent applications for prominent national leaders that were obviously not legitimate applications and in one case paid the \$5,000 advance grant before denying the loan.”
- a. Response: The Draft Report should be more specific regarding “adult industry.” In any event, without the underlying source data, SBA is unable to respond to these examples.
59. Page 29, Paragraph 7: “We also have received hotline complaints about identities being stolen and used for fraudulent applications. For example, SBA received fraudulent loan applications in the name of a prominent real estate developer, a major shoe manufacturer, and one of its own SBA District Office Directors. SBA appropriately denied the loan for the real estate developer. However, SBA approved and funded the fraudulent loan for the shoe manufacturer in the amount of \$150,000. It also approved the loan for its District Director but caught the mistake before the loan was disbursed.”
- a. Response: The examples in which loans were denied or not disbursed show that SBA’s process is working. As to the shoe manufacturer example, SBA is unable to respond without the source data.