



Office of Inspector General

U.S. Small Business Administration

MEMORANDUM

DATE: December 23, 2020

TO: Jovita Carranza
Administrator

FROM: Hannibal "Mike" Ware 
Inspector General

SUBJECT: Key Recommendations Based on Lessons Learned from Prior COVID-19
Economic Injury Disaster and Paycheck Protection Program Loan Programs

On December 21, 2020, Congress passed the Consolidated Appropriations Act, 2021, which includes an additional \$900 billion in relief funding for the Coronavirus Disease 2019 (COVID-19) pandemic. The Act authorized approximately \$280 billion for the Small Business Administration (SBA) to assist struggling businesses. The bill will be presented to the President for his consideration.

At your request and based on our prior and ongoing reviews of the Paycheck Protection Program (PPP) and Economic Injury Disaster Loan (EIDL) program advances and loans, we are offering key recommendations to strengthen internal controls to prevent fraud and ensure only eligible businesses receive funds.

OIG has published four reports presenting findings pertaining to SBA's pandemic response programs, in addition to three White Papers we published last spring to increase risk awareness and offer lessons learned from our reviews of SBA's previous responses to disasters and administration of economic stimulus loans.¹

OIG also has provided you with draft reports addressing the implementation of the PPP and recipients of PPP loans who are on the U.S. Department of the Treasury's Do Not Pay List. These reports included seven recommendations to reduce significant fraud risks and ensure integrity of the PPP and COVID-19 EIDLs.

Premised on our prior and ongoing reviews, OIG believes there are key actions that SBA officials can take to ensure eligible businesses receive these funds and prevent fraud in the programs. As we noted in our White Papers addressing risk awareness and lessons learned, success depends on establishing appropriate internal controls and comprehensive, clear, and consistent guidance at the outset.

As you implement these programs so critical to the nation's small businesses and economic well-being, please consider the following recommendations for the PPP and COVID-19 EIDL programs.

¹ Report 20-14, Report 20-16, Report 21-02, and Report 21-03.

PPP Considerations

- Assess vulnerabilities in internal controls and strengthen or implement necessary internal controls to address ineligible loans and potential fraud. At a minimum, we believe it is critical for the agency to implement a process to ensure lenders validate that
 - the loan amount does not exceed the maximum amount per employee.
 - the business was established before the mandated date. This may require coordination with the Department of Treasury to verify the dates the business applied for and received a Taxpayer Identification Number.
 - the loan amount does not exceed the maximum number of employees or other applicable size standards.
- Work with Treasury to develop a technical solution to enable use of Treasury's Do Not Pay portal to determine loan applicant eligibility and prevent improper payments before the release of any federal funds.
- Update the PPP borrower application to include a field for the North American Industry Classification System code for the business category and the business description to prevent potentially ineligible loan approvals.
- Revise the application to include the demographic information of borrowers.

EIDL Considerations

- Establish or strengthen controls to ensure loan deposits are made to legitimate bank accounts for eligible borrowers only. At a minimum, prevent the change of loan application information post-approval without having that information reviewed again by a person.
- Strengthen or establish controls to ensure multiple loans are provided only to eligible applicants and prevent the erroneous duplication of loans. At a minimum:
 - Obtain a photo ID of the applicant to verify their identity.
 - Verify that the applicant is not on Treasury's Do Not Pay List for delinquent child support and has not been suspended or debarred.
 - Verify the applicant is a legitimate business through tax returns, incorporation, not-for-profit records with secretary of state offices, or another method.
 - Institute a "Rule of Two" requiring two people to approve each loan application and eliminate the batch approval process.
 - Require human contact with applicants who submit multiple applications from the same IP addresses, email addresses, physical addresses, or bank account number to verify these applicants are legitimate.
 - Ensure the system promptly identifies all risk factors (fraud, duplicate applications, and information flags) and require full mitigation of those issues before approval.

- Strengthen controls for verifying an entity's start date to ensure applicants meet eligibility requirements. At a minimum:
 - Prevent illegitimate duplicate applications for applications with the same Employer Identification Number (EIN) or Social Security Number (SSN).
 - Establish a system to freeze applications with the same EINs, SSNs, Internet provider addresses, email addresses, physical addresses, or bank accounts used by fraudsters to prevent additional fraudulent applications from being submitted.
 - Ensure the EINs were registered before the eligibility date.

This memorandum summarizes recommendations pertaining to areas of concern identified through prior and ongoing reviews and investigations. The suggested actions are intended to align with review findings and recommendations made for corrective action. The prior and ongoing reviews were performed under the Council of the Inspectors General for Integrity and Efficiency's Quality Standards for Inspection and Evaluation.

If you have any questions please contact me at 202-205-6586 or Andrea Deadwyler, Assistant Inspector General for Audits, at 202-205-6616.