

# Paycheck Protection Program Loan Recipients on the Department of Treasury's Do Not Pay List

REPORT 21-06 | January 11, 2021





# Office of Inspector General

## U.S. Small Business Administration

### MEMORANDUM

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**Date:** January 11, 2021

**TO:** Jovita Carranza  
Administrator

**FROM:** Hannibal “Mike” Ware /S/  
Inspector General

**SUBJECT:** Paycheck Protection Program Loan Recipients on the Department of Treasury’s Do Not Pay List

The Office of Inspector General (OIG) is issuing this Management Alert to bring to your attention serious concerns about improper payments to lenders for potentially ineligible recipients of loans under SBA’s Paycheck Protection Program (PPP) in response to the Coronavirus Disease 2019 (COVID-19) pandemic. This issue requires immediate attention and action.

Due to complaints of fraud received by the OIG, we collaborated with the U.S. Department of the Treasury (Treasury) Do Not Pay (DNP) Business Center, which identified high-risk transactions related to financial assistance to small businesses for the COVID-19 pandemic. Our review of Treasury’s analysis showed approximately \$3.6 billion in PPP loans to potentially ineligible recipients.

Expedited management action could reduce or prevent the potential for loss in terms of the risk of improper payments to lenders for amounts ineligible for forgiveness as well as any fees. OIG communicated summary results to SBA management, who requested Treasury’s results and have systemically put a “hold” flag on loans identified by the DNP team to ensure the loan applications are properly reviewed before processing for forgiveness or any further disbursements. Additionally, SBA management contacted the DNP Business Center and discussed the matching parameters to ensure that DNP’s results were consistent with PPP eligibility provisions. Consequently, DNP’s results were revised and are represented in this memorandum.

### Background

Treasury’s DNP Working System is the source of centralized data and analytic services that verifies eligibility and helps agencies identify and prevent the fraud, waste, and abuse associated with improper payments. Treasury’s system is designated by the Office of Management and Budget (OMB) and mandated by the Payment Integrity Information Act of 2019 dated January 3, 2020 (See Appendix I.) The Treasury DNP system gives agencies a higher degree of certainty that a payee is legitimate and eligible before making an award or payment.

The law requires agencies to evaluate fraud risks and use a risk-based approach to design and implement financial and administrative controls to counter identified fraud risks. The law reinforces the requirement for agencies to review prepayment and pre-award procedures. Agencies are also

required to thoroughly review available databases with relevant information to determine program or award eligibility and prevent improper payments before the release of any federal funds. At a minimum and before issuing any payment or award, agencies must review certain databases to verify eligibility of the payment and award.

The law also requires agencies to review and identify programs susceptible to significant improper payments, report on the amount and causes of improper payments, and develop plans for reducing improper payments. An improper payment is any federal government payment made to an ineligible recipient or for an ineligible good or service, duplicate payment, or payment for goods or services not received (except for such payment authorized by law).

The President signed the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) on March 27, 2020, and the Paycheck Protection Program and Health Care Enhancement Act on April 24, 2020. The laws authorize up to \$659 billion for the PPP to provide small businesses with the resources they needed to maintain their payroll, hire back employees who may have been laid off, and cover applicable overhead during the pandemic.

The CARES Act requires eligible borrowers to make a good faith certification that

- the loan is necessary due to the uncertainty of current economic conditions caused by COVID-19;
- they will use the funds to retain workers and maintain payroll, lease, and utility payments; and
- they are not receiving duplicate funds for the same uses from another SBA program.

The CARES Act also provides eligible recipients forgiveness of indebtedness on a covered PPP loan in an amount equal to the sum of certain costs and payments made during the covered period. Borrowers apply to lenders for forgiveness on PPP loans. However, SBA may refuse guarantee for any portion of a loan ineligible for forgiveness.

OIG's preliminary review and investigative findings have identified concerns with internal controls and red flag indicators of fraud in the PPP. OIG has already initiated a robust plan to oversee SBA's response to COVID-19. Our investigative staff has also begun hundreds of investigations into suspected PPP fraud.

### **Role of DNP in SBA's Initial COVID-19 PPP Response**

Querying PPP borrower identifiers to data maintained in the DNP portal can identify potentially ineligible loan applicants. SBA OIG provided PPP loan data to Treasury's DNP team that used SBA business rules for PPP eligibility to analyze the data. As of August 8, 2020, after cancellations, SBA had approved 5.2 million PPP loans totaling \$525 billion. To be eligible to receive federal assistance such as a PPP loan, a business must not have any current federal debarments or suspensions. Additionally, a borrower must not have delinquent federal loans or have defaulted on any federal loans to receive federal financial assistance.

### **Loans to Ineligible Recipients**

Treasury's DNP analysis found:

- Of the \$525 billion in total approved PPP loans, 57,473, or 1.1 percent, matched a DNP data source record, indicating loan ineligibility. The 57,473 matched loans totaled approximately \$3.6 billion; \$280 million was undisbursed as of August 8, 2020. (See Table 1).
- Just 10 of the 3,403 loan servicing location identifications accounted for 49 percent of the matched loans and 28 percent of the total matched loan value.

To determine if PPP loans were made to eligible loan recipients, the Treasury team merged the data tables OIG supplied, extracted all loan applications that were fully cancelled, and matched PPP borrower identifiers to data in the DNP portal. The DNP portal accesses multiple federal data sources required by law and includes

- Treasury Offset Program (TOP Debt Check)
- Credit Alert Interactive Verification Reporting System (CAIVRS)
- System for Award Management (SAM Exclusion),
- Social Security Administration’s Death Master File (DMF),
- American InfoSource (AIS Obituary and AIS Probate),
- Department of Defense and the Department of State records of deceased persons (See Appendix II)

Each data source offers different levels of “match strength,” contingent on the data elements included in the data source. Treasury’s DNP portal identifies three types of match strength: conclusive, probable, and possible. Data sources with conclusive matches provide the optimal matching results. Conclusive matches represent a 100 percent match in a federal data source(s) to a recipient’s personal identifiers and are least likely to yield a false positive result.

Conclusive matches compare data elements, including name and

- Taxpayer Identification Number (TIN)
- Employer Identification Number
- Data Universal Numbering System
- Social Security Number
- Address

Treasury’s analysis matched 38,823, or 67.6 percent, of the 57,473 loans by “Exact TIN plus Name,” and the matches were deemed conclusive.

**Table 1. Numbers of Matched Loans by Match Types (Distinct Loans)**

Match Type	Matched Loans	Matched Loan Current Loan Amount (\$)	Matched Loans (%)	Matched Current Loan Amount (%)
Exact TIN*and Name	35,936	\$1,915,166,634.67	62.53%	53.36%
Exact TIN	14,574	\$1,067,742,615.47	25.36%	29.75%
Exact TIN and Non-Exact Name	3,916	\$435,615,342.22	6.81%	12.14%
Exact TIN and Name, Exact TIN and Non-Exact Name	1,578	\$101,613,230.29	2.75%	2.83%
Exact TIN, Exact TIN and Name	1,243	\$61,122,130.96	2.16%	1.70%
Exact TIN, Exact TIN and Non-Exact Name	160	\$5,164,220.81	0.28%	0.14%
Exact TIN, Exact TIN and Name, Exact TIN and Non-Exact Name	66	\$2,968,124.75	0.11%	0.08%
Total	57,473	\$3,589,392,299.17		

\*TIN stands for Taxpayer Identification Number

We believe the identified PPP loans were made to potentially ineligible recipients because SBA and its lenders relied on applicants’ self-certification for PPP loan eligibility. For example, applicants were

required to certify that the business did not have any current federal debarments or suspensions and the borrower(s) did not have delinquent federal loans or have defaulted on any federal loans.

## **Conclusion**

SBA should take immediate action to limit improper payments by strengthening existing controls and implementing additional internal controls to address improper payments, especially through the utilization of existing resources.

Treasury's analysis of potentially ineligible recipients demonstrates the importance of front-end controls and careful review by SBA of the loans identified. Our preliminary review of Treasury's analytical summaries indicates SBA should reassess controls to ensure only eligible recipients obtained PPP loans and prevent improper payments, as required by the law. To prevent improper payments, SBA will need to implement strong controls to ensure that loans to ineligible recipients are not forgiven and any undisbursed funds are not released to borrowers.

## **Recommendations**

To establish more effective oversight controls related to the PPP for COVID-19 pandemic relief, we recommend that the Administrator direct the Associate Administrator for the Office of Capital Access to:

- 1) Promptly identify PPP loans that have not been fully disbursed and follow-up with the lenders to stop \$280 million in potential improper loan disbursements.
- 2) Strengthen SBA controls to ensure that loans to ineligible recipients are not forgiven.
- 3) Review prepayment and pre-award procedures and work with Treasury to formulate a technical approach to use Treasury's DNP portal to determine loan applicant eligibility and prevent improper payments before the release of any federal funds.

## **Analysis of Agency Comments**

SBA leadership provided formal comments to this Management Alert, included in Appendix III. In the comments, the agency states, "Prior to the Management Alert, SBA developed systems to screen potential borrowers against the Treasury Department's Do Not Pay List. These efforts were underway as a part of the loan review process before OIG issued the Management Alert."

However, we believe this response does not acknowledge the importance of and need for the recommended actions. In August 2020, after completing our fieldwork, we briefed agency managers on the significance of the DNP audit results and the immediate need to put systematic screening mechanisms in place. During the briefing, we emphasized that SBA should engage with Treasury's DNP program promptly and begin taking steps to establish screening processes.

After the briefing, agency managers requested--and we provided--the preliminary results of the Treasury DNP data analysis. We expected SBA managers would begin implementing the necessary screening protocols shortly after reviewing the analysis we provided.

However, SBA management later used the analysis results only to highlight potential PPP loan exceptions through use of "hold" flags in the Capital Access Financial System—alerts that indicate the need for further review of potential improper payments. We also understand that the agency plans to use that information in loan forgiveness reviews. We agree it is appropriate for the agency to use our DNP analysis for the loan forgiveness process.

However, management's assertion that "SBA developed systems to screen potential borrowers against the Treasury Department's Do Not Pay List" before our alert does not match OIG's or

Treasury's understanding of the timeline of events. Management's comments indicate preventative controls have already been put in place. But our understanding from Treasury is that portal access to DNP is being established for *two users*, and batch processing capability for high-volume activity is still under development. Batch processing to the DNP portal will be critical for SBA to implement OIG recommendations without slowing PPP loan processing.

Management did not specifically address our individual recommendations in its response. However, the statement that "efforts are underway" suggests that management agrees with our recommendations. We will continue to work with SBA management to resolve the recommendations.

The following summary clarifies the necessary remediation actions to close our recommendations:

- 1) **Promptly identify PPP loans that have not been fully disbursed and follow-up with the lenders to stop \$280 million in potential improper loan disbursements.** This recommendation can be closed when management provides documentation indicating all undisbursed PPP loans identified as potential improper payments have been reviewed and processed.
- 2) **Strengthen SBA controls to ensure that loans to ineligible recipients are not forgiven.** This recommendation can be closed when the agency develops policy and establishes staff guidance to prevent approvals of loan forgiveness if the recipient was ineligible for a PPP loan under federal criteria.
- 3) **Review prepayment and preaward procedures and work with Treasury to formulate a technical approach to use Treasury's DNP portal to determine loan applicant eligibility and prevent improper payment of any federal funds.** This recommendation can be closed when the agency provides evidence that functioning controls are in place to compare PPP applicant data against DNP portal data to prevent ineligible applicants from receiving federal assistance.

We prepared this Management Alert in alignment with OIG's quality control standards and the Council of Inspectors General for Integrity and Efficiency's (CIGIE) Quality Standards for federal Offices of Inspector General, which require that we conduct our work with integrity, objectivity, and independence. In connection with this Management Alert, we reviewed Treasury's results and related documentation and interviewed Treasury representatives.

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  
Christopher Gray, Deputy Chief of Staff  
John A. Miller, Deputy Associate Administrator, Office of Capital Access  
Steve Kucharski, Director, Office of Performance and Systems Management  
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Tonia Butler, Director, Office of Internal Controls  
Rafaela Monchek, Director, Office of Continuous Operations and Risk Management  
Tami Perriello, Chief Financial Officer and Policy Advisor to the Administrator

## Appendix I. Data Sources Mandated by Law and Used in Treasury's PPP Analysis

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Treasury matched PPP borrower identifiers to data maintained in the following data sources:

### Treasury Offset Program (TOP Debt Check)

- TOP Debt Check is a data extract or subset of data contained in the TOP delinquent debtor database. It was created for the Treasury DNP system to help agencies fulfill the obligation to deny federal loans, loan insurance, and loan guarantees to people who are delinquent on federal nontax debts and child support obligations (if allowed by agency statute and regulations).
- DNP receives weekly TOP Debt Check updates.

### Credit Alert Interactive Verification Reporting System (CAIVRS)

- A shared database of defaulted federal debtors, CAIVRS enables processors of applications for federal credit benefits to identify individuals who are in default or have had claims paid on direct or guaranteed federal loans or are delinquent on other debts owed to federal agencies.

Treasury DNP receives CAIVRS data from the following agencies:

- U.S. Department of Justice
  - U.S. Department of Agriculture
  - U.S. Department of Veterans Affairs (Database not open to states)
  - U.S. Department of Housing and Urban Development
  - Small Business Administration
- The entire CAIVRS database is refreshed each time any agency source forwards an update. The agency sources update data at various times throughout the month.

### System for Award Management (SAM Exclusion)

- SAM Exclusion records contain the data for all active exclusion records entered by the federal government identifying those parties excluded from receiving federal contracts, certain subcontracts, and federal financial and nonfinancial assistance and benefits.
- Treasury DNP receives daily SAM updates.

### Death Master File (DMF)

- The DMF from the Social Security Administration (SSA) is a data source that contains more than 94 million records. The file is built from internal SSA records of deceased persons possessing social security numbers and whose deaths were reported to the SSA.
- DNP uses the public DMF but does not have access to the full DMF. Legislation such as the Social Security Act precludes the sharing of the full DMF with agencies that do not pay benefits.
- DNP receives a weekly update to the public DMF and full refresh every quarter.

### American InfoSource (AIS Obituary and AIS Probate)

- AIS is a commercial global financial services company that provides obituary and probate death data. AIS death data includes information about deceased individuals from all 50 states. AIS gathers information from probate court records and published obituaries. Obituaries are gathered by AIS from more than 3,000 funeral homes and thousands of newspapers. Probate records are collected from county courts.
- DNP receives weekly updates of all AIS data.

### Department of Defense (DOD)

- DOD death data provides information about confirmed or presumed deaths of United States military members while abroad and at home.
- DNP receives an update to DOD data the first week of every month.

### Department of State (DOS)

- DOS death data provides information about confirmed or presumed deaths of United States citizens while abroad. Data is provided by DOS's Bureau of Consular Affairs and originates from the American Citizen Services System.
- DNP receives an update to DOS data on the 11<sup>th</sup> of each month.

Table 2 summarizes Treasury's matched loans by the DNP data source(s).

**Table 2. Matched Loans by DNP Matched Data Source(s)**

Match Source	Matched Loans	Approved Amount (\$)	Current Amount (\$)	Undisbursed Amount (\$)
TOP Debt Check	37,316	\$1,565,193,095.40	\$1,554,269,548.20	\$196,605,444.84
CAIVRS (TIN Only)	16,043	\$1,145,296,385.40	\$1,136,997,092.00	\$74,077,133.31
SAM Exclusion	958	\$73,627,495.19	\$73,684,412.26	\$5,478,728.36
AIS Obituary	4,258	\$826,654,548.31	\$825,395,032.02	\$12,609,669.41
DMF	938	\$178,314,957.36	\$179,104,890.06	\$2,771,773.16
AIS Probate	228	\$49,916,171.00	\$49,588,488.24	\$32,500.00
Dept. of State	20	\$2,720,320.50	\$2,720,320.50	\$0.00

**Note:** The count of matched loans will not equal the \$57,473 loan total seen in Table 1, "Numbers of Matched Loans by Match Types (Distinct Loans)," because some loans matched multiple data sources. If the same loan matched to multiple sources, its amount is included in the totals for each matched source.

## Appendix II. Treasury's Analytic Explanations

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### PPP Loan Universe

The SBA Office of the Inspector General provided the data to DNP by on August 11, 2020. The data files represent the universe of SBA PPP loans at the time of data extraction on August 8, 2020.

There is a difference of less than 0.1 percent between the total value and total count of loans screened by DNP compared to reported figures from SBA.<sup>1</sup> This difference could be attributed to the date and time the file was extracted by SBA for analysis. The SBA analysis was produced using finalized data through August 8, 2020. The file DNP received was extracted before the final updates but before the close of business on August 8, 2020.

### Data Cleansing and Standardization Process

Treasury DNP discovered special characters (non-ASCII) in the SBA data. These characters caused an issue with the DNP data loading process and required cleansing before the data could be loaded. After the non-ASCII characters were removed from the files, the data loaded successfully. Because some characters were removed from the analyzed fields, the matching strategy was changed from exact TIN and name matches to exact TIN and nonexact name using similarity scoring, as follows.

**Jaro-Winkler:** Calculates the edit distance between two strings, giving a more favorable rating to strings that begin with the same character.

**Levenshtein:** Calculates the edit distance between two strings. Each difference is counted to provide the score.

**Spedis:** Computes the cost of converting one text string to another. Each operation is assigned a cost, the cost is summed up at the end of the string comparison to produce a score.

**Spedis-SoundEx:** Each string is converted into a SoundEx value based on the sound certain letter combinations may create. The SoundEx string is then run through the Spedis similarity function.

To assist in the name matching process, name fields in the SBA data were standardized using the same standardization process used to standardize the name fields in the DNP data sources.

### Findings Analysis

Loans with a status of "Fully Cancelled" were removed from data, because they included duplicate loan applications and loans that were not approved.

A loan record may have multiple matches because all loan records have multiple TIN and name fields. The borrower's TIN is used in conjunction with the borrower's name and the borrower's business name. The principal's TIN is used in conjunction with the principal's name. There is also a possibility that a TIN and name match could be present in multiple data sources.

Loans matched to the CAIVRS data source are TIN only matches. CAIVRS does not have name information.

### DNP Data Source Dictionary of Variables

**DNP Match Source:** Name of the data source in which a loan had an "Exact TIN" (CAIVRS only), "Exact TIN and Name," or "Exact TIN and Nonexact Name" match.

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<sup>1</sup> Small Business Administration, "Additional Program Information: Summary of Cumulative Paycheck Protection Program data as of 11:59 PM EDT, Aug 8, 2020." at <https://www.sba.gov/funding-programs/loans/coronavirus-relief-options/paycheck-protection-program>. Accessed by DNP on August 20, 2020.

**Match Type:** Matches were produced by “Exact TIN” (CAIVRS only), “Exact TIN and Name,” or “Exact TIN and Nonexact Name.”

**Matching Field:** All matches are matched using the exact TIN. This field identifies which name field contained the name that matched a DNP data source. In the case of CAIVRS, this field identifies the matching TIN field. The defined values are as follows:

- Borrower TIN and Borrower Name equal Borrower TIN and Borrower Name match
- Borrower TIN and Business Name equal Borrower TIN and Borrower Business Name match
- Principal TIN & Principal Name equal Principal TIN and Principal Name match
- Borrower TIN equals Borrower TIN only match (CAIVRS)
- Borrower Business TIN equals Borrower TIN only match (CAIVRS)
- Principal TIN equals Principal TIN only match (CAIVRS)

**CAIVRS Reporting Agency:** The name of the agency whose CAIVRS feed contained the matched record.

**Name from DNP Match Source:** The name as listed from the DNP matched data source.

**Record Effective Date:** The date the matched record became active in the DNP data source.

**Record End Date:** The date the record became inactive in the DNP data source. Inactive records may indicate the entity is no longer on a particular list or that the record was replaced with an updated record when information changed. In this case, there may be a match to both the INACTIVE and ACTIVE records.

**Record Status:** Identifies if the record was ACTIVE or INACTIVE at the time of the analysis.

**Date of Death:** The date reported in the DNP death data sources as the date when an individual passed away.

**DNP Data Source List Status Code:** A brief description of why an entity is listed on a DNP data source.

## Appendix III. Management's Comments

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### SBA's Response to the Alert



U.S. Small Business Administration  
Washington, D.C. 20416

#### OFFICE OF THE ADMINISTRATOR

January 4, 2021

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

Dear Inspector General Ware:

I write in response to the Office of Inspector General's ("OIG") November 30, 2020 Management Alert on Paycheck Protection Program (PPP) loan recipients on the Department of Treasury's Do Not Pay list.

Prior to the Management Alert, SBA developed systems to screen potential borrowers against the Treasury Department's Do Not Pay List. These efforts were underway as a part of the loan review process before OIG issued the Management Alert. In addition, when SBA resumes PPP lending pursuant to the Economic Aid to Hard-Hit Small Businesses, Nonprofits, and Venues Act, every new PPP loan application submitted to SBA for processing by a lender will be searched against the Treasury Department's Do Not Pay list.

SBA is working to protect taxpayer dollars and ensure that the Paycheck Protection Program benefits only eligible borrowers. I would be happy to further discuss our response regarding the Do Not Pay list and to provide further assistance to your office.

Sincerely,

/s/  
Jovita Carranza

Administrator