

SBA'S HANDLING OF IDENTITY THEFT IN THE COVID-19 ECONOMIC INJURY DISASTER LOAN PROGRAM

REPORT NUMBER 21-15 | May 6, 2021





Office of Inspector General

U.S. Small Business Administration

DATE: May 6, 2021
TO: Isabella Casillas Guzman
Administrator
FROM: Hannibal "Mike" Ware 
Inspector General
SUBJECT: SBA's Handling of Identity Theft in the COVID-19 Economic Injury Disaster Loan Program

The Office of Inspector General (OIG) is issuing this Evaluation report to notify Small Business Administration (SBA) officials of significant matters regarding its handling of complaints of identity theft in the Coronavirus Disease 2019 (COVID-19) Economic Injury Disaster Loan (EIDL) program.

As of January 31, 2021, SBA has referred 846,611 COVID-19 EIDL applications to the OIG, which is the loan application related to an identity theft complaint (individuals who indicate that they did not apply for a loan and believe they are a victim of identity theft) and any related applications (applications with the same email address, phone number, or physical address). SBA officials did not know the exact number of individuals who have filed an identity theft complaint because they did not track each complaint.

For the 846,611 applications, SBA disbursed 112,196 COVID-19 EIDLs totaling \$6.2 billion and 98,613 Advance Grants for \$468 million. We found bank account numbers for 29,435 of the 112,196 disbursed loans, totaling \$1.7 billion, were changed from the original number submitted on the application to another number used for disbursement, which is an additional indicator of potential fraud.

At the time of our review, we found SBA did not provide status updates to those reporting COVID-19 EIDL identity theft. Some complainants have contacted SBA multiple times, which further distorts the total number of identity theft complaints.¹ These individuals have been waiting a long time, some of them for months, for a resolution on potentially fraudulent loans in their names that could negatively affect their ability to obtain credit.

Many of the complainants are shocked to receive an SBA loan statement, which is one way they find out about the fraudulent loans. Potentially more victims are still unaware of these loans because the fraudsters used fake addresses on the loan applications. As of January 2021, an SBA official estimated the agency has received over 150,000 returned loan statements because of incorrect or fraudulent addresses, raising the possibility that more

¹ For the identity theft allegations that we have been able to corroborate, we have encouraged SBA to provide status updates to the victim.

cases of identity theft are going unreported.

Regarding SBA's handling of the 846,611 loan applications, we determined the agency conducted a review to assess the possibility of identity theft prior to referring the application and related applications to OIG.

In this review, SBA examined the subcontractor system's notes in the loan file.² Agency staff compared the possible victim's addresses and phone number to the application information using Google and LexisNexis. Agency staff also performed a public record search to confirm the existence of the business, often checking online information from the appropriate Secretary of State and county tax assessor.

After receiving identity theft complaints, SBA stopped the processing of loan applications in the approval process, put a hold on and cancelled approved loans before disbursement, and attempted to recover any disbursed loans.³ An SBA official stated that as of February 4, 2021, the agency has stopped the disbursement of 15,345 loans, totaling \$809.9 million, and canceled these loans. When SBA cancels loans the billing statements, payment demands, delinquency notices, and collection actions are stopped.

For disbursed loans, if the funds are returned, SBA will change the status of the loan to not interested or duplicate. The cancellation of the loan or marking the loan as not interested or duplicate releases the victim from loan liability. As of January 31, 2021, the loan data shows that SBA and OIG combined have recovered \$1.1 billion in 12,813 loans that were disbursed based on false application information.

However, at the time of our review, SBA did not have a process to protect or resolve credit-related issues for the identity theft victims. Specifically, SBA did not have a process to:

- Maintain and track identity theft complaints,
- Provide status updates to the victim, and
- Release any Uniform Commercial Code (UCC) liens on the victim's assets.

For loans that were disbursed and had not been fully returned, SBA did not have a process to:

- Cease billing fraudulent loans to the victims,
- Prevent collection actions, and
- Release the victim from the loan liability.⁴

Finally, SBA did not have a process to charge-off or remove the fraudulent loans when the funds have not been returned and remove the UCC filing fees associated with any collateral

² The subcontractor's system performs electronic checks of loan applications and will add notes to indicate potential fraud. The system will also flag duplicate loan applications and provide additional information found by the system checks.

³ SBA officials stated that sometimes the hold on the loan application does not prevent the disbursement of funds. This is due to timing and a limited number of individuals that can place a hold on the pending disbursement in the financial system.

⁴ On March 16, 2021, SBA announced extended deferments periods for all disaster loans, including the COVID-19 EIDLs. All SBA disaster loans made in calendar year 2020, including COVID-19 EIDLs, will have a first payment due date extended from 12-months to 24-months from the date of the note. All SBA disaster loans made in calendar year 2021, including COVID-19 EIDLs, will have a first payment due date extended from 12-months to 18-months from the date of the note.

for loans made using stolen identities.

During the review, SBA proposed to update their process to validate identity theft. On February 2, 2021, SBA officials approved a letter to provide to identity theft victims, requesting a copy of their police report or Federal Trade Commission (FTC) complaint, signed declaration of identity theft, and a copy of the victim's government-issued photo identification. SBA also provided the letter to LifeLock, a private company working with customers reporting identity theft and the FTC to place on their website IdentityTheft.gov.

Background

The 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 EIDLs to help those who are eligible meet financial obligations and operating expenses. A series of COVID-19 relief packages directs SBA, in accordance with the Small Business Act, to provide EIDLs and up to \$10,000 in an Advance Grant to affected eligible entities in declared disaster areas.⁵ These laws also expanded the types of organizations that qualify as eligible entities. Eligible entities were 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.⁶

As of December 31, 2020, SBA has received over 17 million COVID-19 EIDL applications and approved about 3.7 million, totaling \$184 billion, and 5.8 million Advance Grants for \$20 billion. SBA is using a subcontractor to assist in the processing of the historic number of loan applications. To address the unprecedented demand for these loans and to ensure funds were provided to the maximum number of entities, SBA lowered the COVID-19 EIDL maximum amount to \$150,000.

A 2020 OIG report found that in expediting the EIDL process to make emergency capital available to struggling small businesses, SBA "lowered the guardrails," or relaxed internal controls, significantly increasing the risk of fraud in the program.⁷

We initiated this review after receiving over 192,000 hotline complaints, which included reports of alleged COVID-19 EIDL identity theft. We also received over 3,000 requests for investigative support from other law enforcement agencies investigating fraud, including alleged identity theft. SBA officials stated that the hotline complaints and investigative referral requests were included in the over 840,000 COVID-19 EIDL application identity theft referrals from SBA to OIG.

⁵ Public Law 116-123 - Coronavirus Preparedness and Response Supplemental Appropriations Act, March 6, 2020; Public Law 116-136 - Coronavirus Aid, Relief, and Economic Security Act, March 27, 2020; and Public Law 116-139 - Paycheck Protection Program and Health Care Enhancement Act, April 24, 2020

⁶ An agricultural enterprise is a small business engaged in the production of food and fiber, ranching and raising of livestock, aquaculture, and all other farming and agricultural-related industries. Small Business Act, Section 18(b) 15 U.S.C. 647(b)

⁷ SBA OIG, Inspection of SBA's Initial Disaster Assistance Response to the Coronavirus Pandemic, October 28, 2020

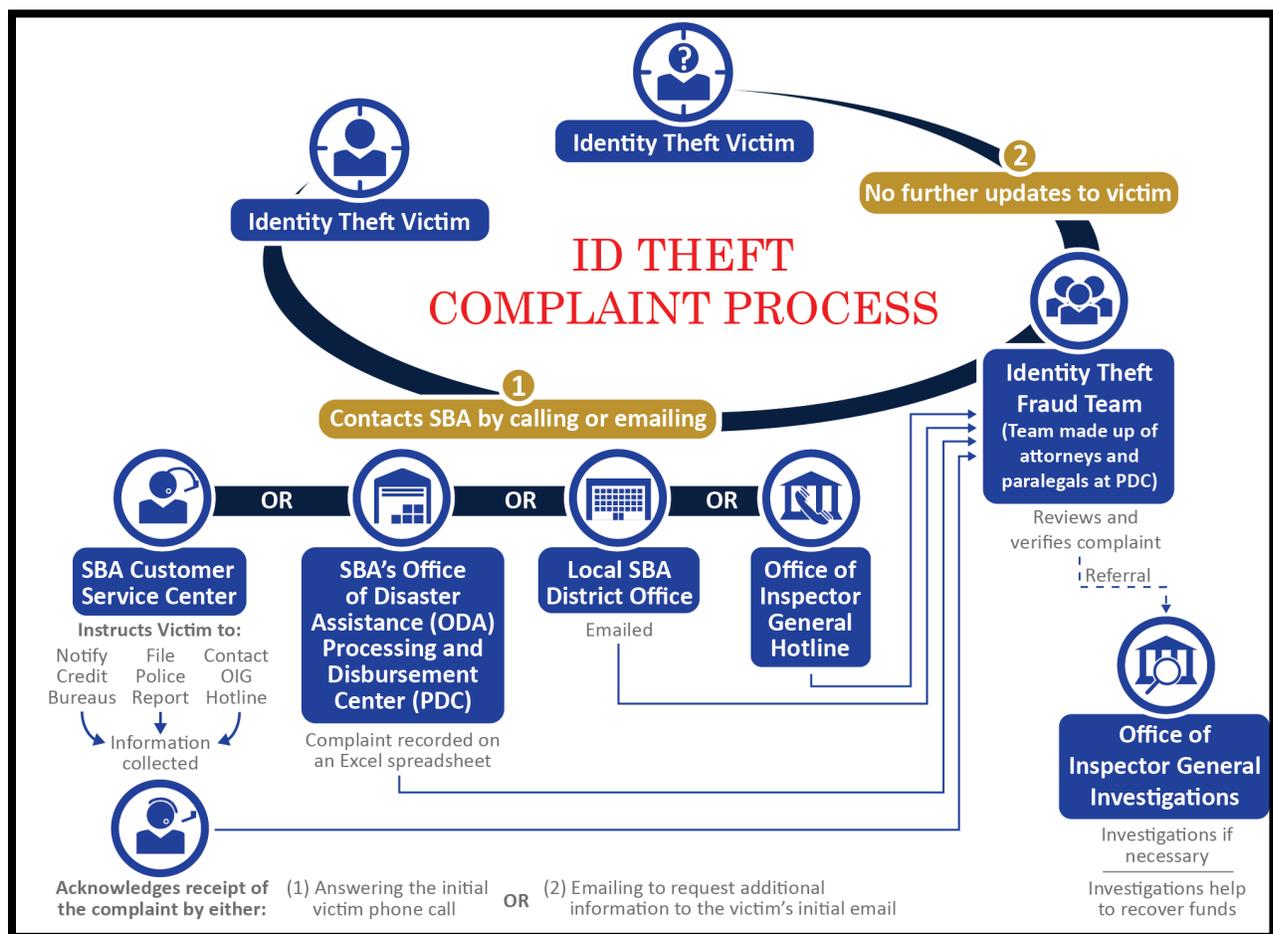
Objective

Our objective was to assess SBA’s handling of identity theft in the COVID-19 EIDL Program; actions SBA has taken to provide relief to the victims; and actions SBA has taken to mitigate the risk of financial loss.

SBA Processes for Receiving COVID-19 EIDL Identity Theft Complaints

Most of the potential victims of identity theft do not report the fraudulent loan until they notice the SBA credit check on their credit report or when they receive an EIDL monthly statement. The loan billing statements are intended to notify COVID-19 EIDL borrowers of their payment responsibilities on these loans beginning in 2021. Identity theft complainants generally contact SBA by calling or emailing (1) the SBA’s Customer Service Center, (2) SBA’s Disaster Assistance Processing and Disbursement Center, (3) their local SBA District Office, or (4) SBA OIG’s Hotline (see Figure 1).

Figure 1. SBA Process for Identity Theft Complaints



Source: SBA Office of Disaster Assistance

As shown in Figure 1, there are four main communication channels that SBA can receive identity theft complaints.⁸

- **Channel 1** - The Customer Service Center receives a telephone call alleging identity theft. The Customer Service Center instructs the complainant to notify the credit bureaus, file a police report, file a complaint with the Federal Trade Commission, and contact the OIG Hotline. The Customer Service Center collects information about the complaint and emails it to the Processing and Disbursement Center's identity theft mailbox.

If the allegation is received by email, the Customer Service Center will provide the above instructions via email.

The Customer Service center will also provide the email complainant a form to complete with sufficient information for SBA to review regarding the identity theft. These email identity theft complaints and completed forms are emailed to the Processing and Disbursement Center's identity theft mailbox.

- **Channel 2** - Identity theft complainants contact their local SBA District Office. District office personnel emails the identity theft complaints to the Processing and Disbursement Center's identity theft mailbox.
- **Channel 3** - When the Processing and Disbursement Center receives an identity theft complaint via telephone, the complaint is recorded on an Excel spreadsheet.
- **Channel 4** - Identity theft complainants contact the OIG Hotline. These complaints are forwarded to the Processing and Disbursement Center. In addition, our investigators consider these complaints for potential investigations.

After answering the initial call to the Customer Service Center, Processing and Disbursement Center, or district offices, or responding to the initial email sent to the Customer Service Center, SBA generally did not provide status updates to the complainants. Potential victims of identity theft were subsequently left receiving loan billing statements and having no information pertaining to credit reporting concerns or the fraudulent debt. Many complainants subsequently reached out repeatedly to SBA, with many reporting difficulties in speaking with officials who could assist them or provide responsive information.

We selected and interviewed 18 identity theft complainants to better gauge SBA's response. All of them stated that after they made their initial complaints, they did not receive any status updates from SBA. They all expressed frustration that our call was the first time they had heard from anyone after submitting their complaint.

Without status updates, the potential identity theft victims were frustrated and did not know what was happening with their complaint. This led many of them to contact SBA multiple times, further expending resources. In one case, complainant filed 41 duplicative complaints. Potentially fraudulent loans could also negatively affect the complainants'

⁸ In this report, we describe the four main channels in which identity theft complaints are received. In addition to these channels, SBA receives congressional inquiries and complaints through other channels not depicted in this report.

credit, including delaying mortgage applications and other credit-related activity.

Of the 18 complainants we interviewed, 9 learned about the SBA loan when they received a credit monitoring alert. Two received loan billing statements from SBA. One applied for an EIDL for their business and when they called to follow-up, SBA said the person had already received an SBA EIDL Advance Grant. Six received a call, email, or letter from SBA providing or requesting additional information for loans they didn't apply for.

SBA Fraud Teams

Prior to June 26, 2020, SBA had only one fraud team, the OIG liaison team. To address the growing number of fraudulent complaints in the COVID-19 EIDL program, SBA expanded the OIG liaison team and split it into six fraud teams, one of which was the Identity Theft Fraud Team. It consisted mostly of loan officers. The suspected fraud team handled all fraud allegations that did not involve an identity theft complaint.

The Identity Theft Fraud Team consisted of 5 team leads and 67 staff. There were approximately 12-14 team members assigned to each team lead. According to SBA, they reviewed about 80-100 identity theft complaints per person per day on average. On June 26, 2020, SBA also established an internal email address for the district offices and Customer Service Center to email identity theft complaints to the Identity Theft Fraud Team.

As of January 12, 2021, SBA had received a total of 80,810 emails in the identity theft email box. Separately, complaints received by the Processing and Disbursement Center were recorded on an Excel spreadsheet and were not included in the totals related to the identity theft email box. SBA officials did not know how many additional complaints have been received by the Processing and Disbursement Center's call center and entered on the spreadsheet.

The Identity Theft Fraud Team reviewed each identity theft complaint to determine if the complaint is valid. The review entailed examining the subcontractor system notes in the loan file, comparing the possible victim's addresses and phone numbers to the application's information using Google and LexisNexis, and performing public records searches of information contained in the Secretary of State websites and county tax assessor's offices.⁹

According to Identity Theft Fraud Team staff, they attempt to find all applications related to the alleged stolen identity; however, the subcontractor's system capabilities were limited to 20 related files. If a fraudster has submitted more than 20 related COVID-19 EIDL applications, all the applications would not be reflected in the query results, and SBA may not be able to identify all the related loan applications.

SBA officials stated they run other system queries to identify all the related loan applications. SBA did not know the exact number of unique identities associated with the streams of complaints received because they did not track this information.

⁹ The subcontractor's system performs electronic checks of loan applications and will add notes to an application that indicate potential fraud, document similar or duplicate loan applications, and provide additional information found by the system checks.

Handling of Fraudulent Loans and Returned Funds

SBA takes several actions following receipt of an identity theft complaint. When there is an identity theft claim and the loan has not been funded (funds obligated), SBA places a hold on the loan to prevent funding. As of February 4, 2021, an SBA official stated that the agency has stopped the disbursement of 15,345 approved loans for \$809.9 million and canceled these loans. As of January 31, 2021, the loan data shows that SBA has recovered about \$530 million linked to identity theft and disbursed based on false application information.

If the loan is already funded and disbursed, SBA does not pro-actively contact the banks. If the bank contacts SBA, the Agency will request a return of the funds. If the bank returns the full loan disbursement, SBA marks the loan as not interested or duplicate.

Some banks have attempted to require SBA to sign a hold harmless agreement before agreeing to return the funds.¹⁰ SBA's Office of General Counsel has not agreed to the signing of these agreements, so some banks are not returning the funds. Without hold harmless agreements, SBA must refer these loans to OIG for enforcement actions.

OIG does not have independent administrative seizure authority; however, OIG has had success in collaborating with other federal law enforcement partners. These partners have exercised their administrative seizure authority by issuance of a warrant to force the return of suspected fraudulent EIDLs and Advance Grants to SBA. This collaborative process can take up to a year, in contrast to the banks voluntarily releasing the funds back to SBA.

Such delays can allow fraudsters the opportunity to move or spend funds before the referral even takes place. Without independent administrative seizure authority by OIG, the forfeiture action itself is contingent upon the availability of other federal law enforcement resources. Through the seizure warrants, OIG has collaboratively recovered more than \$540 million in fraudulent loans from the banks as of January 2021.¹¹

Resolution of Identity Theft Complaints Made to SBA

At the time of the review, SBA did not have a process to restore the victims to the place they were before the fraud by:

- Removing any UCC liens on the victim's assets to avoid any future repossession efforts,
- Ceasing loan statements,
- Preventing collection actions, and
- Releasing the victim from the loan liability.

Additionally, SBA did not have a process to write off the loan without affecting the victim's credit and remove the UCC related filing fees.

All of the 18 complainants we interviewed expressed concerns regarding the negative effects the potentially fraudulent loans will have on their ability to obtain home loans and

¹⁰ Hold harmless agreements release the bank from any legal or financial liability if the bank account owner disputes the return of funds.

¹¹ This figure includes all types of fraudulent loans.

credit. One small business owner stated they were denied a COVID-19 EIDL because a fraudster had stolen the business owner's identity and maliciously accessed the resources the eligible applicant may have been entitled to receive. Untangling the fraud and seeking resolution further encumbered the business owner, who was already dealing with adverse effects from the pandemic.

In addition, SBA's Office of Performance Management and the SBA Chief Financial Officer have received over 150,000 returned loan statements possibly because the mailing addresses for these loans were incorrect. Additional potential identity theft victims could be unaware of fraudulent loans in their names. SBA should determine whether any of these loans were fraudulent and take steps to recover the funds and resolve any identity theft.

During our review, SBA stated it was developing a process to address these issues. On November 23, 2020, SBA officials said they would begin to request police reports or FTC complaints, declaration of identity theft, and identification from each complainant. On February 2, 2021, SBA approved a letter and declaration of identity theft to request this information from the complainants. The letter provided a public email address, IDTheftRecords@SBA.gov, to receive the documentation.

SBA planned to send the letter to only complainants where the loan was disbursed. However, because SBA did not track all identity theft complaints, it did not have a contact list for the potential identity theft victims. As such, ODA is requesting individuals to file a new complaint using this new process to collect the contact information and obtain the signed declaration of identity theft.

SBA has shared the letter and declaration of identity theft with its East and West Field Operations Centers, regional and district offices, and SBA resource partners so they can distribute the information. SBA management also stated they were leveraging external stakeholders like the FTC and LifeLock to increase awareness regarding the letter and declaration of identity theft. SBA has also requested a contact list of potential identity theft victims who contacted the OIG Hotline.

SBA officials reported they were developing a process to charge-off the loans. The agency also plans to stop mailing victims loan statements, prevent any payment requests or delinquency collection in 2021, and remove the associated UCC liens and filing fees. However, SBA has not implemented this process.

During our review and as discussed early in this report, SBA did not have a process to address credit-related issues related to these potentially fraudulent loan applications and SBA officials stated it was developing a process to protect or resolve credit-related issues for the identity theft victims. On March 15, 2021, SBA officials stated it did have a process to address or resolve credit-related issues for the identity theft victims that was approved on February 2, 2021 and later updated on February 7, 2021.

We received the new undated and unsigned process on March 15, 2021. However, SBA did not provide evidence that this new process has been distributed to staff and made operational. The new process does seem to address our recommendations. Without evidence of implementation, our recommendations are as follows.

Recommendations

We recommend the Administrator to direct the Associate Administrator for the Office of Disaster Assistance, the Chief Financial Officer for the Office of Performance Management and Chief Financial Officer, and the Associate Administrator for the Office of Capital Access to:

1. Develop a process to maintain and track all identity theft complaints.
2. Develop a process to provide status updates to each complainant alleging identity theft.
3. Complete and formalize a process to restore identity theft victims to their condition prior to the fraud. The process should include steps to stop the loan billing statements, prevent delinquency collections, release them from loan liability and UCC liens.
4. Develop a process to remove any fraudulent loans and related UCC filing fees from its financial records.
5. Review over 150,000 returned billing statements and resolve any that involve identity theft, then refer fraudulent loans to OIG.

Analysis of Agency Response

SBA management provided formal comments to the draft report. We have included those comments in their entirety in Appendix I. Management did not explicitly indicate in the formal comments whether they agreed with the findings and recommendations in the report; however, in separate correspondence, they indicated they partially agreed with all the findings and recommendations. While management stated they partially agreed with all of the recommendations, management's formal comments state they took actions to address each of them. We considered management's comments when preparing this final report.

Management's partial agreement is based on the audit team's testing and reporting of results covering the period prior to the changes they stated were implemented on February 2, 2021. We began this review in October 2020 after receiving numerous hotline complaints alleging identity theft in the COVID-19 EIDL program and a lack of response from SBA to these allegations.

At the outset of our review, SBA officials indicated that their process to address the allegations were to refer these matters to OIG. Toward this end, SBA had draft policies in place to track identity theft allegations, place a hold on any loan applications related to these allegations and any related loan applications, and refer the loan applications to the OIG. However, we found SBA tracking was insufficient to be able to identify the number of identity theft allegations it had received. SBA's system was unable to delineate between loan applications referred to the OIG as part of the allegation and loan applications referred to OIG that were related (similar information, e.g. address, email, etc.) to those loan applications. As a result, it was unknown how many alleged victims of identity theft had contacted SBA.

On February 2, 2021, SBA established an Identity Theft Letter to be sent to alleged victims of identity theft. It also created a form—Declaration of Identity Theft—for the identify theft victims to complete. SBA admitted that it did not have sufficient contact information for all

the individuals that previously reported identity theft. As a result, SBA's plan was to leverage internal and external stakeholders to increase awareness of the Identity Theft Letter. Upon receipt of OIG's initial draft of this report on March 3, 2021, SBA provided a formal version of its process on March 15, 2021 and indicated it was implemented on February 2, 2021.

We agree that management's actions in February and March 2021 and the implemented and proposed actions to address the recommendations in this report are a step in the right direction; however, additional actions are needed to fully resolve all of the recommendations. Based on the information SBA management has provided OIG regarding the changes they have implemented, recommendations 1 through 4 remain open and unresolved, and recommendation 5 remains open and resolved.

SBA's process implemented on February 2, 2021 does not retroactively address the hundreds of thousands of prior complaints received. Specifically, there was no description of how SBA will incorporate allegations or complaints of identity theft that were submitted to SBA prior to February 2, 2021.

Additionally, the implemented process does not address whether the disbursed portion of the loans will be cancelled and whether a special designation will be used for the fraud-related charge-offs. Furthermore, SBA's new process does not address whether SBA will file the UCC lien termination document to release the collateral filed with these loans or simply mail the termination documents to the complainants for subsequent filing, and whether SBA will pay the costs to file the UCC lien releases.

In the following section, we are providing more specific details for each of the five recommendations.

Summary of Actions Necessary to Close the Recommendations

The following provides the status of the recommendations and necessary actions to close them.

1. Develop a process to maintain and track all identity theft complaints.

Unresolved. Management stated they implemented the recommendation on February 2, 2021. The information provided to us described the new process including where new allegations of Identity theft may be submitted online and how these allegations will be validated, processed, and resolved.

The new process only applies to or affects allegations or complaints of identity theft submitted to the SBA after the implementation date of its new process. Management has not formally addressed how prior allegations or complaints of identity theft will be addressed. No plan was provided that would detail whether previous complaints need to be refiled under the new process and how that will be communicated to the previous complainants.

This recommendation can be fully resolved and closed when management provides a description and evidence of the system's monitoring or tracking capabilities as well as evidence that indicates they have a process to maintain and track all identity theft complaints, including prior allegations or complaints.

2. Develop a process to provide status updates to each complainant alleging identity theft.

Unresolved. Management indicated that they implemented a new system on February 2, 2021, for handling and processing allegations or complaints of identity theft. This new system included communicating that each identity theft allegation had been received and providing status updates at each phase of processing up to and including final resolution.

While this is a major improvement from the previous system that did not provide any information, management did not state how they will incorporate allegations or complaints of identity theft that were submitted to SBA prior to February 2, 2021.

The recommendation can be fully resolved and closed when management provides evidence that the new system is operational and provides notification of receipt and status notifications for all allegations of identity theft.

3. Complete and formalize a process to restore identity theft victims to their condition prior to the fraud. The process should include steps to stop the loan billing statements, prevent delinquency collections, and release them from loan liability and UCC liens.

Unresolved. Management indicated that they implemented a new system on February 2, 2021, for handling and processing allegations or complaints of identity theft. This new system attempts to restore identity theft complainants to their condition prior to the fraud by permanently suspending billing statements, preventing collections for delinquent loan accounts, releasing the loan debt, and reversing or removing general security agreement UCC lien filings.

However, the new process does not specify whether SBA will file the collateral releases or simply mail them to the complainants for subsequent filing, and whether SBA will pay the costs to file the UCC lien release documents.

This recommendation can be fully resolved when management addresses the process for UCC releases in SBA's procedures. Recommendation 3 can be closed when management provides evidence that they have implemented all procedures to restore complainants to their condition prior to the identity theft.

4. Develop a process to remove any fraudulent loans and related UCC filing fees from its financial records.

Unresolved. Management indicated that they implemented a new system on February 2, 2021, for handling and processing allegations or complaints of identity theft. The new system included a process to cancel unapproved applications and approved loans that have not been disbursed.

However, the new system does not address whether or how fully disbursed loans or the partially disbursed loans will be charged off to remove them from the agency's financial records. The new process is also silent about addressing the charge-off or removal of related UCC filing fees.

This recommendation can be fully resolved when management addresses the charge-off of these loans and the removal of the UCC liens. Recommendation 4 can be closed when management provides evidence that they have implemented the process to remove fraudulent loans and related UCC filing fees from SBA's financial records.

5. Review over 150,000 returned billing statements and resolve any that involve identity theft, then refer fraudulent loans to OIG.

Resolved. Management stated that ODA will coordinate with Office of Capital Access to review the over 150,000 returned billings statements and resolve any that involve identity theft, then refer fraudulent loans to the OIG. Management provided a final action date of September 30, 2021, for completing this task.

This recommendation can be closed when management provides evidence that they have completed the review of the over 150,000 returned billing statements and referred any potentially fraudulent loans to OIG.

Objective, Scope, and Methodology

Our objective was to assess SBA's handling of identity theft in the COVID-19 EIDL program; actions SBA has taken to provide relief to the victims; and actions SBA has taken to mitigate the risk of financial loss. Our review is based on SBA's data as of January 31, 2021.

We used limited loan and grant data from SBA and its subcontractor in our analysis. We obtained loan data from SBA's ETRAN system and application data from the subcontractor's system. As noted in our earlier work, Inspection of SBA's Initial Disaster Assistance Response to the Coronavirus Pandemic (Report 21-02), 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. As a result, the reliability of the ETRAN and subcontractor's system data is undetermined, but it is the best available data, and SBA uses the data to manage the program and derive program statistics.

Other application information provided by SBA was manually generated. Specifically, SBA provided COVID-19 loan application numbers. We conducted limited testing by comparing the loan application numbers to loan and grant data in the subcontractor's system. We were unable to match 22 of these loan application referrals to loan applications in the subcontractor's system.

We believe these unmatched records were caused by SBA's manual referral process as the unmatched loan application numbers did not contain the correct number of digits or the application number was incorrectly recorded. We do not believe the data we obtained from ETRAN, the subcontractor's system, or the low number unmatched applications alter our findings. Therefore, we believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our objectives.

We performed this review in accordance with the Council on Inspectors General on Integrity and Efficiency's Quality Standards for Inspection and Evaluation. Those standards require that we plan and perform the review to obtain sufficient and appropriate evidence to provide a reasonable basis for our conclusions and observations based on our objective. We believe the evidence obtained provides a reasonable basis for our conclusions and observations based on our objectives.

We appreciate the cooperation that we received during this review. If you have any questions, please contact me or Andrea Deadwyler, Assistant Inspector General for Audits, at (202) 205-6586.

CC: Antwaun Griffin, Chief of Staff
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Appendix 1: Management Comments

SBA RESPONSE TO EVALUATION REPORT

U.S. SMALL BUSINESS ADMINISTRATION
WASHINGTON, D.C. 20416



Date: April 30, 2021
To: Hannibal “Mike” Ware
Inspector General
From: James E. Rivera
Associate Administrator
Office of Disaster Assistance
Subject: SBA’s Handling of Identity Theft in the COVID-19 Economic Injury Disaster Loan Program

We have reviewed the OIG Management Advisory “SBA’s Handling of Identity Theft in the COVID-19 Economic Injury Disaster Loan Program” (Project 21801) dated March 26, 2021. Our response to the Management Advisory findings and corresponding five recommendations are included in the letter. Thank you for the opportunity to respond.

The OIG’s review of SBA’s handling of identity theft in the COVID-19 EIDL program began in early October 2020 but only covered our activities through the end of January 2021. During this same period, the Office of Disaster Assistance (ODA) led a working group with representatives from multiple SBA program offices, including the Offices of General Counsel, Chief Financial Officer and Capital Access. The working group met weekly to develop and implement a process for handling loans associated with identity theft to ensure that individuals whose information was used to obtain a loan without their knowledge or permission could be released without causing undue financial harm to the individual.

The SBA’s new process for handling reported cases of identity theft in the COVID-19 EIDL program was finalized on February 2, 2021 and instructions were immediately distributed to all SBA program offices.

ODA received a copy of the Management Advisory discussion draft on March 3, 2021 and we provided feedback to the audit team that included documentation of the new process for handling identity theft cases that was implemented on February 2, 2021. The audit team advised us that because they concluded most of the audit work and interviews with ODA staff in December 2020, their findings and recommendations did not cover the new process for handling identity theft in the COVID-19 EIDL program. We also advised the OIG audit team that recommendations 1-4 were no longer necessary because actions taken by SBA to develop and

implement the new process for handling identity theft fully addressed those recommendations. Despite receiving this information during the review period, the final draft of the Management Advisory still includes recommendations that were completed in February 2021. We respectfully request that the OIG close recommendations 1-4.

SBA established a simple process for individuals reporting cases of identity theft for the COVID-19 EIDL program to follow.

Individuals reporting cases of identity theft are directed to email the following items for SBA review to IDTheftRecords@sba.gov: 1) a copy of a Federal Trade Commission (FTC) identity theft claim or police report; 2) a copy of federal or state photo ID; and 3) a completed and signed copy of SBA Form 3513 Declaration of Identity Theft (attached). These instructions are outlined in the SBA COVID-19 Economic Injury Disaster Loan and Identity Theft Letter that was released to SBA program offices on February 2, 2021. In addition to releasing the instructions to SBA staff, the instructions are available online at <http://www.sba.gov/eidl-id-theft>. SBA also shared a copy of the letter with stakeholders, including SBA resource partners, FTC (IdentityTheft.gov) and LifeLock, and encouraged them to direct individuals reporting cases of identity theft to the instruction letter.

On March 24, 2021, SBA's Office of Online Media coordinated with the Assistant Inspector General for Management and Operations to replace the OIG Hotline page content for identity theft with a redirect to a new section on identity theft on [SBA.gov/relief](https://www.sba.gov/relief) so that site visitors can more easily find instructions on how to report cases of identity theft to SBA.

SBA has a team of 16 staff that reviews cases of identity theft and documentation submitted by individuals to IDTheftRecords@sba.gov. Upon completing the review, and if all required documents have been provided, the team responds to the individual to confirm that SBA will release the loan debt due to identity theft. For loans over \$25,000, SBA will also take the necessary actions to remove the general security agreement UCC filing. In all cases where SBA approves a request to release a loan debt due to identity theft, the monthly billing statements are permanently suspended and the individual's information will be disassociated from the loan debt in our databases, including public COVID-19 EIDL data that SBA is required to report on [USASpending.gov](https://www.usaspending.gov). These actions directly address recommendations 1-4 in the Management Advisory and we respectfully request that OIG close them

COVID-19 EIDL funds approved and disbursed that are associated with identity theft represent less than 0.7 percent of all loan application activity.

The Management Advisory states that as of January 31, 2021, SBA has disbursed 112,196 loans totaling \$6.2 billion that are associated with identity theft. It is important to put these occurrences of reported identity theft in the context of the unprecedented level of application activity for the COVID-19 EIDL program. As of January 31, 2021, SBA has received over 17.8 million COVID-19 EIDL applications, of which just 0.64 percent resulted in a disbursed loan potentially associated with identity theft. During this same period, SBA approved over 3.7 million loans for a total of more than \$199.2 billion. Compared to the total amount of loans

approved, the loans associated with identity theft represents just 3 percent of the total number of loans and funds approved as of January 31, 2021. The Advisory also reported that 98,683 EIDL Advances totaling \$468 million was associated with identity theft. During this time, SBA received over 10 million EIDL Advance applications, of which 0.98 percent were associated with identity theft. SBA disbursed 5.8 million EIDL Advances totaling \$20 billion, of which 1.7 percent of the number of EIDL Advances and 2.3 percent of the total funds disbursed were associated with identity theft. SBA is committed to mitigating fraud, waste and abuse to the fullest extent possible, and no amount of identity theft or other forms of fraud are deemed as acceptable no matter how low the percentage.

Agency Response to Recommendations 1-5

1. Develop a process to maintain and track all identity theft complaints.

Current Status: Completed – SBA developed a process to maintain and track identity theft complaints for the COVID-19 EIDL program that are submitted to IDTheftRecords@sba.gov, which was implemented on February 2, 2021.

2. Develop a process to provide status updates to each complainant alleging identity theft.

Current Status: Completed – SBA developed a process to provide status updates to complainants reporting identity theft for the COVID-19 EIDL program that are submitted to IDTheftRecords@sba.gov, which was implemented on February 2, 2021.

3. Complete and formalize a process to restore identity theft victims to their condition prior to the fraud. The process should include steps to stop the loan billing statements, prevent delinquency collections, release them from loan liability and UCC liens.

Current Status: Completed – SBA developed a process to restore identity theft complainants to their condition prior to the fraud by permanently suspending billing statements, releasing the loan debt, removing general security agreement UCC filing, and preventing collections for delinquent loan accounts on confirmed cases of identity theft, which was implemented on February 2, 2021.

4. Develop a process to remove any fraudulent loans and related UCC filing fees from its financial records.

Current Status: Completed – SBA developed a process to remove fraudulent loans due to identity theft and the related UCC filing fees from our financial records, which was completed on February 2, 2021.

5. Review over 150,000 returned billing statements and resolve any that involve identity theft, then refer fraudulent loans to OIG.

Current Status: In Process – ODA will coordinate with the Office of Capital Access to review returned billing statements and resolve any loans that involve identity theft. We continue to refer all applications of suspected or attempted fraud to the OIG to support

their investigative activities. The targeted date to complete this recommendation is September 30, 2021.

Sincerely,

James E. Rivera
Associate Administrator
Office of Disaster Assistance