



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

BEFORE THE

**COMMITTEE ON SMALL BUSINESS
U.S HOUSE OF REPRESENTATIVES**

JANUARY 12, 2022

INTRODUCTION

Chairwoman Velázquez, Ranking Member Luetkemeyer, and distinguished members of the Committee, thank you for inviting me to testify before you today and for your continued support of the Office of Inspector General (OIG). I am proud of the dedication and hard work of the men and women of OIG to not only prevent fraud in SBA programs, but also to detect, deter, and combat fraud.

Since 2001, OIGs across the government have prepared a report that documents what they consider to be the most serious management and performance challenges facing agencies, including a brief assessment of the respective agency's progress in addressing those challenges.¹ OIG publishes its report annually by October 15, providing OIG's independent assessment of the top management challenges facing the U.S. Small Business Administration (SBA). Most recently, OIG published Report 22-02, *Top Management and Performance Challenges Facing the Small Business Administration in Fiscal Year 2022*.

The Inspector General Act of 1978, as amended, requires that the Inspector General report semiannually to the Congress on the activities of the OIG during the 6-month periods ending March 31 and September 30. Most recently, OIG published our *Semiannual Report to Congress April 1, 2021-September 30, 2021* on November 30, 2021.

BACKGROUND

The mission of SBA under the Small Business Act, as amended, is to maintain and strengthen the nation's economy by enabling the establishment and vitality of small businesses and assisting in the economic recovery of communities after disasters. The Agency's strategic plan for FYs 2018–2022 has four core strategic goals:

1. Support small business revenue and job growth;
2. Build healthy entrepreneurial ecosystems and create business friendly environments;
3. Restore small businesses and communities after disasters; and,
4. Strengthen SBA's ability to serve small businesses.

SBA is organized around four key functional assistance areas: financial, certification for federal contracting, entrepreneurial development, and disaster assistance. The Agency also represents small businesses through an independent advocate and an ombudsman.

SBA programs are essential in strengthening America's economy; however, the Agency faces a number of challenges in carrying out its mission. Managing COVID-19 stimulus lending is the greatest overall challenge facing SBA, and it may likely continue to be for many years as the agency grapples with fraud in the programs, particularly in the COVID Economic Injury Disaster Loan (EIDL) Program, and the process of Paycheck Protection Program (PPP) loan forgiveness. Pandemic response has, in many instances, magnified the challenging systemic issues in SBA's mission-related work. The Agency must continue to strengthen its internal controls to identify and mitigate fraudulent schemes affecting all SBA programs. In addition, SBA faces other challenges that further complicate mission fulfillment such as: significant losses from defaulted

¹ 35 U.S.C. § 3516(d)

loans, procurement flaws that allow large firms to obtain small business awards, excessive improper payments, and outdated legacy information systems.

The OIG plays a critical role in addressing challenges to assist SBA in achieving its mission by conducting audits to identify wasteful expenditures and program mismanagement; investigating fraud and other wrongdoing; and taking other actions to deter and detect fraud, waste, abuse, and inefficiencies in SBA programs and operations. As a result of its oversight efforts, each year OIG provides dozens of recommendations to SBA leadership aimed at improving the integrity, accountability, and performance of SBA and its programs for the benefit of the American people. Similarly, OIG's investigative efforts result in dozens of convictions and indictments as we aggressively pursue evidence of fraud in SBA programs. In doing so, OIG provides taxpayers with a significant return on investment as it roots out fraud, waste, and abuse in SBA programs. During fiscal year (FY) 2019, OIG achieved \$111.0 million in monetary recoveries and savings—a fivefold return on investment to the taxpayers, and during FY 2020, OIG achieved \$142.5 million in monetary recoveries and savings—a sixfold return on investment to the taxpayer. The monetary recoveries and savings from our oversight of SBA's pandemic response efforts in FY 2021 were exponential at \$4.2 billion, with Congress investing just \$50 million, which is available until expended, in supplementing OIG's annual budget to combat the fraud in the pandemic relief programs and promote integrity, efficiency, and effectiveness within the same.

There is no higher priority for our office than providing oversight of SBA and taxpayer's funds made available through the Coronavirus Aid, Relief, and Economic Security (CARES) Act and ensuing legislation related to the pandemic response. We have identified SBA's economic relief programs being susceptible to significant fraud risks and vulnerabilities as the top management challenge for SBA. We have been focused on preventing and deterring fraud, waste, and abuse from the outset of the pandemic response.

OIG's EIDL and PPP oversight and investigative work resulted in 366 indictments, 294 arrests, and 142 convictions related to PPP or EIDL by December 2021, with associated amounts totaling more than \$460 million. Additionally, OIG collaboration with SBA and the U.S. Secret Service has resulted in the seizure of more than \$1 billion stolen by fraudsters in the EIDL program. We also played a key role in assisting financial institutions in the return of another \$3.1 billion to the SBA's EIDL program.

SUMMARY OF THE MOST SERIOUS MANAGEMENT AND PERFORMANCE CHALLENGES FACING SBA IN FY 2022

Prior to the pandemic, SBA faced major challenges in managing enormous financial lending programs, information technology, and other areas. The report discusses eight major performance challenge areas and the issues that contribute to the challenges, many of which we have discussed in previous OIG reports.

Identification of an issue as a top challenge does not necessarily denote significant deficiencies or lack of attention on SBA's part. Many of the top management challenges are longstanding, inherently difficult, and may likely continue to be challenges in the coming years.

Some of the challenges encompass new issues that have arisen. Resolving these challenges will require consistent, focused attention from agency management and ongoing engagement with Congress, the public, and other stakeholders.

It is also important to note that the top challenges are not listed in order of importance or magnitude, except for the COVID-19 challenge, which we address first in the report. We also view the other challenges as critically important to SBA operations.

The following table provides a summary of the top management and performance challenges facing SBA in FY 2022.

Challenge	Issues
<p>Challenge 1 SBA's Economic Relief Programs Are Susceptible to Significant Fraud Risks and Vulnerabilities</p>	<p>Paycheck Protection Program Susceptible to Abuse and Fraud Paycheck Protection Program Eligibility Paycheck Protection Program Data Reliability COVID-19 Economic Injury Disaster Loan Program Susceptible to Fraud</p>
<p>Challenge 2 Inaccurate Procurement Data and Eligibility Concerns in Small Business Contracting Programs Undermine the Reliability of Contracting Goal Achievements</p>	<p>Agencies Receive Credit for Ineligible Firms or Those No Longer in the HUBZone or 8(a) Programs Women-Owned Small Business Federal Certification Program Susceptible to Abuse</p>
<p>Challenge 3 SBA Faces Significant Challenges in IT Investment, System Development, and Security Controls</p>	<p>SBA's IT Investment Controls Need Improvement Existing System Development Controls Do Not Reflect Changing IT Application Landscape Additional Progress Needed on Security Controls</p>
<p>Challenge 4 SBA Risk Management and Oversight Practices Need Improvement to Ensure the Integrity of Loan Programs</p>	<p>SBA's Oversight of High-Risk Lending Participants Increased Risk Introduced by Loan Agents Increased Risk Introduced by Lender Service Providers</p>
<p>Challenge 5 SBA's Management and Monitoring of the 8(a) Business Development Program Needs Improvement</p>	<p>SBA Continues to Address Its Ability to Develop Firms in the 8(a) Program and Measure Results Streamlined Application Process May Expose the 8(a) Program to Higher Fraud Risk Corrective Actions Are Needed to Improve Continuing Eligibility Processes and Reduce Risks of Ineligible Firms Participating in the 8(a) Program Economically Disadvantaged Determination Criteria Should Be Based on Sound Methodology</p>
<p>Challenge 6 Identification of Improper Payments in SBA's Loan Programs Remains a Challenge</p>	<p>Improvements Needed to Ensure High Risk 7(a) Loan Reviews Reduce the Risk of Losses</p>

<p>Challenge 7 SBA's Disaster Assistance Program Must Balance Competing Priorities to Deliver Prompt Assistance but Prevent Fraud</p>	<p>Reserve Staff Need Training to Sustain Productivity During Mobilization Improper Payment Quality Assurance Process Needs Strengthening Inadequate Verification of Cause and Extent of Damages Unprecedented Increase in Servicing COVID-19 EIDLs</p>
<p>Challenge 8 SBA Needs Robust Grants Management Oversight</p>	<p>SBA's Grants Management System Needs Improvement Better Performance Measurements Needed to Monitor Grant Program Achievements Serious Concerns over SBA's Risk Assessment Used for Payment Distributions and Audits for the Shuttered Venue Operators Grant Program Leveraging SBA's Workforce to Ensure Effective Administration of New and Significantly Expanded Grant Programs to Aid Small Businesses</p>

Overall, the agency has made progress addressing this year’s list of management challenges. We are even retiring some issues we identified last year within major challenge areas because the agency has made such significant progress that the problem has either been resolved or no longer rises to the level of a systemic challenge.

This progress is in large part attributed to the agency’s concerted effort to address outstanding internal control recommendations reflected in many of the component challenge corrective action areas.

OIG remains committed to urging the agency to correct problems that endanger taxpayer assets. However, our audits and investigations continue to find the agency facing significant risks of fraud because of the size and scope of its loan programs and related internal control environment; oversight of statutory programs, such as the 8(a) Business Development Program and information technology security.

**SEMIANNUAL REPORT TO CONGRESS
APRIL 1, 2021 - SEPTEMBER 30, 2021**

Prior to this Semiannual reporting period OIG published 12 pandemic related reports. SBA began FY2021 with 68 open recommendations from OIG. In FY 2021, OIG made 119 new recommendations to SBA and the Agency closed 77 recommendations, ending the fiscal year with a balance of 110 open recommendations. The following summarizes our oversight work for April 1, 2021 through September 30, 2021.

Notable Audits, Inspections, and Evaluations

Serious Concerns About SBA's Control Environment and the Tracking of Performance Results in the Shuttered Venue Operators Grant Program (Report 21-13)

We reported that SBA should take immediate action to reduce or eliminate risks by strengthening existing controls and implementing internal controls to address potential misuse of federal funds. Strong controls will ensure the Shuttered Venue Operators Grant (SVOG) program can effectively help eligible small business owners and entities that have suffered economic injury because of the COVID-19 pandemic. To address serious concerns and potential deficiencies in internal controls of the SVOG program, we suggested the Administrator reassess the audit risk plan to identify vulnerabilities, commensurate with the expected volume of applications and average award amount, to strengthen internal controls and reduce risk of misuse of federal funds. We suggested SBA clearly establish 2 CFR 200 criteria for the program to ensure compliance during the implementation and oversight phases. We also suggested SBA implement required performance measures to determine the impact of program funds and ensure sufficient resources are available to implement and oversee the SVOG program.

SBA's Handling of Identity Theft in the COVID-19 EIDL Program (Report 21-15)

We reported that SBA had referred more than 845,000 COVID-19 EIDL applications to OIG for suspected identity theft, while still disbursing \$6.2 billion in loan funds and \$468 million in advance grants to these applicants. Many of these loans had indications of potential fraud. We found SBA officials were not tracking identity theft complaints at the time of our review, nor did they have a process to cease collection actions, release the identity theft victim from the loan liability, or charge-off the loan and related fees.

We recommended the Administrator direct the development of a process to maintain and track all identity theft complaints and develop a process to provide status updates to each complainant alleging identity theft. We also recommended SBA 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 identity theft victims from loan liability and UCC liens. This process should also remove any fraudulent loans and related Uniform Commercial Code filing fees from financial records. Additionally, we recommended SBA Review more than 150,000 returned billing statements and resolve any that involve identity theft and then refer fraudulent loans to OIG. While management stated they partially agreed with all the recommendations, management's formal comments stated they took actions to address each of them.

Evaluation of SBA's Coronavirus Reconstitution Plan (Report 21-18)

OIG found that SBA established its May 2020 COVID-19 Reconstitution Plan in accordance with applicable federal guidance. We identified issues with the implementation of the reconstitution plan that should be addressed to help the agency safeguard its employees from contracting and spreading COVID-19 in the workplace.

We found the agency did not follow occupancy procedures for advancing or reverting phases at its Washington, DC headquarters. SBA also did not implement exposure tracking protocols to ensure it consistently traced COVID-19 cases. We found the agency did not consistently notify its staff of presumed or confirmed COVID-19 cases in the sampling we analyzed. SBA did not consistently contact potentially exposed personnel and ensure employees completed 14-day quarantine periods before returning to the workplace.

In February 2021, SBA replaced the May 2020 COVID-19 reconstitution plan with the COVID-19 Workplace Safety Plan. We made one recommendation for SBA to enforce the requirements of its new COVID-19 Workplace Safety Plan by consistently applying procedures for occupancy and exposure tracking and to accurately record and maintain supporting documentation for all reported COVID-19 cases. SBA management agreed with our recommendation and planned actions to resolve the recommendation.

The Small Business Administration's Implementation of Recommended Controls and the Economic Aid Act (Report 21-19)

SBA implemented or initiated action on all the OIG recommendations to strengthen internal controls related to the PPP. The Economic Aid Act continued assistance under the PPP for small businesses financially affected by the ongoing coronavirus pandemic. We found SBA implemented the PPP in accordance with the Economic Aid Act with two exceptions. SBA did not: 1) require an assessment of affiliation for faith-based organizations which contradicts its internal control procedures and 2) issue guidance regarding farm credit system institutions to ensure requirements were met.

We recommended SBA assess affiliation for faith-based organizations to ensure only eligible faith-based organizations received the applicable PPP loans. We did not make any recommendations regarding the farm credit system institution requirements and the \$1 billion set aside because the PPP ended on May 31, 2021. SBA disagreed with the recommendation, stating it is committed to not assessing or requiring lenders to assess the reasonableness of the faith-based organization's determination, which they believe met the intent of Congress.

Notable Investigations

Oregon Man Pled Guilty to Stealing CARES Act Funds

An Oregon man pled guilty to bank fraud, money laundering, and aggravated identity theft for stealing CARES Act funding. The man submitted nine PPP loan applications, six of which were accepted, securing over \$3.4 million. He also applied for numerous EIDLs, funded for an additional \$160,000. The man then purchased real estate and invested in securities, transferring more than \$1.8 million of PPP loan funds to his E-Trade securities brokerage account. Agents seized the man's brokerage account, including 15,740 shares of Tesla Inc. Also, agents seized another account containing more than \$660,000 in securities and cash. The securities and cash-seized accounts were valued at more than \$11 million, not including the value of the 23 properties seized as fraud proceeds.

Two California Brothers and their Wives Found Guilty of Submitting Fraudulent Loan Applications

Two California brothers, their wives and associates were each found guilty of 1 count of conspiracy to commit bank fraud and wire fraud, 11 counts of wire fraud, 8 counts of bank fraud, and 1 count of conspiracy to commit money laundering. One brother was also found guilty of two counts of aggravated identity theft, while his brother was found guilty of one count of aggravated identity theft. All were found guilty of submitting fraudulent loan applications to obtain COVID-19 relief funds used as down payments on luxury homes in Tarzana, Glendale, and Palm Desert and to purchase jewelry other high-end items. The total loss was more than \$18 million in COVID-19 relief funds.

Georgia Man Sentenced to Fraudulently Obtaining an SBA-guaranteed PPP Loan

A Georgia man was sentenced in U.S. District Court for the Northern District of Georgia for his role in a conspiracy to fraudulently obtain an SBA-guaranteed PPP loan and a Ponzi scheme that defrauded more than 20 investors over the course of at least 7 years. The man pled guilty to multiple counts of conspiracy to commit wire fraud (18 U.S.C. §1349), wire fraud (18 U.S.C. §1343), bank fraud (18 U.S.C. §1344), and false statements to a federally insured bank (18 U.S.C. §1014). He was sentenced to 210 months of imprisonment, 5 years of supervised release, restitution of \$4,465,865.55, and a special assessment of \$600.

Texas Wedding Planner Sentenced in COVID-19 Fraud Scheme

A Texan man was sentenced to 31 months in federal prison for perpetrating a scheme to fraudulently obtain more than \$3.3 million in PPP loans. The man fraudulently alleged that he employed more than 100 individuals, when he and his wife were actually the only employees. He used the funds to pay off his home mortgage and purchased two Tesla's and a Mercedes, among other items.

CONCLUSION

SBA has exercised over a trillion dollars in lending authority and entrepreneurial assistance in the wake of the pandemic. While PPP lending is anticipated to resolve within several years, the systemic weaknesses that were evidenced by the strain on SBA's programs and operations for its pandemic response will require consistent focus and robust oversight so that SBA can efficiently and effectively meet the needs of small businesses. Additionally, SBA's Disaster Assistance Program lending for the pandemic response, principally through EIDL, is in the hundreds of billions—amounts that exceed all of SBA's disaster assistance lending since 1953—and will perform in SBA's portfolio for decades, which also will require continuing oversight by OIG.

The nation can depend on OIG to provide independent, objective, and timely oversight of SBA. We will focus our resources on systems and processes that present serious management and performance challenges within SBA's programs with a goal of improving the integrity, accountability, and performance of those programs for the benefit of the American people. Our investigations will root out fraud, waste, and abuse and will leverage and marshal the resources available across the federal law enforcement community to bring wrongdoers to justice. I am confident SBA leaders are willing partners in ensuring their programs have integrity and meet

the needs of the nation's small businesses. OIG will shine the light of transparency on areas of concern and will be the independent and objective voice in our service as a valued change agent.