PAYCHECK PROTECTION PROGRAM ELIGIBILITY FOR NONPROFIT ORGANIZATIONS

Report Number 22-21 | September 26, 2022

EXECUTIVE SUMMARY

PAYCHECK PROTECTION PROGRAM ELIGIBILITY FOR NONPROFIT ORGANIZATIONS

Report 22-21

September 26, 2022

What OIG Reviewed

The U.S. Small Business Administration (SBA) Office of Inspector General (OIG) conducted this review to assess Paycheck Protection Program (PPP) eligibility for nonprofit organizations.

The Coronavirus Aid, Relief, and Economic Security (CARES) Act was enacted on March 27, 2020 to provide $349 billion in economic relief from the effects of the Coronavirus Disease 2019 pandemic. Subsequent acts increased the total amount of funding to $813.7 billion. The PPP provided fully guaranteed loans under section 7(a) of the Small Business Act for eligible small businesses, individuals, and nonprofits. These loans can be forgiven if proceeds were used as required by the CARES Act.

SBA uses size standards to determine if a business is small and therefore eligible to participate in the applicable program. To qualify for the PPP, a nonprofit must have (1) employed no more than 500 employees, or (2) met SBA's employee-based size standard for its primary industry. As of August 8, 2020, SBA approved 136,355 loans to nonprofits, totaling over $35 billion, of which 133,382, or 98 percent, totaling over $33 billion, have been forgiven.

Our objective was to determine whether PPP loans to nonprofit organizations were made in accordance with eligibility requirements. To accomplish our objective, we reviewed laws, regulations, policies, procedures and guidance, and evaluated PPP loan data.

What OIG Found

Based on data analysis, we identified 179 PPP loans, totaling approximately $684 million, made to potentially ineligible nonprofits that may have exceeded SBA's requirements for business size, known as size standards, at the time of application.

We also reviewed PPP loans for three large nonprofits, including Planned Parenthood of Illinois that received over $3.8 million, Goodwill of Southwestern Pennsylvania that received over $6 million, and YMCA of the Rockies that received over $3.5 million. We determined that the Planned Parenthood organization met PPP loan eligibility requirements. The Goodwill organization was not eligible for a PPP loan at the time of application but subsequently became eligible for forgiveness due to updated PPP guidance. On March 11, 2021, the American Rescue Plan Act increased the size standard for nonprofit organizations from a total of 500 or fewer employees to no more than 500 employees per physical location. On July 8, 2022, the SBA Administrator determined nonprofits that received a loan before March 11, 2021 and submitted a forgiveness application on or after March 11, 2021 would be eligible for forgiveness if they met the increased size standard of no more than 500 employees per physical location. Goodwill received its PPP loan in April 2020 and applied for forgiveness in June 2021.

The YMCA organization we reviewed did not meet eligibility requirements because they exceeded the applicable size standard of no more than 500 employees at the time of application and forgiveness. YMCA received its PPP loan in April 2020 and applied for forgiveness in September 2020.

We also reviewed the three national organizations associated with the PPP loans to the aforementioned Planned Parenthood, Goodwill, and YMCA for potential affiliation with the PPP loan recipients. We found no affiliation between the national organizations and the loan recipients.

OIG Recommendations

We recommend SBA review the 179 PPP loans, totaling approximately $684 million, to ensure eligibility requirements were met and seek remedy or repayment for all loans deemed ineligible, and seek remedy or repayment of the PPP loan we reviewed for YMCA totaling $3.5 million.

Agency Response

SBA management partially agreed with recommendation 1 and agreed with recommendation 2. Management plans to re-review 27 of the 179 PPP loans and review the $3.5 million PPP loan. Management's proposed actions for recommendation 1 did not fully address the recommendation. In accordance with our audit follow-up policy, we will attempt to reach agreement with management on this unresolved recommendation.

Office of Inspector General

U.S. Small Business Administration

DATE: September 26, 2022

TO: Isabella Casillas Guzman
Administrator

FROM: Hannibal “Mike” Ware
Inspector General

SUBJECT: Inspection of Paycheck Protection Program Eligibility for Nonprofit Organizations

This report presents the results of our inspection of the *Paycheck Protection Program Eligibility for Nonprofit Organizations*. We considered management’s comments on the draft of this report when preparing the final report. Management partially agreed with recommendation 1 and agreed with recommendation 2.

We appreciate the cooperation and courtesies provided by your staff. If you have any questions, contact me or Andrea Deadwyler, Assistant Inspector General for Audits, at (202) 205-6586.

cc: Patrick Kelley, Associate Administrator, Office of Capital Access
Arthur Plews, Chief of Staff
Peggy Delinois Hamilton, Special Counsel for Enterprise Risk
Therese Meers, Acting General Counsel, Office of General Counsel
John Miller, Deputy Associate Administrator, Office of Capital Access
Michael Simmons, Attorney Advisor, Office of General Counsel
Katherine Aaby, Associate Administrator, Office of Performance, Planning, and the Chief Financial Officer
Erica Gaddy, Deputy Chief Financial Officer, Office of Performance, Planning, and the Chief Financial Officer
Tonia Butler, Director, Office of Internal Controls

Table of Contents

Introduction

This report presents the results of our inspection of Paycheck Protection Program (PPP) eligibility for nonprofits. The Office of Inspector General (OIG) conducted this review to determine whether PPP loans to nonprofit organizations were made in accordance with eligibility requirements. OIG included a Planned Parenthood organization to address concerns from some members of the U.S. Senate Committee on Small Business and Entrepreneurship.

The Coronavirus Aid, Relief, and Economic Security (CARES) Act was enacted on March 27, 2020 to provide economic relief from the effects of the Coronavirus Disease 2019 pandemic. Section 1102 of the CARES Act established the PPP with $349 billion to provide fully guaranteed loans under section 7(a) of the Small Business Act. On April 24, 2020, the President signed the Paycheck Protection Program and Health Care Enhancement Act, which added $310 billion to the PPP, increasing total PPP funding to $659 billion.

On December 27, 2020, the Economic Aid to Hard-Hit Small Businesses, Nonprofits, and Venues Act provided an additional $147.5 billion in program funding. Then on March 11, 2021, the American Rescue Plan Act of 2021 provided an additional $7.2 billion to the PPP, increasing total PPP funding to $813.7 billion.

The PPP provided fully guaranteed U.S. Small Business Administration (SBA) loans for certain eligible small businesses, individuals, and nonprofits that can be forgiven if loan proceeds were used as required by the CARES Act. As of August 8, 2020, lenders approved and disbursed 136,355 PPP loans, totaling approximately $35 billion, to nonprofits. As of June 15, 2022, SBA made forgiveness payments on 133,382 loans, or approximately 98 percent, totaling $33.3 billion. For the remaining 2,973 loans, 2,640 loans did not have a forgiveness application, 202 loans were under review, and 131 loans were denied.

Eligibility Requirements for Nonprofit Organizations

Nonprofits are described in section 501(c)(3) of the Internal Revenue Code as exempt from taxation. To qualify for the PPP, nonprofits with loans approved between April 2, 2020 and August 8, 2020 must have met specific size standard requirements and

- have no more than 500 employees, or
- met the SBA's employee-based size standard corresponding to its primary industry.

The size standard is used by SBA to determine if a certain type of business qualifies as small and therefore eligible to participate in the applicable program. To determine the number of employees, the applicant is considered together with its affiliates. According to the CARES Act, an employee is defined as a person employed on a full-time, part-time, or other basis such as a temporary worker. Entities are affiliates of each other when one controls or has the power to control the other, or a third-party controls or has the power to control both.

According to SBA, entities are not necessarily affiliates if they share the same name as their national organization. Simply using the word "affiliate" when referring to related entities, such as member organizations, does not define control. Control, not membership, is the standard by which affiliation is assessed. Affiliation rules for the PPP require an assessment of four tests which consider control to determine the number of employees. See Appendix III for the four tests on affiliation.

Objective

Our objective was to determine whether PPP loans to nonprofit organizations were made in accordance with eligibility requirements.

Results

Based on data analysis, we identified 179 PPP loans, totaling approximately $684 million, made to potentially ineligible nonprofits that may have exceeded SBA's requirement for business size, known as size standard.

We also reviewed PPP loans for three large nonprofits, including Planned Parenthood of Illinois that received over $3.8 million, Goodwill of Southwestern Pennsylvania that received over $6 million, and YMCA of the Rockies that received over $3.5 million. We determined that the Planned Parenthood organization met PPP loan eligibility requirements. The Goodwill organization was not eligible for a PPP loan at the time of application but subsequently became eligible for forgiveness due to updated PPP guidance. On March 11, 2021, the American Rescue Plan Act increased the size standard for nonprofit organizations from a total of 500 or fewer employees to no more than 500 employees per physical location. On July 8, 2022, the SBA Administrator determined nonprofits that received a loan before March 11, 2021 and submitted a forgiveness application on or after March 11, 2021, would be eligible for forgiveness if they met the increased size standard of no more than 500 employees per physical location. Goodwill received its PPP loan in April 2020 and applied for forgiveness in June 2021.

The YMCA organization we reviewed did not meet eligibility requirements because it exceeded the applicable size standard of no more than 500 employees at the time of application and forgiveness. YMCA received its PPP loan in April 2020 and applied for forgiveness in September 2020.

In addition, we reviewed the three national organizations associated with the PPP loans for potential affiliation with the aforementioned Planned Parenthood, Goodwill, and YMCA. We found no affiliation between the national organizations and the loan recipients.

We also found it is not likely that the national organizations are affiliates of any member organizations. This is based on a review of documents, such as the national organization's bylaws, membership agreements, and membership requirements to identify affiliation. We also found that the national organizations did not have unique management agreements with its member organizations, which could indicate control.

Finding: Nonprofit Organizations Did Not Meet Size Standards

We identified 179 PPP loans, totaling approximately $684 million, made to potentially ineligible nonprofits. We determined they were potentially ineligible based on our analysis of the PPP data which indicated these organizations exceeded the maximum allowed size standard of 500 employees at the time of application. We also reviewed PPP loans for three large nonprofit organizations based on our review methodology. The three nonprofits reviewed included one Planned Parenthood organization, one Goodwill organization, and one YMCA. Each of these nonprofits received PPP loans in 2020 that were subsequently forgiven. We determined that the Planned Parenthood organization met PPP loan eligibility requirements because it, along with its affiliates, had 341 employees, which was within the maximum allowed size standard of 500 employees. The Goodwill and YMCA organizations we reviewed were not eligible because they exceeded the maximum allowed size standard at the time of their application. However, Goodwill subsequently became eligible for forgiveness due to updated PPP guidance for size standards.

Potentially Ineligible PPP Loans

Based on our data analysis, we identified 179 PPP loans, totaling approximately $684 million, made to potentially ineligible nonprofits. The data shows these loans were approved between April 2 and August 8, 2020. All of the nonprofits had more than 500 employees at the time of application. The applicable primary industry and SBA's employee-based size standard did not allow for an employee count greater than 500.

On March 11, 2021, the American Rescue Plan Act increased the size standard for nonprofit organizations from a total of 500 or fewer employees to no more than 500 employees per physical location. On July 8, 2022, the SBA Administrator determined that nonprofit organizations that received a loan before March 11, 2021 and submitted a forgiveness application on or after March 11, 2021 would be eligible for forgiveness if the nonprofit organization met the American Rescue Plan Act increased size eligibility standard and has otherwise complied with all applicable PPP rules.[1]

Of the 179 PPP loans, 62 loans had a forgiveness application submitted before March 11, 2021. The remaining 117 were submitted on or after March 11, 2021. SBA should review all of these loans and related supporting documents to ensure the nonprofits met eligibility requirements.

Size Standards Not Met

Goodwill and YMCA did not meet PPP loan eligibility requirements at the time of application because these organizations exceeded the maximum allowed size standard of 500 employees. To conduct our analysis, we reviewed payroll documents and found that Goodwill and its affiliates had 1,334 employees and received more than $6 million in PPP funds. The YMCA had 745 employees and received over $3.5 million in PPP funds.

[1] SBA PPP Frequently Asked Questions, (July 8, 2022).

To determine the number of employees, we reviewed the nonprofits' affiliation with their national organizations and other associated entities. We found that none of the nonprofits reviewed were affiliated with their national organization according to SBA standards. To determine the total number of employees, the borrower is considered together with other associated entities. Goodwill had an associated entity with employees that should have been included in its total employee count because they shared the same board members, which indicated they were being controlled by the borrower. The YMCA did not have any associated entities.

Our review of all the nonprofits included an assessment of the four affiliation tests (see Appendix III) and key operating documents for borrowers, borrower affiliates, and associated national organizations, including bylaws, articles of incorporation, member agreements, tax documents, and membership requirements. We looked for any instances of control through voting, management of other entities, and identity of interest. We also conducted an analysis to identify board members between the borrowers and related entities because identical board members indicate control of the organization.

The CARES Act states certain nonprofits are eligible if they employ not more than the greater of 500 employees or, if applicable, the number of employees for its primary industry according to SBA requirements. The primary industry for all the nonprofits reviewed did not allow for an employee count greater than 500 at the time of their application.

However, although the lender erroneously approved the Goodwill organization's PPP loan, it subsequently became eligible for forgiveness due to updated PPP guidance. In accordance with the American Rescue Plan Act, on July 8, 2022, the SBA Administrator determined nonprofits that received a loan before March 11, 2021 and submitted a forgiveness application on or after March 11, 2021 would be eligible for forgiveness if they met the increased size standard of no more than 500 employees per physical location. Goodwill received its PPP loan in April 2020 and submitted its forgiveness application on June 24, 2021. Based on the updated guidance, YMCA still remains ineligible for forgiveness because it received its PPP loan in April 2020 and submitted its forgiveness application on September 23, 2020, prior to the changes that were effective March 11, 2021.

The Goodwill and YMCA nonprofit organizations erroneously received PPP loans because lenders were only required to meet limited underwriting requirements, which did not include an assessment of affiliation or size standards at application. Lenders relied on borrowers identifying affiliates on the PPP application and certifying its accuracy. In addition, the lender was only required to confirm the following:

- receipt of borrower certifications contained in the PPP application;
- receipt of information demonstrating that a borrower had employees for whom the borrower paid salaries and payroll taxes on or around February 15, 2020;
- dollar amount of average monthly payroll costs for the preceding calendar year based on a review of the payroll documents submitted with the borrower's application; and
- compliance with the Bank Secrecy Act requirements.[2]

SBA Loan Reviews

SBA reviewed the three PPP loans as part of its loan review process. During this review process, SBA tested PPP loans for compliance with program requirements and reviewed loans to resolve hold codes that were placed on the loans during the data analytics and automated screening processes. The hold codes were used to identify loans that warranted further review to ensure compliance with PPP eligibility requirements.

For the ineligible PPP loan made to YMCA, SBA reviewed the loan which had a hold code for potential affiliation issues. However, SBA cleared the loan and took no further action. The steps SBA took to clear the issues included:

- reviewing the loan application and supporting documents;
- conducting online research using available databases; and
- requesting and reviewing additional information from the borrower's lender.

SBA approved this loan for forgiveness payments even though the borrower exceeded the 500 employee total count requirement. YMCA specified it had 321.5 employees on its PPP application, which was based on a full-time equivalent calculation. However, according to its payroll documents, it had 745 employees which consisted of full-time and part-time employees.

The CARES Act states certain nonprofits are eligible if they employ not more than the greater of 500 employees or, if applicable, the number of employees for its primary industry according to SBA requirements. In addition, employees include individuals employed on a full-time, part-time, or other basis, such as a temporary worker.

We requested SBA provide its complete analysis for YMCA. As of the issuance of this report, SBA has not provided the requested information so we could not determine SBA's rationale for forgiving this loan.

National Affiliation

We reviewed the three national organizations associated with the nonprofits included in our review to identify affiliation with their member organizations. We found it is not likely that affiliation existed with its member organizations. All three national organizations we reviewed have delegated autonomy to its members and recognized its members in its bylaws as independent organizations.

---

[2] 85 Federal Register 20815 (III)(3)(b).

To assess affiliation, we reviewed documents such as bylaws, member agreements, articles of incorporation, tax documents, and membership requirements to determine if control or the potential for control existed. We looked for any instances of control through voting, management of other member organizations, or business interests of close relatives. We found that the national organizations did not have unique management agreements with member organizations, which could indicate control.

Conclusion

We identified 179 PPP loans, totaling about $684 million, made to potentially ineligible nonprofits that exceeded the maximum employee count of 500 at the time of application. These loans increase the risk of financial loss to the taxpayer and warrant additional review by SBA to ensure eligibility requirements were met. In addition, a lender approved and SBA granted forgiveness of a PPP loan to an ineligible nonprofit organization, resulting in approximately $3.5 million in pandemic relief funding that could have gone to eligible entities in need of this assistance.

Recommendations

We recommend the Administrator direct the Associate Administrator of the Office of Capital Access to:

1. Review the 179 PPP loans, totaling approximately $684 million, for compliance with affiliation and size standards to ensure eligibility requirements were met and seek remedy or repayment for all loans deemed ineligible.
2. Seek remedy or repayment of a PPP loan in the amount of $3.5 million.

Analysis of Agency Response

SBA management provided formal comments to the draft report, which are included in their entirety in Appendix V. Management partially agreed with recommendation 1 and agreed with recommendation 2. We considered management's comments when preparing this final report.

Summary of Actions Necessary to Close the Recommendations

The following section details the status of our recommendations and the actions necessary to close them.

Recommendation 1

Review the 179 PPP loans, totaling approximately $684 million, for compliance with affiliation and size standards to ensure eligibility requirements were met and seek remedy or repayment for all loans deemed ineligible.

Status: Unresolved

SBA management partially agreed with this recommendation, stating the agency will re-review 27 of the 179 PPP loans which required a manual review. Management indicated it developed a loan review process to optimize its resources, which considered the challenges posed by a portfolio of 11 million PPP loans. This risk-based loan review process consisted of automated screenings and manual reviews of selected loans to test for compliance with program requirements. Management stated it will not manually review the remaining loans, as they were considered low risk under the loan review process, therefore were not selected for manual review.

Although SBA stated it used a risk-based loan review process to optimize resources, we believe all 179 PPP loans require review to ensure eligibility requirements were met. SBA's risk-based loan review process is designed to optimize use of resources to review the portfolio of 11 million PPP loans and is not relevant when individual potentially ineligible loans are identified. When potentially ineligible loans are identified, these loans should be considered higher risk and reviewed for compliance with program requirements. As stated in the report, our data analysis found that the nonprofits may have exceeded SBA's size standards at the time of application. The 179 PPP loans total approximately $684 million, which is a significant amount that is potentially recoverable. We believe an additional review by SBA is warranted. Management's proposed actions for recommendation 1 did not fully address the recommendation. In accordance with our audit follow-up policy, we will attempt to reach agreement with management on the unresolved recommendation. If not, we will notify the audit follow-up official of the disputed issues.

The list of 179 loans identified by OIG was based on our selection methodology and analysis. We selected the large nonprofits based on the following:

- size of nonprofits based on the Forbes list of top 25 nonprofits from 2021;
- nonprofits with 25 or more PPP loans; and
- average PPP loan size.

In subsequent correspondence, management indicated plans to complete final action on this recommendation by January 31, 2023. This recommendation is considered unresolved and can be closed when SBA provides evidence that it reviewed the 179 PPP loans and took necessary actions to seek remedy or repayment, as appropriate.

Recommendation 2

Seek remedy or repayment of a PPP loan in the amount of $3.5 million.

Status: Resolved

SBA management agreed with this recommendation, stating the agency will review the PPP loan. Management plans to complete final action on this recommendation by January 31, 2023. This recommendation is considered resolved and can be closed when SBA provides evidence that it reviewed the PPP loan and took necessary actions to seek remedy or repayment, as appropriate.

Appendix I: Objective, Scope, and Methodology

Our objective was to determine whether Paycheck Protection Program loans to nonprofit organizations were made in accordance with eligibility requirements. Our scope of work covered PPP loans made to nonprofits approved between April 2, 2020 and August 8, 2020 that then received forgiveness payments.

To answer our objective, we reviewed laws, regulations, policies, procedures, and guidance pertaining to PPP eligibility for nonprofits. This included the CARES Act, Paycheck Protection Program and Health Care Enhancement Act, Paycheck Protection Program Flexibility Act of 2020, Economic Aid to Hard-Hit Small Businesses, Nonprofits, and Venues Act, American Rescue Plan Act of 2021, Interim Final Rules, Frequently Asked Questions, Procedural Notices, and program forms related to PPP. We interviewed officials from the SBA Office of Capital Access on PPP eligibility requirements for nonprofits.

We reviewed three PPP loans made to large nonprofits to determine if the loans met eligibility requirements. We selected the large nonprofits based on the following:

- size of nonprofits based on the Forbes list of top 25 nonprofits from 2021;
- nonprofits with 25 or more PPP loans; and
- average PPP loan size.

In addition, we reviewed documents obtained from national organizations related to the PPP loans reviewed to assess borrower affiliation and affiliation with all member organizations. To determine control or the potential for control by national organizations, we reviewed bylaws, member agreements, and membership requirements.

We conducted this inspection in accordance with the Council of the Inspectors General on Integrity and Efficiency's *Quality Standards for Inspection and Evaluation*. These standards require that we adequately plan and perform the evaluation to obtain sufficient and appropriate evidence to provide a reasonable basis for our findings and conclusions based on our objective. We believe that the evidence provides a reasonable basis for our conclusions based on our objective.

Use of Computer-Processed Data

We relied on data from SBA's electronic loan servicing system (E-Tran) and the Internal Revenue Service for nonprofits to conduct our inspection. We reviewed data reliability assessments from recent prior audits that used E-Tran data. In addition, we compared our sample data to source documents to assess the reliability of that data and found the data was accurate. As a result, we believe the data elements used in this report are sufficiently reliable to support our report conclusion.

Appendix II: Prior Work

Report Title	Objective	Report Number	Final Report Date	Monetary Impact
SBA's Paycheck Protection Program Loan Review Processes	Assess SBA's processes for reviewing Paycheck Protection Program loans for eligibility and forgiveness	Report 22-09	February 28, 2022	N/A
Inspection of SBA's Implementation of the Paycheck Protection Program	Assess SBA's implementation of the Paycheck Protection Program, including the timing of implementation, lender participation, guidance provided to lenders and staff, timeliness of loan approval and disbursement, and systems used to process lender loan approvals	Report 21-07	January 14, 2021	N/A

Appendix III: Four Tests for Affiliation Based on Control

The following four tests for affiliation based on control are used to determine the number of employees of a PPP applicant and its affiliates.[3]

1. Affiliation based on ownership

For determining affiliation based on equity ownership, a concern is an affiliate of an individual, concern, or entity that owns or has the power to control more than 50 percent of the concern's voting equity. If no individual, concern, or entity is found to control, SBA will deem the Board of Directors or President or Chief Executive Officer (CEO) (or other officers, managing members, or partners who control the management of the concern) to be in control of the concern. SBA will deem a minority shareholder to be in control, if that individual or entity has the ability, under the concern's charter, by-laws, or shareholder's agreement, to prevent a quorum or otherwise block action by the board of directors or shareholders.

2. Affiliation arising under stock options, convertible securities, and agreements to merge

(a) In determining size, SBA considers stock options, convertible securities, and agreements to merge (including agreements in principle) to have a present effect on the power to control a concern. SBA treats such options, convertible securities, and agreements as though the rights granted have been exercised.

(b) Agreements to open or continue negotiations towards the possibility of a merger or a sale of stock at some later date are not considered "agreements in principle" and are thus not given present effect.

(c) Options, convertible securities, and agreements that are subject to conditions precedent which are incapable of fulfillment, speculative, conjectural, or unenforceable under state or Federal law, or where the probability of the transaction (or exercise of the rights) occurring is shown to be extremely remote, are not given present effect.

(d) An individual, concern or other entity that controls one or more other concerns cannot use options, convertible securities, or agreements to appear to terminate such control before actually doing so. SBA will not give present effect to individuals', concerns', or other entities' ability to divest all or part of their ownership interest in order to avoid a finding of affiliation.

3. Affiliation based on management

Affiliation arises where the CEO or President of the applicant concern (or other officers, managing members, or partners who control the management of the concern) also controls the management of one or more other concerns. Affiliation also arises where a single individual, concern, or entity that controls the Board of Directors or management of one concern also controls the Board of Directors or management of one of more other concerns. Affiliation also arises where a single individual, concern or entity controls the management of the applicant concern through a management agreement.

[3] 13 CFR 121.301(f).

4. Affiliation based on identity of interest

Affiliation arises when there is an identity of interest between close relatives, as defined in 13 CFR 120.10, with identical or substantially identical business or economic interests (such as where the close relatives operate concerns in the same or similar industry in the same geographic area). Where SBA determines that interests should be aggregated, an individual or firm may rebut that determination with evidence showing that the interests deemed to be one are in fact separate.

Appendix IV: Monetary Impact

Recommendation Number	Impact Category	Amount (dollars)
2	Questioned Costs	$3,544,216
Total	--	$**3,544,216**

Source: OIG Analysis

Under the CARES Act, nonprofits are ineligible for PPP loans if they have more than 500 employees or, if applicable, exceed SBA's employee-based size standard corresponding to its primary industry. One of the three PPP loans reviewed exceeded the maximum allowed size standard at the time of application and forgiveness. As a result, we identified $3,544,216 in questioned costs. Questioned costs mean ineligible costs based on an alleged violation of a provision of a law or regulation.

Appendix V: Management Comments

SBA RESPONSE TO INSPECTION REPORT

U.S. Small Business Administration

To: Hannibal "Mike" Ware, Inspector General

From: Jihoon Kim, Director, Office of Financial Program Operations JI KIM Digitally signed by JI KIM Date: 2022.09.14 17:14:18 -04'00'

Date: September 14, 2022

To: Hannibal "Mike" Ware, Inspector General

Subject: Response to OIG Draft Report Recommendations–Paycheck Protection Program Eligibility for Nonprofit Organizations (Project 22001).

We appreciate the role the Office of Inspector General (OIG) plays in working with management in ensuring that our programs are effectively managed, and for the feedback provided in this draft report.

Small Business Administration (SBA) strives to process lender forgiveness decisions consistent with The Coronavirus Aid, Relief, and Economic Security (CARES) Act, as amended by the Economic Aid to Hard-Hit Small Businesses, Nonprofits and Venues Act, the American Rescue Plan Act of 2021, and the PPP Extension Act of 2021 and Interim Final Rules issued by SBA and Treasury. SBA developed a loan review process designed to maximize program integrity and optimize use of SBA's loan review resources, considering the challenges posed by the volume of more than 11 million PPP loans and the statutory timeframe for reviews. The loan review consists of automated screenings and manual reviews of selected loans to test for compliance with program requirements and evaluate the accuracy of PPP borrowers' self-certifications and material representations. Under the loan review process, SBA generally processes forgiveness for low risk loans with a manual review. This enables SBA to focus its scarce resources on loans with higher risk of fraud or ineligibility.

In its report, the OIG identified 179 PPP loans, totaling approximately $684 million, made to individual nonprofits that were potentially ineligible nonprofits. The OIG also reviewed PPP loans for three large nonprofit organizations one Planned Parenthood organization, one Goodwill organization, and one YMCA. Each of these nonprofits received PPP loans in 2020 that were subsequently forgiven. OIG determined that the Planned Parenthood organization met PPP loan eligibility requirements because it had 341 employees, which was within the maximum allowed size standard of 500 employees. The Goodwill and YMCA organizations we reviewed were not eligible because they exceeded the maximum allowed size standard at the time of their application. However, Goodwill subsequently became eligible for forgiveness due to updated PPP guidance for size standards. In addition, the OIG reviewed the three national organizations associated with the PPP loans for potential affiliation with the aforementioned Planned Parenthood, Goodwill, and YMCA and found no affiliation between the national organizations and the loan recipients. The list of 179 loans identified by OIG includes additional loans to Goodwill and YMCA and no additional loans to Planned Parenthood.

Management's responses to the recommendations in the draft report are noted below:

Recommendation 1- Review the 179 PPP loans, totaling approximately $684 million, for compliance with affiliation and size standards to ensure eligibility requirements were met and seek remedy or repayment for all loans deemed ineligible.

Response – SBA partially agrees. As mentioned above, SBA developed a risk-based loan review process consisting of automated screenings and manual reviews of selected loans to test for compliance with program requirements and evaluate the accuracy of PPP borrowers' self-certifications. 27 of the 179 loans identified by the OIG were identified as requiring a manual review under the loan review process. Therefore, SBA agrees to re-review the 27 loans to confirm compliance with affiliation and size standards to ensure eligibility requirements were met and seek remedy or repayment for all loans where SBA made an incorrect determination during its manual forgiveness review. SBA will not manually review the remaining loans, as they were considered low-risk under the loan review process, and, therefore, were not selected for manual review. The list of 179 loans identified by OIG includes additional loans to Goodwill and YMCA and no additional loans to Planned Parenthood.

Recommendation 2- Seek remedy or repayment of a YMCA PPP loan in the amount of $3.5 million.

Response – SBA agrees to review the YMCA loan, and if appropriate, seek remedy or repayment**.**

SBA will provide the results of its reviews by January 31, 2023. It is necessary to allow a 3-4 month time period because SBA needs to initiate loan reviews and allow time for lenders and borrowers to provide documentation. Borrowers and lenders are allowed up to 30 days to respond to additional information requests.