

COVID-19 ECONOMIC INJURY DISASTER LOAN
APPLICATIONS SUBMITTED FROM
FOREIGN IP ADDRESSES

REPORT NUMBER 22-17 | SEPTEMBER 12, 2022





EXECUTIVE SUMMARY

Report 22-17

September
12, 2022

COVID-19 ECONOMIC INJURY DISASTER LOAN APPLICATIONS SUBMITTED FROM FOREIGN IP ADDRESSES

What OIG Reviewed

Our objective was to assess the U.S. Small Business Administration's (SBA) controls to flag or prevent potentially fraudulent Coronavirus Disease 2019 (COVID-19) Economic Injury Disaster Loan (EIDL) applications submitted from foreign Internet Protocol (IP) addresses.

We reviewed SBA policies and procedures, interviewed agency and contractor officials, and analyzed SBA's COVID-19 EIDL data.

What OIG Found

Although the agency implemented several layers of controls to prevent or reduce fraud from foreign countries, individuals at foreign IP addresses were able to access the COVID-19 EIDL application system.

SBA received millions of attempts to submit COVID-19 EIDL applications from foreign IP addresses and stopped most of them; however, the agency processed more than 233,000 of these applications from March 20, 2020 to November 12, 2021, our review period. Of this amount, SBA approved and disbursed 41,638 COVID-19 EIDLs, advances, and grants for \$1.3 billion.

Although applicants that reside overseas may qualify for this assistance, transnational crime entities in foreign countries have fraudulently obtained funding from this and other U.S. programs in the past.

The numerous applications submitted from foreign IP addresses are an indication of potential fraud that may involve international criminal organizations. OIG has ongoing investigations into international organized crime operations that applied for and stole pandemic relief funds.

SBA officials were aware of and concerned about the potential fraud from overseas. SBA hired a contractor to process 27.8 million COVID-19 EIDL applications as of December 31, 2021. SBA and contractor officials designed a system of four layers of internal controls to prevent loan applications from foreign IP addresses.

Control layers 1 and 2 were supposed to block (1) the submission of applications from foreign IP addresses in six countries deemed high risk and (2) the completion of applications from foreign IP addresses in all foreign countries. We found both controls did not always block these applications.

If a loan application from a foreign IP address made it past the first two controls, control layer 3 was for the system to flag the application. Control layer 4 was to have a loan officer thoroughly review the flagged application to determine if the applicant was eligible.

We used a judgmental sample of 50 COVID-19 EIDL applications submitted from foreign IP addresses to test control layers 3 and 4. We found 16 applications were not flagged by the system and another 15 applications were flagged by the system but were not properly reviewed by loan officers before loans were approved and disbursed.

SBA acknowledged that the controls did not perform as intended and will not be used in future or current application systems.

OIG Recommendations


We recommended the agency thoroughly review the loans in our test sample and the \$1.3 billion disbursed to applicants from foreign IP addresses. The agency should stop any further or future disbursements to any applicants deemed to be ineligible or fraudulent. We also recommended SBA recover any disbursed loans and advances determined to be ineligible or fraudulent. Additionally, we recommended that the agency examine controls related to foreign IP addresses and ensure these controls are more effective in future disaster processing systems.

Agency Response

Management partially agreed with recommendation 1, stating they would conduct a proactive review of COVID-19 EIDL applications that received funds for potentially ineligible or fraudulent businesses. They will attempt recovery and continue to refer suspected fraud to the OIG. Management also emphasized that the applications approved from foreign IP addresses were a small proportion of all applications. SBA agreed with recommendation 2, stating the agency will examine controls related to foreign IP addresses and ensure these controls are more effective in future disaster processing systems.



U.S. Small Business Administration Office of Inspector General

DATE: September 12, 2022
TO: Isabella Casillas Guzman
Administrator
FROM: Hannibal "Mike" Ware 
Inspector General
SUBJECT: COVID-19 Economic Injury Disaster Loan Applications Submitted from
Foreign IP Addresses

This report presents the results of our evaluation *COVID-19 Economic Injury Disaster Loan Applications Submitted from Foreign IP Addresses*. We considered management's comments on the draft of this report when preparing the final report. Management partially agreed to one recommendation and agreed with the other recommendation.

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: Arthur Plews, Chief of Staff
Patrick Kelley, Associate Administrator, Office of Capital Access
Peggy Delinois Hamilton, Special Counsel for Enterprise Risk
Therese Meers, Acting General Counsel
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
John Miller, Deputy Associate Administrator, Office of Capital Access
Tonia Butler, Director, Office of Internal Controls

Table of Contents

Introduction.....	1
Background.....	1
Record-setting Funding Amounts	1
Historic Application Volumes for COVID-19 EIDLs	1
Overview of the COVID-19 Application Process	2
Figure 1. SBA’s COVID-19 EIDL Application Process	3
SBA Can No Longer Accept New Applications	3
Objective	4
Results.....	4
Finding: SBA’s Controls Did Not Prevent All COVID-19 EIDL Applications from Foreign IP Addresses.....	5
Structure and Function of SBA Foreign IP Controls.....	5
Figure 2. Four Layers of Control in SBA’s System	5
Control Layer 1 = Firewall 1 – The Intake Point Control	6
Table 1. Attempts to Access COVID-19 EIDL Application System from IP Addresses Located in Six Countries Deemed High Risk.....	7
Table 2. COVID-19 EIDL Funds to Applicants with IP Addresses Located in Six Countries Deemed High Risk.....	8
Control Layer 2 = Firewall 2 - The Client Portal Control.....	8
Table 3. Applications Processed by Country	9
Control Layer 3 = Contractor System Flags.....	10
Table 4. Results of OIG Audit Test of System Flagging for Foreign IP Addresses.....	11
Control Layer 4 = Loan Officer Review	11
Table 5. OIG Test Results of Loan Officer Review of Flagged Loan Applications from Foreign IP Addresses	13
Conclusion.....	13
Recommendations.....	14
Analysis of Agency Response	15
Summary of Actions Necessary to Close the Recommendations	15
Appendix I: Objective, Scope, and Methodology.....	17
Appendix II: Prior Work.....	19
Table 6. OIG Prior Oversight Work on SBA’s COVID-19 EIDL Program	19
Appendix III: Foreign IP Loan Data by Country	20

Appendix IV: Management Comments..... 30

Introduction

The U.S. Small Business Administration's (SBA) disaster assistance is the federal government's primary program for assisting small businesses, small agricultural cooperatives, and most private, nonprofit organizations after declared disasters. The program provides up to \$2 million in disaster assistance loans to help eligible entities meet financial obligations and operating expenses after a disaster.

Background

A series of national relief packages aimed at easing the economic effects of the Coronavirus Disease 2019 (COVID-19) pandemic directed SBA, in accordance with the Small Business Act, to provide COVID-19 Economic Injury Disaster Loans (EIDL) and additional funds in three grant and advance programs, emergency EIDL grants, Targeted EIDL Advances, and Supplemental Targeted Advances to affected eligible entities.¹ We refer to the three programs as EIDL grants and advances in this report.

The laws also expanded the types of organizations that qualified for the funding to small businesses to include small agricultural cooperatives, most private, nonprofit organizations, cooperatives, Employee Stock Ownership Plans, and tribal concerns, all with no more than 500 employees, then to sole proprietorships, independent contractors, and agricultural enterprises. Agricultural enterprises are small businesses in food and fiber production, ranching and raising livestock, aquaculture, or other farming or agricultural-related industries.²

To be eligible, an entity must have been in business on or before January 31, 2020, adversely affected by the COVID-19 pandemic, and located in the United States or U.S. territories.

Record-setting Funding Amounts

The national relief packages tasked SBA with quickly lending an enormous amount of taxpayer funds: \$500 billion in COVID-19 EIDLs; \$20 billion in COVID-19 emergency EIDL grants, up to \$10,000 each; \$30 billion in Targeted EIDL Advances, up to \$10,000 each; and \$5 billion in Supplemental Targeted Advances, up to \$5,000 each. Since the agency's inception in 1953, SBA has provided more disaster assistance funding through these programs than in its entire history.

Historic Application Volumes for COVID-19 EIDLs

SBA suddenly had to process an unprecedented number of applications. On March 31, 2020, more than 680,000 applications were submitted to SBA, the highest number of loan

¹ 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); Public Law 116-139 - Paycheck Protection Program and Health Care Enhancement Act (April 24, 2020); and Economic Aid to Hard-Hit Small Businesses, Nonprofits, and Venues Act (December 27, 2020); American Rescue Plan Act of 2021 (March 11, 2021).

² Small Business Act 15 U.S.C. 647(b), section 18(b).

applications the agency had ever received in a day. By April 10, 2020, SBA had received more than 4.5 million loan applications, well above the average of 65,000 per year before the pandemic. By December 31, 2021, SBA had received 27.8 million COVID-19 EIDL applications.

SBA hired a contractor to process COVID-19 EIDL applications and make recommendations to approve or deny loan applications. SBA loan officers or team leads would give final approval of each application.

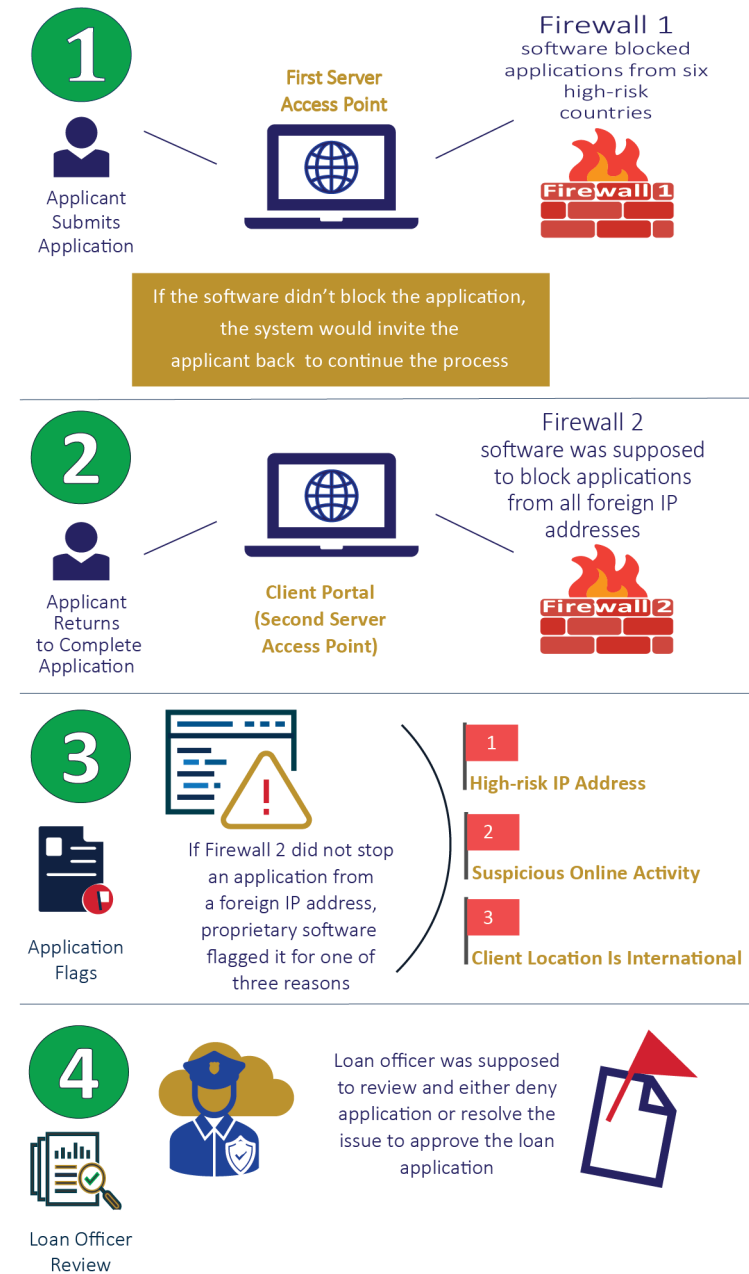
Overview of the COVID-19 Application Process

EIDL relief eligibility, in accordance with U.S.C. Title 8, Chapter 14, Section 1611, is limited to U.S. citizens, noncitizen nationals, and qualified aliens.³ Therefore, those applicants located at foreign Internet Protocol (IP) addresses could be legitimate if they controlled at least a 20 percent share of an eligible entity, were adversely affected by the COVID-19 pandemic, located in the United States or U.S. territories, and in business on or before January 31, 2020.

Although individuals who reside overseas may qualify for the assistance if they meet the eligibility requirements, the fraud risk was high because of the history of fraud originating from transnational crime organizations that have stolen funds from U.S. programs in the past. SBA was concerned with potential fraud from overseas and elected to block or flag all applications from foreign IP addresses. To reduce fraud and cyber threats, SBA and the contractor designed four layers of technical computing controls, known as firewalls (two digital entry blocks), electronic flags (alerts), and human intervention (loan officer review) to prevent fraud (See Figure 1). SBA did not have a plan to address how qualifying individuals overseas could apply for this relief.

³ Part of the Immigration and Nationality Act.

Figure 1. SBA’s COVID-19 EIDL Application Process



Source: SBA and its contractor

SBA Can No Longer Accept New Applications

As of January 1, 2022, SBA stopped accepting new COVID-19 EIDL applications. Because of lack of funds as of May 6, 2022, SBA was no longer accepting requests for increases to COVID-19 EIDLs or reconsiderations of previously declined loan applications. Finally, on May 16, 2022, the COVID-19 EIDL portal closed.

Objective

Our objective was to assess SBA’s internal controls in place to flag or prevent potentially fraudulent COVID-19 EIDL applications submitted from foreign IP addresses.

Results

Despite the four layers of controls SBA and its contractor established, we found that SBA disbursed 15,873 COVID-19 EIDLs totaling \$1.2 billion and 25,765 EIDL grants and advances totaling \$111.5 million, as of November 12, 2021, the end of our review period, to individuals who submitted applications from foreign IP addresses. These were applications missed by the first two layers of controls.

The third and fourth layers of controls were designed to flag any applications missed by the first two layers and ensure SBA loan officers reviewed them. From a judgmental sample of 50 COVID EIDL applications, we found the system did not flag 16 applications. The controls did flag the remaining 34 applications in our sample. However, we found loan officers did not properly review 15 of the flagged applications in accordance with written procedures to address and mitigate potential fraud indicators.

We found
41,638
COVID-19 EIDLs, grants,
and advances totaling
\$1.3 billion
to applicants at foreign
IP addresses

Finding: SBA’s Controls Did Not Prevent All COVID-19 EIDL Applications from Foreign IP Addresses

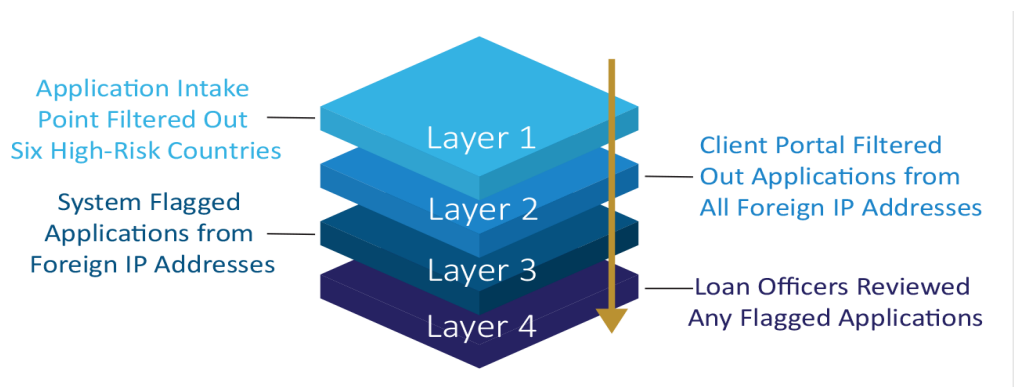
We found that as of November 12, 2021, SBA had disbursed approximately \$1.2 billion in COVID-19 EIDLs and \$111.5 million in EIDL grants and advances to applicants whose initial application came from a foreign IP address.

Although SBA’s contractor provided evidence that the controls prevented individuals located at a foreign IP address from accessing the system millions of times, we determined the controls did not prevent such access more than 233,000 times. In addition, we found problems with the flagging of applications from foreign IP addresses and the vetting of those applications. From a judgmental sample of 50 COVID-19 EIDL applications, we found the system did not flag 16 applications. The controls did flag 34 applications in our sample. However, we found loan officers did not properly review 15 of the 34 flagged applications in accordance with policies and procedures in place to prevent potentially fraudulent applications.

Structure and Function of SBA Foreign IP Controls

The contractor’s system to process COVID-19 EIDL applications comprised at least two access portals (intake point and client portal). When a potential applicant went to SBA’s website to apply for a COVID-19 EIDL, the system would redirect to one of the contractor’s access portals, referred to here as the “intake point” for initial applications and the “client portal” for the completion of applications (see Figure 2). In general, the intake point should have blocked all applicants from six foreign countries deemed high risk (Layer 1 = Firewall 1) from accessing the contractor’s system and the client portal (Layer 2 = Firewall 2) should have blocked all foreign applicants not deemed high risk from completing applications submitted to the intake point from all foreign countries.

Figure 2. Four Layers of Control in SBA’s System



Source: OIG analysis of SBA’s COVID-19 EIDL control structure

SBA speculated that applicants could have used technology to subvert the controls. During our review, SBA acknowledged that the controls did not perform as intended and will not be in use in future or current application systems.

As we describe in detail below, applicants were able to submit COVID-19 applications from foreign IP addresses although there were layers of controls intended to prevent this and to address the potential fraud risk. In addition, we asked SBA why Layer 1 and 2 controls had separate application blocking criteria designed to prevent applications from foreign countries. SBA officials stated there were points in time in 2020 where the decision by SBA was to not block all foreign IP addresses. SBA did not maintain any information as to why they made the different blocking criteria decisions in 2020. Thus, it is unknown why Layer 1 control was designed to prevent applications from six high-risk countries and Layer 2 control was designed to prevent the completion of applications from all foreign countries.

Control Layer 1 = Firewall 1 – The Intake Point Control

The first control between the applicant and contractor’s access portal, called the “intake point,” of the system was designed to prevent submission of COVID-19 EIDL applications from IP addresses in six countries categorized as high risk by a third-party software vendor used by SBA’s contractor.

If Firewall 1 did not find the IP address was geolocated in one of the specified countries deemed high risk, the applicant was allowed to fill out a COVID-19 EIDL application and submit it. Once an application was submitted, the system executed various controls, such as checking the applicant’s credit score and other identifying information. If the application passed these controls and checks, the applicant would then be invited back to finish additional application requirements in a second access portal, called the “client portal,” on return to the system.

Firewall 1 should have prevented anyone at IP addresses in countries deemed high risk from accessing the intake point. The contractor stated the firewall blocked 110,549 attempts from the six countries in May 2021 alone (see Table 1). We were unable to get information on the number of attempts for other time periods because SBA’s contractor did not maintain more than 1 month of information on blocked attempts.

Table 1. Attempts to Access COVID-19 EIDL Application System from IP Addresses Located in Six Countries Deemed High Risk

Country	Number of Attempts
High-Risk Country 1	71,174
High-Risk Country 2	9,681
High-Risk Country 3	3,901
High-Risk Country 4	389
High-Risk Country 5	0
High-Risk Country 6	25,404
Total	110,549

Source: SBA contractor data for May 2021

Our analysis of SBA’s COVID-19 loan, grant, and advance data revealed that between March 20, 2020 and November 12, 2021, 3,097 applications from the six countries deemed high risk were not blocked.

Those applications were processed, approved, and disbursed a total of \$14.3 million in COVID-19 EIDLs and emergency EIDL grants (see Table 2).

Table 2. COVID-19 EIDL Funds to Applicants with IP Addresses Located in Six Countries Deemed High Risk

Country	Applications Submitted	Total Approved Grants and Advances	Total Approved Amount, Grants and Advances (dollars)	Total Approved EIDLs	Total Amount, EIDLs (dollars)	Total Disbursed Amount (dollars)
High-Risk Country 1	488	64	\$316,000	26	\$1,268,100	\$1,584,100
High-Risk Country 2	1,338	187	1,040,000	108	7,475,600	8,515,600
High-Risk Country 3	112	8	26,000	4	139,900	165,900
High-Risk Country 4	104	6	36,000	0	0	36,000
High-Risk Country 5	0	0	0	0	0	0
High-Risk Country 6	1,055	100	448,000	47	3,568,800	4,016,800
Total	3,097	365	\$1,866,000	185	\$12,452,400	\$14,318,400

Source: SBA COVID-19 EIDL, grant, and advance data as of November 12, 2021

We asked the contractor why the control did not block access from all six countries completely and how applicants were able to subvert Firewall 1. Their response was that they could not guarantee 100 percent effectiveness. The contractor speculated that the IP addresses could be masked. Neither SBA nor its contractor knew why so many applications were able to subvert Firewall 1.

During our evaluation, SBA transitioned the responsibility of the COVID-19 EIDL program from the Office of Disaster Assistance to the Office of Capital Access on June 29, 2021. After the transition, we asked the Office of Capital Access why the control was designed to block applications from only six countries deemed high risk when the Layer 2 control was designed to block the completion of all applications from all foreign countries. Again, SBA officials did not know why this decision was made at the onset of the program. After our questions, SBA and the contractor confirmed that SBA had directed the contractor on July 19, 2021 to block IP addresses of all foreign countries from accessing the intake point.

Control Layer 2 = Firewall 2 - The Client Portal Control

The control at the client portal was supposed to prevent applicants from *all* foreign IP addresses from accessing the system and completing COVID-19 EIDL applications. The contractor's data showed Firewall 2 blocked more than 1.6 million attempts by applicants located at foreign IP addresses from accessing the client portal in May 2021. Again, we

were unable to get information on the number of attempts for other time periods because SBA’s contractor does not maintain more than 1 month of information on blocked attempts.

In addition to blocking foreign IP addresses, the contractor banned some IP addresses for repeated attempts to access the system and various other reasons. In total, the contractor banned more than 32,000 IP addresses located in foreign countries.

The blocking and banning of foreign IP addresses showed the system had some effect on preventing applications from foreign countries. However, we found Firewalls 1 and 2 did not prevent the completion of 233,872 applications submitted from foreign IP addresses at the intake point and the disbursement of \$1.3 billion in COVID-19 EIDLs and grants (see Table 3).

Table 3. Applications Processed by Country

Country	Applications Submitted	Total Approved Grants and Advances	Total Approved Amount, Advances (dollars)	Total Approved EIDLs	Total Amount, EIDLs (dollars)	Total Disbursed Amount (dollars)
Nigeria	33,477	241	\$1,109,000	496	\$18,452,300	\$19,561,300
Pakistan	29,290	632	3,353,000	483	43,862,300	47,215,300
Canada	20,500	3,755	19,236,000	2,062	164,071,090	183,307,090
Mexico	14,656	3,100	12,740,000	2,081	145,128,775	157,868,775
United Kingdom	12,007	1,358	6,418,000	834	59,884,398	66,302,398
Philippines	9,762	658	3,399,000	335	25,902,800	29,301,800
Dominican Republic	9,524	781	3,750,000	564	30,397,700	34,147,700
India	9,273	1,561	6,763,000	1,061	137,027,317	143,790,317
Germany	6,061	719	3,056,000	355	18,106,768	21,162,768
All other countries	89,322	12,960	51,666,000	7,602	560,044,698	611,710,698
Total	233,872	25,765	\$111,490,000	15,873	\$1,202,878,146	\$1,314,368,146

Source: OIG analysis of SBA’s COVID-19 EIDL, grant, and advance data from March 20, 2020 to November 12, 2021

We believe there is a significant risk of potential fraud in applications submitted from foreign IP addresses. SBA was also concerned with this risk because agency officials recommended blocking all applications from foreign IP addresses at program outset. However, the control did not prevent all applications from foreign countries. Neither SBA nor its contractor knew how so many applications were able to subvert Firewall 2.

Control Layer 3 = Contractor System Flags

If the software did not detect a foreign IP address, the applicant would be admitted to the client portal to finish their application. To complete COVID-19 EIDL applications, the applicant would verify their identity, submit any needed additional documents and information, and eventually sign the loan agreement to receive the funds.

SBA and the contractor officials told us they had been concerned about the risk that Firewall 1 and 2 controls might be bypassed. Technologically savvy ineligible applicants might use computer technology, such as virtual private networks (VPNs), proxy servers, or The Onion Router, commonly known as TOR, to mask their actual locations, enter the system, and apply for American relief funds.

In case some applicants were able to bypass system controls, the contractor installed a third-party software program to identify and flag attempts to mask the actual location of applicants.

If the software identified a foreign IP address, it electronically flagged the COVID-19 EIDL application with an alert warning of “Client location is international” or “high-risk IP address.”

Client Location Is International. This flag alerted loan officers that the applicant accessed the loan system from a location outside the United States and its territories, indicating a high risk of fraud.

High-risk IP. This flag alerted the loan officer that a device used to electronically submit the loan application may have been used in fraudulent activity. For example, if the application came from a domestic IP address as a proxy or if a connection to the “dark web” was detected. The dark web is the area of the internet that allows users to be anonymous.

If the software did not detect an IP address, or the IP address was in some way suspect, the software flagged the application with an alert of “suspicious online behavior.”

Suspicious Online Behavior. This flag alerted loan officers if different devices had accessed the system, the data had been associated with possible online fraud, or if there was an attempt to bypass fraud checks.

To test the third control layer, we judgmentally selected a sample of 50 approved and disbursed COVID-19 EIDLs from the loan data from locations in 12 foreign countries geographically dispersed across the world. We reviewed the selected loan files to determine if the software had flagged them.

We found 34 applications, totaling \$5.3 million, were properly flagged by the software. However, 16 applications out of the 50 in our sample were not identified or flagged by the contractor’s third-party software intended to alert loan officers to properly mitigate these flags. These 16 applications were processed, approved, and disbursed for a total amount of more than \$3.1 million. Without the software alert flags, loan officers were unaware that additional vetting was needed for approval (see Table 4).

Table 4. Results of OIG Audit Test of System Flagging for Foreign IP Addresses

Country	Loans Tested	Flagged by System*	System Did Not Flag	EIDL Amount Not Flagged (dollars)	Grant and Advance Amount Not Flagged (dollars)	Total Disbursed Amount Not Flagged (dollars)
Afghanistan	4	2	2	\$162,300	\$6,000	\$168,300
China	4	1	3	406,000	13,000	419,000
Dominican Republic	5	4	1	174,400	5,000	179,400
India	5	2	3	897,400	5,000	902,400
Iraq	4	4	0	0	0	0
Israel	5	5	0	0	0	0
Nigeria	5	4	1	150,000	0	150,000
Russia	4	2	2	300,000	4,000	304,000
Syria	1	1	0	0	0	0
United Kingdom	5	3	2	719,000	11,000	730,000
Venezuela	4	3	1	150,000	2,000	152,000
Yemen	4	3	1	150,000	1,000	151,000
Total	50	34	16	\$3,109,100	\$47,000	\$3,156,100

Source: OIG analysis

*COVID-19 EIDL applications flagged by the system for any of these three fraud alerts: “Client location is international,” “High-risk IP address,” and “Suspicious online behavior.”

Control Layer 4 = Loan Officer Review

The fourth layer of control established by SBA and the contractor required a review by the loan officers to address or clear alert flags on the applications. SBA and the contractor released written procedures on April 13, 2020 and revised them five times over the next year, outlining specific loan officer actions on how to properly mitigate these alert flags. In this layer, COVID-19 EIDL applications flagged by the system for any of these three fraud alerts: “Client location is international,” “High-risk IP address,” and “Suspicious online behavior” required review and approval by a loan officer.

SBA policy required the following:

Client Location Is International. The procedures required loan officers to confirm the business was physically located within the United States or a U.S. territory before approving the application. If not, the officer was supposed to deny the application.

High-risk IP. This alert flag was not added until the written procedures were revised on April 20, 2021. The written procedures required the loan officer to call the applicant to verify the applicant's identity, but there was no requirement for a loan officer to obtain a copy of valid identification.

Suspicious Online Behavior. Prior to April 20, 2021, the written procedures required the loan officer to automatically deny the loan.

SBA revised the written procedures on April 20, 2021, reversing the automatic denial. The revision required loan officers to call the applicant to verify identity and request a copy of valid identification within 7 days. If the applicant's identity could not be verified, then the loan would be denied.

To test these alert flags, we reviewed the 34 loan files in our testing sample flagged by the system. These files were tagged in the system with the fraud alert flags, "Client location is international," "Suspicious online behavior," or "High-risk IP address."

We found 19 of the files, totaling about \$2.9 million, had been properly reviewed before loan approval. However, 15 loan files, totaling about \$2.4 million, were not vetted by the loan officers before loan approval and disbursement (see Table 5).

We asked SBA officials why applications with fraud flags were approved without a loan officer addressing these alerts. SBA officials informed us that there were several factors:

- For five of the loan applications, "the file was sent to the approved queue by the system" bypassing loan officer review;
- For seven of the applications, the reference guide did not provide direction for fraud alerts. However, we found the reference guide did provide loan officer actions to mitigate or deny the loan based on fraud alerts; and
- For six of the applications, the fraud alert did not exist at time of approval. However, there is no data field for the date the alert flags were created, and it is uncertain when the alert flags were created by the system. Therefore, the fraud flag may or may not have existed at the time of loan office review.

The total number of exceptions exceeds the number of files because the response provided for each file consisted of more than one of the factors or reasons listed above.

Table 5. OIG Test Results of Loan Officer Review of Flagged Loan Applications from Foreign IP Addresses

Country	Flags	Loan Officer Mitigated	Loan Officer Did Not Mitigate	EIDL Amount (dollars)*	Grant and Advance Amount (dollars)*	Total Disbursed Amount (dollars)*
Afghanistan	2	2	0	0	0	0
China	1	1	0	0	0	0
Dominican Republic	4	3	1	150,000	1,000	151,000
India	2	2	0	0	0	0
Iraq	4	2	2	103,500	2,000	105,500
Israel	5	3	2	300,000	17,000	317,000
Nigeria	4	1	3	450,000	14,000	464,000
Russia	2	1	1	150,000	10,000	160,000
Syria	1	0	1	21,500	1,000	22,500
United Kingdom	3	2	1	300,700	0	300,700
Venezuela	3	1	2	650,000	8,000	658,000
Yemen	3	1	2	213,800	3,000	216,800
Total	34	19	15	\$2,339,500	\$56,000	\$2,395,500

Source: OIG analysis of SBA COVID-19 data

*For applications not mitigated by the loan officer.

Conclusion

The agency implemented several layers of controls to prevent or reduce fraud with firewalls or alerts designed to prevent applications originating from foreign countries. We believe the system blocked a majority of the applications from foreign IP addresses. However, we found that applicants with foreign IP addresses were able to access the system more than 233,000 times, resulting in \$1.3 billion in COVID-19 EIDL funding to applicants in foreign countries who may not have been eligible.

Recommendations

We recommend the Administrator direct the Associate Administrator for the Office of Capital Access in conjunction with the Associate Administrator for Disaster Assistance and Chief Information Officer to:

1. Thoroughly review each COVID-19 EIDL, grant, and advance application submitted from foreign IP addresses that were approved and funded and verify eligibility. If ineligibility or evidence of potential fraud is found, SBA should stop any further or future disbursements, recover any disbursed funds, and refer fraudulent loans to OIG for investigation.
2. Examine controls related to foreign IP addresses and ensure these controls are more effective in future disaster processing systems.

Analysis of Agency Response

SBA management provided formal comments to the draft report, which are included in Appendix IV. Management partially agreed with recommendation 1 and agreed with recommendation 2. The proposed actions will resolve both recommendations and management will provide implementation dates by separate correspondence. We considered management's comments when preparing this final report.

Regarding recommendation 1, management partially agreed and proposed actions that were responsive to the recommendation. Specifically, management agreed that controls initially in place to flag and prevent the applications from high-risk countries did not do so consistently. However, they stated that "The \$1.3 billion identified by the OIG that originated from applications submitted from a foreign IP address represents less than .04 percent of the more than \$342 billion approved by SBA for COVID EIDL advances and loans." OIG acknowledges that the percentage of disbursements identified may seem small, however, we believe that \$1.3 billion in taxpayer funds to individuals or businesses that should not have received it is significant. We reported that the numerous applications submitted from foreign IP addresses are an indication of potential fraud that may involve international criminal organizations. Also, OIG has ongoing investigations into international organized crime operations that applied for and stole pandemic relief funds. Consequently, it is concerning that \$1.3 billion intended to assist small businesses during the pandemic potentially funded illegal activities worldwide, making it critical that proper controls are in place and working as intended.

Summary of Actions Necessary to Close the Recommendations

Recommendation 1

Thoroughly review each COVID-19 EIDL, grant, and advance application submitted from foreign IP addresses that were approved and funded and verify eligibility. If ineligibility or evidence of potential fraud is found, SBA should stop any further or future disbursements, recover any disbursed funds, and refer fraudulent loans to OIG for investigation.

Status: Resolved

Management partially agreed with our recommendation and stated SBA will conduct a proactive review using additional data analytics of COVID EIDL applications that received funds for potentially ineligible or fraudulent businesses. Management further stated SBA will attempt recovery and continue to refer all suspected cases of fraud to OIG to be investigated. Management's proposed actions were responsive to the recommendation, and we consider this recommendation to be resolved.

This recommendation can be closed when management provides evidence that the agency has completed the review of the over 233,000 applications from foreign IP addresses and then recovered, or at a minimum, attempted to recover funds and referred potentially fraudulent loans to OIG.

Recommendation 2

Examine controls related to foreign IP addresses and ensure these controls are more effective in future disaster processing systems.

Status: Resolved

Management agreed with this recommendation to examine controls related to foreign IP addresses and ensure these controls are more effective in future disaster processing systems. Management's proposed actions were responsive to the recommendation, and we consider this recommendation to be resolved.

This recommendation can be closed when management provides evidence that they have examined controls related to foreign IP addresses and they have implemented a system with adequate controls to prevent access from foreign IP addresses or to adequately vet access from foreign IP addresses.

Appendix I: Objective, Scope, and Methodology

Our objective was to assess SBA's controls in place to flag or prevent potentially fraudulent applications for the COVID-19 EIDL program submitted from foreign IP addresses not in a U.S. territory.

To meet our objective, we reviewed the following:

- Coronavirus Aid, Relief, and Economic Security Act
- Coronavirus Preparedness and Response Supplemental Appropriations Act
- SOP 50 30 9, Disaster Assistance Program
- SBA Rapid Decision Reference Guides (dated April 13, 2020 through April 20, 2021)
- SBA contractor data for COVID-19 EIDLs, grants, and advances
- U.S.C. Title 8, Chapter 14, Section 1611

We interviewed SBA officials at the Office of Disaster Assistance, Office of Capital Access, and the Office of the Chief Information Officer. We also interviewed officials of the contractor used by SBA to process COVID-19 EIDLs.

We obtained data for COVID-19 EIDLs from March 20, 2020 through November 12, 2021 from the contractor's system and loan approval and disbursement data from SBA's system, known as ETRAN. Within this data, we used a private vendor geolocation tool to identify IP addresses located outside the United States and its territories.

We attempted to assess the reliability of the data by performing limited testing. However, neither SBA nor the contractor provided 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 produces the best available data, which SBA uses to manage the program and derive program statistics.

Additionally, SBA and contractor officials told us the login records of the client portal were not reliable to use in this review. SBA's contractor told us the computer software at the client portal was not updated to capture the increased number of characters of the newer Internet Protocol version 6 addresses, but that it did not affect the login records of the application intake point. Consequently, we were unable to reliably analyze the foreign IP addresses that accessed the client portal. Based on the contractor's statement, our analyses about devices with foreign IP addresses accessing the initial application submitted at the intake point remain reliable.

We ran the IP addresses in the loan data through a geolocation software tool from a private vendor to identify the internet provider used by the applicant and the location of the device used to submit the application. The geolocator tool that we used to identify the applications received from outside the U. S. and its territories is used by OIG Investigations Division and other government agencies. This geolocator tool asserts a 99.8 percent accuracy rate for identifying the internet service providers and specific locations of the submitted IP addresses.

We judgmentally selected 50 COVID-19 EIDL applications submitted from 12 randomly selected countries. These specific loans were selected in order to provide a wide or reasonable representation of countries. To confirm that the IP addresses used to submit

these 50 EIDLs were from outside the United States and its territories, we used a second and distinct geolocator tool to retest them. This tool confirmed that all 50 EIDL applications in our test sample had come from the foreign location identified by the first geolocator tool.

We selected a sample of 50 loans approved between April 20, 2020 and April 23, 2021, totaling more than \$8.4 million. These were judgmentally selected because they originated from the 12 randomly selected countries. We tested the 50 EIDL files to determine whether SBA had identified the foreign source of the loan application, and if so, whether a loan officer reviewed the system flag to determine whether the application was legitimately from an eligible applicant.

We conducted this evaluation 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 plan and perform the inspection to obtain sufficient, appropriate evidence to provide a reasonable basis for our conclusions and observations based on our objectives.

Appendix II: Prior Work

Table 6. OIG Prior Oversight Work on SBA’s COVID-19 EIDL Program

Report Title	Report Number	Final Report Date
<i>COVID-19 EIDL Program Recipients on the Department of Treasury’s Do Not Pay List</i>	SBA OIG 22-06	November 30, 2021
<i>SBA’s Emergency EIDL Grants to Sole Proprietors and Independent Contractors</i>	SBA OIG 22-01	October 7, 2021
<i>SBA’s Handling of Identity Theft in the COVID-19 EIDL Program</i>	SBA OIG 21-15	May 6, 2021
<i>Serious Concerns About SBA’s Control Environment and the Tracking of Performance Results in the Shuttered Venue Operators Grant Program</i>	SBA OIG 21-13	April 7, 2021
<i>Inspection of Small Business Administration’s Initial Disaster Assistance Response to the Coronavirus Pandemic</i>	SBA OIG 21-02	October 28, 2020
<i>Serious Concerns of Potential Fraud in EIDL Program Pertaining to the Response to COVID-19</i>	SBA-OIG 20-16	July 28, 2020
<i>White Paper: Risk Awareness and Lessons Learned from Audits and Inspections of EIDLs and Other Disaster Lending</i>	SBA OIG 20-12	April 3, 2020

Source: SBA OIG

Appendix III: Foreign IP Loan Data by Country

The following table is a comprehensive list of COVID-19 EIDLs disbursed for approved loan applications submitted to SBA from foreign IP addresses in descending order of total number of applications. The countries are listed from higher to lower based on the number of applications submitted.

Country	Applications Submitted	Total Approved Grants and Advances	Total Approved Amount, Grants and Advances (dollars)	Total Approved EIDLs	Total Amount, EIDLs (dollars)	Total Disbursed Amount (dollars)
Nigeria	33,477	241	\$1,109,000	496	\$18,452,300	\$19,561,300
Pakistan	29,290	632	3,353,000	483	43,862,300	47,215,300
Canada	20,500	3,755	19,236,000	2,062	164,071,090	183,307,090
Mexico	14,656	3,100	12,740,000	2,081	145,128,775	157,868,775
United Kingdom	12,007	1,358	6,418,000	834	59,884,398	66,302,398
Philippines	9,762	658	3,399,000	335	25,902,800	29,301,800
Dominican Republic	9,524	781	3,750,000	564	30,397,700	34,147,700
India	9,273	1561	6,763,000	1061	137,027,317	143,790,317
Germany	6,061	719	3,056,000	355	18,106,768	21,162,768
Netherlands	4,583	337	1,812,000	218	15,422,400	17,234,400
Ghana	4,313	68	351,000	59	3,273,100	3,624,100
Colombia	3,956	811	2,776,000	588	38,187,300	40,963,300
France	3,632	438	1,885,000	248	16,639,600	18,524,600
Israel	3,198	917	3,460,000	656	72,275,200	75,735,200
Turkey	3,030	298	883,000	158	12,808,900	13,691,900
Spain	2,967	540	1,363,000	284	20,934,800	22,297,800

South Africa	2,723	127	591,000	126	9,275,300	9,866,300
Jamaica	2,525	191	812,000	168	8,596,500	9,408,500
United Arab Emirates	2,459	183	748,000	92	9,900,800	10,648,800
Australia	2,315	330	1,284,000	184	12,920,800	14,204,800
Brazil	2,285	373	1,557,000	225	15,016,000	16,573,000
Japan	2,052	396	1,695,000	172	7,183,700	8,878,700
South Korea	1,830	397	1,295,000	159	11,609,000	12,904,000
Kenya	1,508	90	453,000	54	5,176,300	5,629,300
Italy	1,483	295	945,000	142	10,899,100	11,844,100
Switzerland	1,471	202	787,000	98	7,557,700	8,344,700
Costa Rica	1,458	389	1,356,000	280	23,914,000	25,270,000
Egypt	1,338	187	1,040,000	108	7,475,600	8,515,600
Thailand	1,231	311	1,174,000	167	9,080,900	10,254,900
Argentina	1,146	317	1,403,000	135	7,625,900	9,028,900
Hong Kong	1,124	224	1,021,000	97	6,698,300	7,719,300
Vietnam	1,099	312	1,050,000	127	9,011,300	10,061,300
Romania	1076	90	331,000	45	4,018,500	4,349,500
Russia	1055	100	448,000	47	3,568,800	4,016,800
Singapore	933	156	707,000	70	4,767,200	5,474,200
Ecuador	923	159	501,000	96	6,217,800	6,718,800
Venezuela	874	187	526,000	70	5,014,400	5,540,400
Taiwan	827	230	656,000	89	6,328,400	6,984,400
Morocco	822	83	511,000	39	1,898,400	2,409,400
Burkina Faso	816	7	64,000	10	610,300	674,300
Ukraine	812	106	419,000	74	6,834,500	7,253,500
Portugal	781	116	360,000	78	3,736,800	4,096,800

Bulgaria	768	89	338,000	64	4,837,400	5,175,400
Ethiopia	740	50	422,000	47	3,149,100	3,571,100
Peru	692	204	652,000	140	7,186,400	7,838,400
Jordan	680	96	410,000	57	4,578,500	4,988,500
Greece	607	101	355,000	76	4,954,900	5,309,900
Austria	603	71	299,000	43	2,958,700	3,257,700
Haiti	597	41	201,000	33	1,281,100	1,482,100
Malaysia	589	43	179,000	30	1,840,900	2,019,900
Nicaragua	557	122	497,000	108	12,241,800	12,738,800
Belgium	550	87	389,000	38	2,114,900	2,503,900
Bangladesh	538	81	688,000	58	5,621,200	6,309,200
Indonesia	532	98	329,000	62	4,207,399	4,536,399
Ireland	520	109	557,000	62	6,241,100	6,798,100
Senegal	507	45	300,000	30	1,243,200	1,543,200
Sweden	497	83	285,000	51	3,094,800	3,379,800
China	488	64	316,000	26	1,268,100	1,584,100
Bahamas	479	75	332,000	49	2,768,100	3,100,100
Poland	472	90	273,000	55	2,549,000	2,822,000
Panama	444	105	426,000	82	7,678,400	8,104,400
Cyprus	437	14	51,000	12	378,100	429,100
New Zealand	428	139	489,000	78	6,085,200	6,574,200
Chile	384	82	323,000	38	3,475,200	3,798,200
Serbia	378	78	273,000	62	7,088,500	7,361,500
Georgia	369	43	142,000	23	1,023,700	1,165,700
Guatemala	366	87	302,000	47	2,238,400	2,540,400
Afghanistan	358	70	299,000	31	1,289,700	1,588,700
Honduras	350	67	317,000	44	3,491,100	3,808,100

Saudi Arabia	342	86	340,000	32	1,742,500	2,082,500
Armenia	313	45	197,000	27	2,084,900	2,281,900
Belize	301	35	173,000	29	966,900	1,139,900
Denmark	294	64	397,000	35	1,438,500	1,835,500
Albania	290	19	96,000	11	1,073,600	1,169,600
Benin	289	2	16,000	2	67,300	83,300
Kuwait	285	72	371,000	25	1,160,100	1,531,100
Lebanon	268	57	235,000	46	4,608,600	4,843,600
Czechia	263	49	148,000	23	1,100,600	1,248,600
El Salvador	256	32	149,000	22	2,603,100	2,752,100
Iraq	256	26	148,000	16	538,800	686,800
Norway	252	38	83,000	28	845,500	928,500
Antigua and Barbuda	240	17	75,000	12	2,177,000	2,252,000
Palestine	225	27	78,000	16	1,401,500	1,479,500
Finland	223	18	63,000	15	1,542,300	1,605,300
Cambodia	216	29	105,000	18	944,900	1,049,900
Bahrain	211	30	195,000	18	648,400	843,400
Somalia	210	15	144,000	4	208,000	352,000
Luxembourg	207	25	147,000	6	287,300	434,300
Hungary	201	39	116,000	29	2,814,000	2,930,000
Uganda	199	21	130,000	11	720,100	850,100
Barbados	198	26	131,000	21	1,514,499	1,645,499
Tanzania	195	9	30,000	8	276,800	306,800
Trinidad and Tobago	194	47	185,000	31	2,043,500	2,228,500
Uzbekistan	192	26	108,000	12	1,470,500	1,578,500
Algeria	181	20	117,000	4	57,100	174,100

Cameroon	179	13	88,000	10	553,700	641,700
Sudan	178	10	69,000	5	530,300	599,300
Croatia	177	41	255,000	21	1,161,000	1,416,000
Cuba	175	28	82,000	8	194,200	276,200
Ivory Coast	172	8	38,000	8	403,900	441,900
Liberia	169	11	69,000	11	517,000	586,000
Nepal	167	26	91,000	13	588,100	679,100
Moldova	154	27	84,000	12	802,600	886,600
Tunisia	154	12	60,000	8	648,100	708,100
Yemen	154	10	77,000	5	629,600	706,600
Togo	153	2	2,000	6	215,800	217,800
Guinea	151	9	107,000	3	208,500	315,500
Qatar	142	34	126,000	17	679,600	805,600
Mali	139	8	79,000	5	858,700	937,700
Iceland	137	18	76,000	15	1,168,900	1,244,900
Sri Lanka	136	26	119,000	16	1,148,300	1,267,300
Guyana	132	13	63,000	6	328,100	391,100
Bolivia	131	39	151,000	18	648,500	799,500
Gambia	131	7	54,000	5	578,000	632,000
Sierra Leone	121	9	20,000	3	171,000	191,000
Azerbaijan	118	9	12,000	4	177,000	189,000
Belarus	118	28	129,000	10	742,000	871,000
Iran	112	8	26,000	4	139,900	165,900
Cayman Islands	111	32	103,000	15	2,361,000	2,464,000
Aruba	110	10	31,000	8	251,200	282,200
North Macedonia	110	27	108,000	13	1,477,400	1,585,400

Lithuania	108	20	53,000	9	910,600	963,600
Slovakia	106	17	98,000	8	834,200	932,200
Uruguay	106	21	72,000	11	801,800	873,800
Eritrea	104	8	26,000	4	181,000	207,000
Mauritania	104	6	36,000	0	0	36,000
Mongolia	101	11	72,000	4	731,600	803,600
Estonia	96	12	39,000	6	246,500	285,500
Latvia	89	21	122,000	11	629,800	751,800
Bosnia and Herzegovina	88	14	75,000	14	1,116,300	1,191,300
Myanmar	83	40	226,000	10	835,300	1,061,300
Kyrgyzstan	74	13	49,000	7	729,200	778,200
DR Congo	70	2	5,000	1	150,000	155,000
Saint Lucia	68	15	66,000	7	277,700	343,700
Sint Maarten	68	16	55,000	16	1,154,500	1,209,500
British Virgin Islands	64	12	30,000	13	975,500	1,005,500
Rwanda	62	5	26,000	6	870,200	896,200
Seychelles	61	4	23,000	4	110,900	133,900
Bermuda	57	11	52,000	9	367,100	419,100
Curacao	57	20	64,000	14	791,500	855,500
Anguilla	53	8	12,000	5	271,600	283,600
Turks and Caicos Islands	52	12	54,000	6	839,700	893,700
Kazakhstan	50	6	12,000	3	164,000	176,000
Grenada	47	7	37,000	5	103,300	140,300

Oman	46	6	20,000	4	60,500	80,500
Tajikistan	46	7	65,000	3	62800	127,800
Botswana	43	1	1,000	0	0	1,000
Saint Vincent and the Grenadines	43	7	26,000	4	348,000	374,000
Djibouti	42	6	18,000	5	98,000	116,000
Saint Martin	38	7	49,000	3	217,500	266,500
St Kitts and Nevis	38	6	32,000	5	727,000	759,000
Montenegro	36	4	21,000	3	186,500	207,500
Mauritius	35	4	13,000	0	0	13,000
Zimbabwe	34	1	1,000	0	0	1,000
Cabo Verde	31	1	15,000	1	69,900	84,900
Malta	30	4	4,000	4	1,261,900	1,265,900
Dominica	29	4	14,000	5	243,600	257,600
Slovenia	28	6	39,000	1	20,000	59,000
Laos	27	4	33,000	1	24,000	57,000
Zambia	24	0	0	1	13,000	13,000
Paraguay	23	4	21,000	3	107,700	128,700
Macao	21	4	13000	2	58,900	71,900
Libya	19	2	2,000	0	0	2,000
Niger	19	0	0	0	0	0
Guadeloupe	18	4	17000	2	98500	115,500
Reunion	18	0	0	0	0	0
French Polynesia	15	2	2,000	1	11600	13,600

Gabon	15	1	10000	0	0	10,000
Angola	13	0	0	1	24,400	24,400
Maldives	13	1	15000	1	4,800	19,800
Syria	13	2	2,000	1	21,500	23,500
Namibia	12	1	4,000	1	76,500	80,500
Samoa	12	1	15000	2	106,000	121,000
Malawi	11	0	0	3	147,300	147,300
Lesotho	10	2	12,000	0	0	12,000
Mozambique	10	3	15,000	2	183,900	198,900
Principality of Monaco	9	3	3,000	2	88,000	91,000
Greenland	8	0	0	0	0	0
Saint Barthelemy	8	1	1,000	1	301300	302,300
Andorra	7	2	3,000	2	154700	157,700
Fiji	7	2	11,000	0	0	11,000
Burundi	6	0	0	0	0	0
Eswatini	6	1	1000	0	0	1,000
Isle of Man	6	1	5000	0	0	5,000
Sao Tome and Principe	6	2	2000	0	0	2,000
Bhutan	5	1	1,000	1	107,000	108,000
Bonaire, Sint Eustatius, and Saba	5	1	1,000	1	150,000	151,000
Brunei	5	0	0	0	0	0
Chad	5	0	0	0	0	0
Congo Republic	5	1	1000	0	0	1,000

French Guiana	5	0	0	0	0	0
Palau	5	3	9000	1	36,400	45,400
Tonga	5	0	0	0	0	0
Martinique	4	0	0	1	549900	549,900
Central African Republic	3	0	0	0	0	0
Guernsey	3	1	10000	1	500000	510,000
Jersey	3	0	0	0	0	0
New Caledonia	3	0	0	0	0	0
British Indian Ocean Territory	2	0	0	0	0	0
Gibraltar	2	0	0	0	0	0
Kosovo	2	0	0	0	0	0
Papua New Guinea	2	2	21,000	0	0	21,000
Suriname	2	0	0	0	0	0
Cook Islands	1	0	0	0	0	0
Equatorial Guinea	1	1	8000	0	0	8,000
Madagascar	1	1	1000	0	0	1,000
Marshall Islands	1	0	0	0	0	0
Montserrat	1	1	1000	1	10100	11,100

Pitcairn Islands	1	0	0	0	0	0
Total	233,872	25,765	\$111,490,000	15,873	\$1,202,878,146	\$1,314,368,146

Source: OIG analysis, SBA COVID-19 loan data as of November 12, 2021

Appendix IV: Management Comments

SBA RESPONSE TO EVALUATION REPORT



U.S. SMALL BUSINESS ADMINISTRATION
WASHINGTON, DC 20416

To: Hannibal “Mike” Ware
Inspector General
Office of Inspector General (OIG)

From: Patrick Kelley /*Patrick Kelly*
Associate Administrator
Office of Capital Access

Subject: Response to OIG Draft Report entitled “COVID-19 Economic Injury Disaster Loan Applications Submitted from Foreign IP Addresses” (Project 21803)

Date: August 24, 2022

Thank you for providing the Office of Capital Access (OCA) the opportunity to respond to OIG’s Draft Report entitled, “COVID-19 Economic Injury Disaster Loan Applications Submitted from Foreign IP Addresses,” dated July 21, 2022. The objective of this audit was to assess the U.S. Small Business Administration’s (SBA) controls internal controls in place to flag or prevent potentially fraudulent COVID-19 EIDL applications submitted from foreign internet protocol (IP) addresses.

It is important to remember that the COVID-19 Pandemic posed a national health and economic crisis of historic proportions equivalent to very few events in our country’s history. As a result, the initial focus of SBA’s COVID relief programs had to be on providing financial assistance as quickly as possible to respond to the crisis.

While it is true that great speed was needed when developing the COVID EIDL program and to deliver this economic assistance to millions of small businesses impacted by the pandemic; we do not believe there is a tradeoff between speed and fraud controls. SBA Administrator Isabella Guzman has directed the agency to operate with both speed and certainty.

The scope of the audit evaluates COVID EIDL applications received from March 20, 2020, through November 12, 2021. During this time, SBA received and processed over 21 million COVID EIDL applications and approved over 3.8 million loan requests totaling more than \$296 billion. SBA also approved 5.8 million EIDL Advances totaling \$20 billion, 486,000 Targeted EIDL Advances for \$4.2 billion, and 390,000 Supplemental Targeted EIDL Advances for \$2 billion. All together SBA provided over \$342 billion across 10.5 million COVID EIDL advances and loans.

Only one percent of all COVID EIDL applications successfully submitted to SBA originated from a foreign IP address, and just .01 percent were associated with a foreign country deemed high risk.

As mentioned in the OIG report, the initial system control established by the contractor and the previous administration was intended to block incoming applications from foreign IP addresses

originating from six foreign countries deemed high risk. The system control successfully blocked millions of attempts from foreign IP addresses to access the application intake portal. However, the control was not 100 percent successful; out of millions of failed attempts, 3,097 applications originating from an IP address associated with one of six foreign countries deemed high risk were able to access the application intake portal and submit a COVID EIDL application. This represents just .01 percent of the 21 million COVID EIDL applications submitted through the intake portal through November 12, 2021.

Less than .04 percent of all COVID EIDL advances and loans approved were associated with an application submitted from a foreign IP address, and less than .005 percent were associated with a foreign country deemed high risk.

As stated earlier, the COVID EIDL program provided millions of small businesses with hundreds of billions of dollars in direct assistance to help them with emergency working capital needs through the pandemic. As of November 12, 2021, SBA had approved over 3.8 million loan applications totaling more than \$296 billion. During this same period, the SBA also approved 6.7 million advances totaling more than \$26.2 billion across three separate advance programs, including the EIDL Advance, Targeted EIDL Advance and Supplemental Targeted Advance. Less than .04 percent of all COVID EIDL advances and loans approved through the scope of the audit were associated with an application submitted from a foreign IP address. Furthermore, just 185 loans equating to less than .005 percent of loans and advances approved during this period originated from a foreign IP address from one of the six countries deemed a high risk by the previous administration when setting up the control. Our teams are reviewing the 185 loans to ensure the proper holds were put in place and stop any further disbursements from being made to the applicant. Already we have found that funds were returned by the bank to SBA on four of the loans, which means loan funds did not reach those accounts.

The \$1.3 billion identified by the OIG that originated from applications submitted from a foreign IP address represents less than .04 percent of the more than \$342 billion approved by SBA for COVID EIDL advances and loans.

Out of the \$342 billion approved by the SBA through November 12, 2021, the OIG report found that \$1.3 billion was associated with an application that originated from a foreign IP address, which accounts for less than .04 percent of all funds approved for the COVID EIDL program during this period. Furthermore, the total dollar amount of COVID EIDL funds approved to the six foreign countries deemed high risk – \$14.3 million – represents .004 percent of the total advance and loan funds approved by the SBA during the scope of the audit.

OIG Recommendation 1 – Thoroughly review each COVID-19 EIDL, grant, and advance application submitted from foreign IP addresses that were approved and funded and verify eligibility. If ineligibility or evidence of potential fraud is found, SBA should stop any further or future disbursements, recover any disbursed funds, and refer fraudulent loans to OIG for investigation.

SBA Response: SBA partially agrees with the recommendation. We have already initiated a thorough review of the COVID EIDL applications that originated from a foreign IP address from one of the six countries deemed high risk, which should have been blocked by the established system controls during the scope of the audit. SBA will flag and conduct a proactive review using additional data

analytics on the approximately 35,000 unique files and stop any possible future disbursements on COVID EIDL applications that originated from a foreign IP address. Based upon the results of the data analytics, SBA will attempt recovery of improperly disbursed funds and will continue to refer all suspected cases of fraud to the OIG to be investigated and will support those criminal investigations and prosecutions conducted by the OIG, DOJ, and other law enforcement agencies.

The Office of Capital Access (OCA) has the following comments with respect to the OIG recommendation 1:

SBA partially concurs with this recommendation. Based on our initial review, we found there were approximately 35,000 unique COVID EIDL applications that originated from a foreign IP addresses and funds were disbursed. SBA will conduct a proactive review of COVID EIDL applications that received funds for potentially ineligible or fraudulent businesses using additional data analytics.

The system control established during this period was designed to block access to the application intake portal for six foreign countries deemed to be high risk. The total number of advances and loans approved that originated from applications submitted from foreign IP addresses from these six countries account for less than .005 percent of all COVID EIDL advances and loans approved during the scope of the audit. Furthermore, as the OIG acknowledged in the draft report, a business is not outrightly ineligible for COVID EIDL assistance simply because the individual who accessed the application intake portal did so from a foreign IP address. There are many scenarios where business owners, officers, accountants, or other representatives of an eligible business entity needed to apply for the COVID EIDL program from overseas, either out of necessity or convenience. It is important to remember that in the early months of the COVID-19 Pandemic, strict quarantine rules and travel restrictions delayed some people from returning to the United States. Because of the limited funds available for the COVID EIDL Advance program, there was a real sense of urgency to apply as soon as possible for business owners out of fear the funds would be exhausted quickly. Those concerns were validated when the SBA approved 5.8 million COVID EIDL advances and exhausted the full \$20 billion appropriated by Congress in just over 90 days.

SBA will attempt recovery and will continue to refer all suspected cases of fraud to the OIG to be investigated and will support those criminal investigations and prosecutions conducted by the OIG, DOJ, and other law enforcement agencies. We were pleased to see President Biden sign bipartisan legislation – the COVID–19 EIDL Fraud Statute of Limitations Act of 2022 – which doubles the statute of limitations for criminal investigations and prosecutions of fraudsters that stole taxpayer-funded assistance intended to help legitimate small businesses.

OIG Recommendation 2 – Examine controls related to foreign IP addresses and ensure these controls are more effective in future disaster processing systems.

SBA Response: SBA concurs with this recommendation and agrees to examine controls related to foreign IP addresses and ensure these controls are more effective in future disaster processing systems.