

U.S. Small Business Administration
Office of Inspector General

**TOP MANAGEMENT AND PERFORMANCE CHALLENGES
FACING THE SMALL BUSINESS ADMINISTRATION
IN FISCAL YEAR 2023**



October 14, 2022

Report 23-01

CONTENTS

- Message From the Inspector General..... iv**
 - Color Coding to Indicate Progress in Challengesiv
 - Table 1. Color Code Definitions..... v
 - FY 2023 Challenges and Issues..... v
 - Table 2. Top Management and Performance Challenges Facing SBA in FY 2023vi
- Challenge 1: SBA’s Economic Relief Programs Are Susceptible to Significant Fraud Risks and Vulnerabilities.....1**
 - Why This Is a Challenge 1
 - Paycheck Protection Program 1
 - COVID-19 Economic Injury Disaster Loan..... 2
 - Issue: Paycheck Protection Program Susceptible to Abuse and Fraud..... 2
 - Borrowers in the Do Not Pay Database 3
 - Taxpayer Identification Number Registered after February 15, 2020 4
 - Duplicate Loans Made Under the Paycheck Protection Program 4
 - Paycheck Protection Program Loan Forgiveness 4
 - Program Changes Expanded the Opportunity for Sole Proprietor and Independent Contractor Fraud 5
 - SBA’s Handling of Potentially Fraudulent Paycheck Protection Program Loans 5
 - Agency Progress..... 6
 - Remaining Challenges..... 6
 - Issue: Paycheck Protection Program Eligibility 7
 - Businesses Exceeding Maximum Loan Amounts 7
 - Businesses that Exceeded Maximum Size Standards 7
 - Agency Progress..... 7
 - Issue: Paycheck Protection Program Data Reliability 8
 - Underserved Market Data Was Incomplete..... 8
 - North American Industry Classification System (NAICS) Data Was Incomplete..... 9
 - Job Statistics Were Inaccurate and Incomplete 9
 - Agency Progress..... 9
 - Issue: SBA Must Review COVID-19 EIDLs and Grants for Potential Fraud Identified in Previous OIG Reports .. 10
 - Agency Progress..... 11
- Challenge 2: Inaccurate Procurement Data and Eligibility Concerns in Small Business Contracting Programs Undermine the Reliability of Contracting Goal Achievements12**
 - Why This Is a Challenge 12
 - Issue: Agencies Receive Credit for Ineligible Firms or Those No Longer in the HUBZone or Women-Owned Small Business Programs 12
 - Agency Progress..... 14
 - Issue: Women-Owned Small Business Federal Certification Program Susceptible to Abuse..... 14
 - Agency Progress..... 15
- Challenge 3: SBA Faces Significant Challenges in IT Investment, System Development, and Security Controls.....16**
 - Why This Is a Challenge 16

Issue: SBA’s IT Investment Controls Need Improvement	16
Agency Progress.....	17
Issue: Existing System Development and Monitoring Controls Need to Reflect Changing IT Design Risks.....	17
Agency Progress.....	19
Issue: Additional Progress Needed in IT Security Controls.....	19
Agency Progress.....	19
Challenge 4: SBA Risk Management and Oversight Practices Need Improvement to Ensure the Integrity of Loan Programs.....	20
Why This Is a Challenge	20
Issue: SBA’s Oversight of High-Risk Lending Participants	20
Agency Progress.....	21
Issue: Increased Risk Introduced by Loan Agents	21
Agency Progress.....	22
Issue: Increased Risk Introduced by Lender Service Providers	22
Agency Progress.....	23
Challenge 5: SBA’s Management and Monitoring of the 8(a) Business Development Program Needs Improvement.	24
Why This Is a Challenge	24
Issue: SBA Continues to Address Its Ability to Develop Firms in the 8(a) Program and Measure Results.....	24
Agency Progress.....	25
Challenge 6: Identification of Improper Payments in SBA’s 7(a) Loan Program Remains a Challenge	26
Why This Is a Challenge	26
Issue: Improvements Needed to Ensure High-Risk 7(a) Loan Reviews Reduce the Risk of Losses	26
Agency Progress.....	27
Challenge 7: SBA’s Disaster Assistance Program Must Balance Competing Priorities to Deliver Prompt Assistance but Prevent Fraud	28
Why This Is a Challenge	28
Issue: Reserve Staff Need Training to Sustain Productivity During Mobilization	28
Agency Progress.....	29
Issue: Improper Payment Quality Assurance Process Needs Strengthening	29
Agency Progress.....	30
Issue: Unprecedented Increase in Servicing COVID-19 EIDLs	30
Agency Progress.....	31
Challenge 8: SBA Needs Robust Grants Management Oversight	33
Why This Is a Challenge	33
Issue: SBA’s Grants Management System Needs Improvement.....	33
Agency Progress.....	33
Issue: Better Performance Measurements Needed to Monitor Grant Program Achievements	34
Agency Progress.....	36
Issue: Comprehensive Oversight Plan with Strong Controls Will Help SBA Better Assess Risk, Distribute Payments, and Audit the Shuttered Venue Operators Grant and Restaurant Revitalization Fund Programs ...	36
Agency Progress.....	37

Issue: Leveraging SBA’s Workforce to Ensure Effective Administration of New and Significantly Expanded Grant Programs to Aid Small Businesses	38
Agency Progress.....	38



Message From the Inspector General

I am pleased to present the Office of Inspector General (OIG) Report on the *Top Management and Performance Challenges Facing the Small Business Administration in Fiscal Year 2023*.

Over 2 years have passed since the start of the Coronavirus Disease 2019 (COVID-19) pandemic economic crisis, and OIG continues to provide independent and objective oversight of the U.S. Small Business Administration (SBA). SBA has faced a steady stream of unprecedented new challenges as the primary agency responsible for providing nationwide assistance to small businesses during the crisis.



However, even before the pandemic, SBA faced major challenges in managing enormous financial lending programs, information technology, and other areas. This report discusses eight major performance challenge areas and the issues that contribute to the challenges, many of which we have discussed in previous OIG reports (see Table 2).

I believe managing COVID-19 stimulus lending is the greatest overall challenge facing SBA, and it may likely continue to be for many years as the agency grapples with fraud in the programs, particularly in the Economic Injury Disaster Loan Program and the processing of Paycheck Protection Program loan forgiveness. Pandemic response has, in many instances, magnified the challenging systemic issues in SBA's mission-related work.

OIG remains committed to protecting the interests of all American taxpayers by promoting positive change within SBA and across government. Our audits and investigations continue to keep watch over government contractors for business ethics, integrity, honesty, and competency along with SBA programs, ensuring taxpayer dollars are spent efficiently according to intent.

Color Coding to Indicate Progress in Challenges

In this report, we use a color gauge as a visual indicator of the agency's progress in confronting the issues that make a particular function a top management challenge. Each issue that contributes to the main challenge includes a small color gauge image that indicates whether the agency has made little, no, or significant progress on the issue to date. (See Table 1).

Table 1. Color Code Definitions

Color	Definition	Color Indicator
Green	Issue Resolved or Appropriately Reduced	
Yellow	Substantial Progress	
Orange	Moderate or Limited Progress	
Red	No Progress	
N/A	New, Not Rated	
N/A	Not Rated (extenuating circumstances)	

FY 2023 Challenges and Issues

Identification of an issue as a top challenge does not necessarily denote significant deficiencies or lack of attention on SBA’s part. Many of the top management challenges are longstanding, inherently difficult, and may likely continue to be challenges in the coming years. Addressing the challenges will require consistent, focused attention from agency management and ongoing engagement with Congress, the public, and other stakeholders. It is also important to note that the top challenges are not listed in order of importance or magnitude, except for the COVID-19 challenge, which we address first in this report. We view all eight challenges as critically important to SBA operations.

Overall, the agency has made progress addressing this year’s list of management challenges. We removed three issues this year related to the 8(a) Business Development Program, which had been included in Challenge 5. One issue was how SBA’s streamlined application process may expose the 8(a) program to higher fraud risk. The second issue we removed dealt with the processes and reducing risks of ineligible firms participating in the 8(a) program. We believe that progress mitigating these issues is in large part attributable to the agency’s continued effort to address outstanding internal control recommendations from our audits and evaluations.

The third issue had related to economically disadvantaged determination criteria. SBA plans to conduct an assessment of the FY 2020 changes to the economic disadvantage thresholds for the 8(a) program next year, using FY 2021 and FY 2022 data. We believe the agency’s commitment to monitoring the effects of the networth threshold changes mitigate this risk and the issue is no longer a top management challenge for the agency.

The management challenges report is an important tool to help the agency prioritize its work to improve program performance and enhance operations. These challenges will guide OIG work in the coming year; we look forward to continuing to work with SBA’s leadership team to address the agency’s top management and performance challenges.

Table 2. Top Management and Performance Challenges Facing SBA in FY 2023

Challenge	Issue
<p>Challenge 1 SBA’s Economic Relief Programs Are Susceptible to Significant Fraud Risks and Vulnerabilities</p>	<p>Paycheck Protection Program Susceptible to Abuse and Fraud Paycheck Protection Program Eligibility Paycheck Protection Program Data Reliability SBA Must Review COVID-19 EIDLs and Grants for Potential Fraud Identified in Previous OIG Reports</p>
<p>Challenge 2 Inaccurate Procurement Data and Eligibility Concerns in Small Business Contracting Programs Undermine the Reliability of Contracting Goal Achievements</p>	<p>Agencies Receive Credit for Ineligible Firms or Those No Longer in the HUBZone or Women-Owned Small Business Programs Women-Owned Small Business Federal Certification Program Susceptible to Abuse</p>
<p>Challenge 3 SBA Faces Significant Challenges in IT Investment, System Development, and Security Controls</p>	<p>SBA’s IT Investment Controls Need Improvement Existing System Development and Monitoring Controls Need to Reflect Changing IT Design Risks Additional Progress Needed in IT Security Controls</p>
<p>Challenge 4 SBA Risk Management and Oversight Practices Need Improvement to Ensure the Integrity of Loan Programs</p>	<p>SBA’s Oversight of High-Risk Lending Participants Increased Risk Introduced by Loan Agents Increased Risk Introduced by Lender Service Providers</p>
<p>Challenge 5 SBA’s Management and Monitoring of the 8(a) Business Development Program Needs Improvement</p>	<p>SBA Continues to Address Its Ability to Develop Firms in the 8(a) Program and Measure Results</p>
<p>Challenge 6 Identification of Improper Payments in SBA’s 7(a) Loan Program Remains a Challenge</p>	<p>Improvements Needed to Ensure High-Risk 7(a) Loan Reviews Reduce the Risk of Losses</p>
<p>Challenge 7 SBA’s Disaster Assistance Program Must Balance Competing Priorities to Deliver Prompt Assistance but Prevent Fraud</p>	<p>Reserve Staff Need Training to Sustain Productivity During Mobilization Improper Payment Quality Assurance Process Needs Strengthening Unprecedented Increase in Servicing COVID-19 EIDLs</p>

<p>Challenge 8 SBA Needs Robust Grants Management Oversight</p>	<p>SBA's Grants Management System Needs Improvement Better Performance Measurements Needed to Monitor Grant Program Achievements Comprehensive Oversight Plan with Strong Controls Will Help SBA Better Assess Risk, Distribute Payments, and Audit the Shuttered Venue Operators Grant and the Restaurant Revitalization Fund Programs Leveraging SBA's Workforce to Ensure Effective Administration of New and Significantly Expanded Grant Programs to Aid Small Businesses</p>
----------------------------------------------------------------------------	------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------

Challenge 1: SBA's Economic Relief Programs Are Susceptible to Significant Fraud Risks and Vulnerabilities

Why This Is a Challenge

More than 30 million small businesses in the United States have been adversely affected by the Coronavirus Disease 2019 (COVID-19) pandemic economic crisis. The President signed the Coronavirus Aid, Relief, and Economic Security (CARES) Act into law on March 27, 2020 to provide economic relief to our nation.

In response to the economic crisis, SBA disbursed CARES Act funds through the Paycheck Protection Program (PPP) and the Economic Injury Disaster Loan (EIDL) program in amounts unprecedented in SBA's history. The programs needed proper controls to ensure they operated as intended in this high-risk environment. The absence of a proper control environment led to significant fraud risk and vulnerabilities, which is why this continues to be a top challenge in Fiscal Year (FY) 2023.

OIG's PPP and EIDL oversight and investigative work has resulted in 449 indictments, 354 arrests, and 303 convictions as of July 31, 2022. As of July 31, 2022, OIG has received more than 208,000 Hotline complaints since the start of SBA's pandemic relief programs. Additionally, OIG collaboration with SBA and the U.S. Secret Service has resulted in the seizure of more than \$1 billion stolen by fraudsters from the EIDL program. We also played a key role in assisting financial institutions in the return of another \$8 billion to SBA's EIDL program. In addition, SBA has also received over \$20 billion in EIDL funds returned by borrowers.

To date, we have issued 10 reports related to the PPP program and 10 reports related to the COVID-19 EIDL program.

Paycheck Protection Program

In early April 2020, SBA launched the \$349 billion PPP in collaboration with the U.S. Department of the Treasury. On April 24, 2020, Congress appropriated an additional \$310 billion for the PPP through the Paycheck Protection Program and Health Care Enhancement Act, bringing the total for the program to \$659 billion.

Under the Economic Aid to Hard-Hit Small Businesses, Nonprofits, and Venues Act, the PPP was extended on December 27, 2020 to provide more than \$284 billion in SBA-guaranteed loans. On March 11, 2021, the American Rescue Plan Act of 2021 provided an additional \$7.2 billion to the PPP, which increased the total program funding to \$813.7 billion. On March 30, 2021, the President signed the PPP Extension Act of 2021, which allowed SBA to continue accepting new applications until May 31, 2021.

By the end of the program, SBA had processed 11.8 million PPP loans, totaling \$799.8 billion, through more than 5,400 private lenders, far more than all of SBA's combined lending under the 7(a) program from 1990 to 2019. In contrast, from FY 2000 to 2019, SBA made about 1.2 million 7(a) loans totaling \$333 billion. During that 20-year period, SBA made about 62,000 loans a year totaling about \$16.7 billion on average.

Under the CARES Act, SBA-guaranteed PPP loans for eligible small businesses, individuals, and nonprofits can be forgiven if proceeds were used in accordance with law. Eligible expenses include payroll, rent, utility payments, and other limited uses.

To quickly distribute funds during an economic crisis, SBA eased internal controls that could have helped to mitigate fraud and misuse of taxpayer funds. We believe this is the tip of a much larger iceberg, and we are working to identify the full extent of PPP fraud. The true magnitude of fraud in SBA pandemic assistance programs will be coming to light for many more years as these programs move through remaining stages, including loan forgiveness, repayment, and guaranty purchase.

COVID-19 Economic Injury Disaster Loan

In FY 2020, the CARES Act and the Paycheck Protection Program and Health Care Enhancement Act provided \$470 billion for disaster assistance and \$20 billion for emergency grants for eligible entities.

In FY 2021, the Economic Aid Act and the American Rescue Plan Act of 2021 together provided an additional \$30 billion in Targeted EIDL Advances and \$5 billion in Targeted Supplemental EIDL Advances to eligible entities that met additional criteria.

From March 2020 to the end of December 2021, SBA received more than 27.7 million COVID-19 EIDL applications and approved 3.7 million loans totaling \$303.6 billion. The COVID-19 EIDL program closed in May 2022. The severity of the economic crisis, and the demand for aid, is apparent when you compare these numbers to all other disaster loan spending outside the pandemic. Since the agency's inception in 1953, SBA has approved 2.2 million non-COVID-19 disaster loans for a total of \$66.7 billion.

SBA's existing application portal and processing system were initially overwhelmed by the 4.5 million EIDL applications submitted by April 10, 2020. To ease the strain and meet high demand for COVID-19 EIDLs, SBA contracted with a vendor that had previously assisted SBA in streamlining disaster loan processing. However, setting up a new application processing system quickly presented significant risks. Because of the unprecedented demand, SBA relaxed internal controls. This expedited funds to affected businesses, but also significantly increased the risk of program misuse and fraud.

The extent of the suspected fraud will become apparent as EIDL payments start coming due in October 2022. SBA anticipates that 30 to 50 percent of the 2.9 million COVID-19 EIDLs with an original loan amount of \$100,000 or less will default.

Issue: Paycheck Protection Program Susceptible to Abuse and Fraud



Because the PPP program has closed, the issue has evolved from preventing fraud in the PPP to identifying and remedying potential and suspected fraud that has already occurred. Since the program began, reports of suspected fraud have come in from OIG Hotline complaints, financial institutions, and other law enforcement agencies.

Examples of fraud schemes include:

- False statements on applications
- Fraudulent supporting documentation (such as payroll and tax forms)
- Accounts established using stolen identities
- Corporate and personal identity theft
- Inflation of payroll
- Misuse of proceeds
- Lender fraud

We have received an unprecedented number of OIG Hotline PPP complaints, including these potential fraud or scams:

- Loan applicants asserting a business that did not exist
- Business owners who received a loan but did not use the funds for allowable operational expenses
- Business owners who laid off employees to reduce employment numbers to qualify for a PPP loan
- Business owners who have refused to allow employees to return to work, telling them to continue unemployment assistance
- Online fraudsters who offered to prepare applications for a fee
- Business owners and individuals reporting identity theft

Internal control weaknesses limited SBA's ability to actively reduce and combat fraud and increased the risk of fraudulent and ineligible applicants receiving PPP loans and loan forgiveness. Strong internal controls will help reduce fraud risk and enhance program integrity for the PPP and similar programs enacted in the future.

It is important to note that these loans are considered potentially fraudulent because OIG has not completed a document-by-document review of loan files to confirm or resolve the suspicious activity; however, our investigations have substantiated these concerns which underscores the need for SBA to review loans identified as suspicious. Below is a description of issues OIG has identified related to potential fraud in the PPP.

Borrowers in the Do Not Pay Database

We coordinated with the U.S. Department of the Treasury to compare Taxpayer Identification Numbers and name data provided in PPP data files against Treasury's Do Not Pay debt, exclusions, and death data sources. We found tens of thousands of loans that matched a Treasury Do Not Pay data source record indicating potential loan ineligibility ([Report 21-06](#)).

The Treasury Department Do Not Pay system helps agencies fulfill the obligation to deny federal loans, loan insurance, and loan guarantees to businesses delinquent on federal debts and obligations. To be eligible to receive PPP funds, a business must not have any current federal debarments or suspensions,

and the applicant must not have delinquent federal loans or have defaulted on any federal loans in the last 7 years. In March 2021, SBA published an interim final rule that removed the eligibility restriction that prevents business owners who are delinquent or default on their federal student loans from obtaining PPP loans.

Taxpayer Identification Number Registered after February 15, 2020

The CARES Act required that businesses must have been in operation before February 15, 2020 to be eligible for a PPP loan. We found thousands of businesses obtained PPP loans with identification numbers that were not registered until after that date, which may indicate the businesses were created to fraudulently gain access to program funds ([Report 21-07](#)). We note that multiple borrowers in this group of identified loans have already been arrested and others are under active investigation.

Duplicate Loans Made Under the Paycheck Protection Program

SBA did not always have sufficient controls in place to detect and prevent duplicate PPP loans ([Report 21-09](#)). OIG has pursued multiple PPP criminal fraud cases related to duplicate loans made to the same business. Additionally, other federal agencies have pursued cases involving businesses with duplicate PPP loans. Based on our earlier review of PPP loan data as of August 31, 2020, we found that lenders made more than one PPP disbursement to 4,260 borrowers, which totaled about \$692 million and involved 8,731 loans.

Paycheck Protection Program Loan Forgiveness

Our evaluation of PPP loan review processes ([Report 22-09](#)) shows that the large number of borrowers who have not applied for forgiveness could be a strong indicator of fraud. Borrowers who fraudulently obtained a PPP loan are unlikely to apply for loan forgiveness because they have already obtained the funds with no intention to use them appropriately or to repay the loan.

Borrowers may submit a loan forgiveness application any time before the maturity date of the loan up to 5 years from loan origination. However, after the 10-month deferral period, if a borrower has not applied for loan forgiveness, they must begin making principal and interest payments. Most 2020 borrowers were likely to apply for forgiveness by October 31, 2021 to avoid making loan payments. Lenders then had 60 days to review a forgiveness application. Therefore, these forgiveness applications should have been submitted by lenders to SBA by December 30, 2021.

However, based upon further analysis by OIG as of May 30, 2022, we found about 150,000 PPP recipients, with loans totaling over \$6.3 billion, have not applied for forgiveness with SBA or made any principal payments. Over 52,000 of these loans have defaulted and had their guaranty honored by SBA for over \$2.8 billion. OIG is working on a project regarding these potentially fraudulent loans. PPP funds were intended to assist struggling business owners during a national economic crisis. We believe these 150,000 loan recipients either did not spend the money according to Congressional intent and therefore knew the loans would not be forgiven, or they had always intended to default and let the taxpayer pick up the bill.

Program Changes Expanded the Opportunity for Sole Proprietor and Independent Contractor Fraud

Changes made by SBA to expand access to the program for certain borrowers appear to have been exploited by unscrupulous applicants. In March 2021, SBA issued an interim final rule that allowed individuals who filed an IRS Form 1040, Schedule C, to calculate their maximum loan amount using gross income rather than net income ([Report 22-09](#)). This change led to a significant increase in the number of loans of \$20,833 or less, the maximum allowable loan amount for a Schedule C business with no employees.

In addition to OIG Hotline complaints, multiple financial institutions have contacted us about a significant number of PPP deposits in personal accounts, or made to those whom the financial institutions believe do not own businesses.

Based on our analysis of the PPP loan data, many of the Schedule C loans were made by lenders that relied exclusively on third-party loan processing or software platform vendors they hired to complete loan processes. These vendors do not often have a relationship with SBA. Data shows that 7 of the top 15 lenders made more than 2.4 million loans in 2021, or more than 18,000 loans per day, after having made fewer than 22,000 PPP loans combined in 2020. These seven lenders included financial technology (fintech) lenders, Community Development Financial Institutions, and small business lending companies.

We believe that these lenders and their reliance on third-party vendors could present SBA with several challenges moving forward, including access to loan documents. Within the context of the PPP eligibility and forgiveness process, we believe it is important for SBA to focus targeted efforts on these types of loans and review appropriate documentation to ensure these smaller loans were made to eligible businesses and minimize the losses associated with forgiveness of fraudulent loans.

SBA's Handling of Potentially Fraudulent Paycheck Protection Program Loans

In our inspection of potentially fraudulent PPP loans ([Report 22-13](#)), we found SBA did not have an organizational structure with clearly defined roles, responsibilities, and processes to manage and handle potentially fraudulent PPP loans. The agency did not establish a centralized entity to design, lead, and manage fraud risk because the agency did not establish a sufficient fraud risk framework. This was partly due to the speed in which SBA was required to launch the PPP, which was 15 days after enactment of the CARES Act, and the continuous and rapid discovery of different kinds of fraud schemes.

In addition, lenders were not always clear on how to handle PPP fraud or recover funds obtained fraudulently from the PPP that remained in the borrower's account. SBA did not provide lenders sufficient specific guidance to effectively handle potentially fraudulent PPP loans. Our report noted that SBA should provide information on the type of fraud lenders are finding and best practices for detecting and reporting that fraud to SBA and OIG. Specifically, SBA should instruct lenders on how to document and report the return of funds from the financial institution. This should include the reason for the return and any findings of fraud found by the financial institution and lender. Furthermore, SBA should provide instructions for lenders to report notice of seizures, forfeitures, and restitution to SBA. OIG has seen an increase in inquiries from financial institutions seeking guidance on how to address potentially

fraudulent loans. The loan forgiveness process could potentially trigger more fraud. The instructions would help SBA properly flag loans for potential fraud and account for the loan balance. This would help determine if there are any funds due to SBA if the loan had been forgiven or guaranty purchased.

Agency Progress

SBA has made substantial progress to reduce fraud risks and prevent further losses. When the PPP launched in 2020, SBA's fraud risk management approach for PPP loans was intentionally developed with more fraud and eligibility controls at the loan forgiveness phase rather than the application stage.

SBA was mandated by Congress to swiftly pay out, or disburse, funds to millions of struggling small businesses. Speed became the highest priority in complying with the mandate. SBA has since implemented fraud and eligibility controls and taken corrective actions to combat PPP fraud, including:

- Establishing a Fraud Risk Management Board in 2022
- Developing a webpage dedicating to preventing fraud and identity theft, which includes a section entitled "Lenders and Fraud Response"
- Developing aggregate review processes to identify different fraud scenarios
- Developing and implementing a Master Review Plan that established guidelines for loan and forgiveness reviews
- Increasing antifraud controls for loans originating in 2021, including checking application data against Treasury's Do Not Pay database
- Developing and implementing SBA and contractor fraud risk management policy and framework
- Increasing post-disbursement antifraud controls for loans that originated in 2020
- Commencing manual loan and forgiveness reviews
- Engaging a contractor with expertise in detection and identification of potential fraud
- Using a contractor's automated review tool and the SBA Paycheck Protection Platform to analyze loans for fraud and eligibility
- Implementing machine learning functionality to focus on areas of higher risk
- Providing outreach and training
- Implementing processes to refer potential fraud to SBA OIG

Remaining Challenges

Although SBA has made substantial progress in reducing fraud risks and preventing further loss, difficulties and challenges remain. The need to establish and utilize effective fraud, eligibility, and compliance controls while reviewing for loan eligibility, forgiveness, and guaranty purchase remains an ongoing challenge.

SBA's approach to fraud risk management allowed funds to disburse quickly, but presented risks of fraud when loans were originated. The method essentially relies on the post-origination controls to identify

and report instances of fraud and abuse that has already occurred, with funds also already disbursed. For funds disbursed on a fraudulent loan, the back-end controls established for the forgiveness stage may never be used.

SBA's plans and actions to reduce fraud risks and prevent further losses will determine how this challenge will continue to be rated in the future. Our investigations into suspected fraud and suspicious activities continue. We have ongoing or planned audit work on PPP loan eligibility, loan forgiveness, guaranty purchase, and lender activities to determine the effectiveness of agency implemented controls, and we will continue to monitor agency actions to assess and reduce fraud risk and address vulnerabilities in the PPP.

Issue: Paycheck Protection Program Eligibility



OIG reviews have found deficiencies with internal controls related to eligibility of borrowers. Our review of SBA's implementation of PPP identified thousands of loans erroneously provided to potentially ineligible borrowers. Review our sections above on the Do Not Pay database and Taxpayer Identification Numbers, which also reveal program eligibility issues. SBA lenders also inappropriately approved loans for businesses that exceeded maximum loan amounts for the

number of employees, and exceeded the maximum size allowed.

Businesses Exceeding Maximum Loan Amounts

We found tens of thousands of approved and disbursed loans were made to borrowers for amounts that exceeded the loan maximum based on the number of employees and compensation rates, as defined in the CARES Act ([Report 21-07](#)). The CARES Act states that the maximum loan amount is obtained by multiplying the average total monthly payments by the applicant for payroll costs incurred during the 1-year period before the date on which the loan is made times 2.5, plus any outstanding amounts of Economic Injury Disaster Loans made beginning January 31, 2020.

Businesses that Exceeded Maximum Size Standards

We found hundreds of businesses obtained PPP loans that may have been erroneously approved ([Report 21-07](#)). These businesses exceeded both 500 employees and the applicable employee-based size standard for the business industry. Under the CARES Act, an eligible business cannot exceed the greater of 500 employees or the SBA size standard for number of employees in the industry, if applicable.

Agency Progress

SBA has made substantial progress in strengthening controls to validate eligibility. Most notably, SBA initiated several corrective actions to enhance and develop additional controls to address loan reviews, loan forgiveness, and fraud, including:

- Developing the Master Review Plan, establishing guidelines for loan and forgiveness reviews (October 2020, revised June 2021)
- Developing and implementing SBA and contractor fraud risk management policy and framework
- Developing machine learning models to focus on areas of higher risk
- Implementing automated screening to detect potentially ineligible loans

The fraud control framework also includes a variety of antifraud controls in place designed to detect and mitigate possible instances of eligibility fraud. These controls include approved lender lists, verification with the Treasury Do Not Pay database, and compliance checks.

SBA also integrated affiliation data, which shows business affiliation through ownership and maximum number of employees, as well as maximum loan amount. SBA instituted an affiliation worksheet for PPP loan and forgiveness reviews. Swift management action to identify and review potentially ineligible loans could prevent improper payments to lenders because the associated loan forgiveness may still be in process.

As we complete current reviews and conduct future audit work, SBA’s plans and actions to reduce and prevent improper payments in addition to SBA’s corrective actions to address OIG recommendations will determine how we will rate this challenge in the future.

Issue: Paycheck Protection Program Data Reliability



OIG’s inspection of SBA’s implementation of the PPP found the data SBA reported and the loan-level PPP data was inaccurate and incomplete. Without accurate and complete data, SBA cannot reliably and accurately inform SBA management and Congress about program effectiveness and measures needed to inform program decisions.

Underserved Market Data Was Incomplete

At the beginning of the PPP program, our May 2020 flash report found that SBA’s demographic information for underserved markets for PPP borrowers was incomplete ([Report 20-14](#)). SBA’s borrower application for PPP did not include standard SBA fields to request demographic information. One week after we issued our flash report, SBA issued the initial PPP loan forgiveness application, which included an optional page for borrower demographic information. Notwithstanding, sufficient data may still not be collected.

Some borrowers may not apply for loan forgiveness while others may choose not to complete the optional page. Although ethnic demographic information is optional for SBA’s traditional loan programs and the PPP, SBA generally requests the demographic information as a section on a mandatory form. Borrowers have the option to decline to provide the information.

North American Industry Classification System (NAICS) Data Was Incomplete

We found SBA's loan-level data on PPP NAICS codes was incomplete ([Report 21-07](#)). SBA did not require the borrower to provide the industry classification code on the application, so lenders did not have the information to put in the loan processing platform. As of June 30, 2020, there were 222,096 loans totaling approximately \$9.9 billion that were identified as "Unclassified Establishments" because there was no industry classification data on the application.

Job Statistics Were Inaccurate and Incomplete

We found SBA's loan-level data for job statistics was inaccurate and incomplete ([Report 21-07](#)). We found that 191,003 loans totaling about \$11 billion did not include employment information in the required job field for the number of current employees. SBA officials said because of a backlog of loan applications before the beginning of the second round of PPP funding, lenders were allowed to submit loan applications in bulk. The officials said they turned off system controls to allow faster approval times. Of the 191,003 applications that did not have data for the number of current employees, 83,374 were approved during the first week of the second round of funding. Because SBA removed the internal control to check data in the "number of current employees" field, these loans, totaling about \$4 billion, were not validated before approving and issuing loan numbers to PPP lenders.

Agency Progress

SBA implemented a number of additional controls to ensure the integrity of the key data fields noted above, including:

- Adding mandatory fields in borrower and lender application processes, including NAICS code, demographic data, and number of employees
- Updating controls to ensure data accuracy and completeness of lender-reported data
- Instituting a procedure for lenders and borrowers to correct publicly available PPP loan data provided to SBA by delegated PPP lenders
- Adding controls for Taxpayer Identification Number data submission, Do Not Pay, and LexisNexis at origination

We have an ongoing audit reviewing PPP loan eligibility, loan forgiveness, and guaranty purchase. We will continue to assess the reliability of PPP loan data and monitor the agency's efforts to ensure data reliability.

Issue: SBA Must Review COVID-19 EIDLs and Grants for Potential Fraud Identified in Previous OIG Reports



Because the COVID-19 EIDL program has closed, the issue has evolved from preventing fraud in the program to identifying and remedying potential fraud that has already occurred.

Several reports issued by OIG since the start of the pandemic have identified potential fraud resulting from serious control weaknesses in the system SBA used to process COVID-19 EIDL and grants. Our

October 2020 inspection report of SBA's initial disaster assistance response to COVID-19 identified \$78.1 billion in potentially fraudulent loans and Targeted EIDL Advances to ineligible entities ([Report 21-02](#)).

Our May 2021 inspection report of SBA's handling of identity theft allegations in the COVID-19 EIDL program ([Report 21-15](#)) found \$6.7 billion in loans and advances related to identity theft allegations.

Our October 2021 inspection report of SBA emergency EIDL grants to sole proprietors and independent contractors ([Report 22-01](#)) found SBA provided \$4.5 billion more in advances and grants than the applicants were entitled to receive. The report identified 542,897 sole proprietors and 161,197 independent contractors who received a grant of more than \$1,000.

Lastly, our November 2021 inspection of the COVID-19 EIDL program recipients on the Department of Treasury's Do Not Pay List ([Report 22-06](#)) identified over \$3.1 billion in EIDLs and over \$550 million in emergency EIDL grants to potentially ineligible applicants in the Department of Treasury's Do Not Pay database. OIG has launched numerous investigations into the fraudulent activities found in these reports.

The agency is tasked with identifying and confirming potentially fraudulent loans and grants reported by OIG. The loans and grants in the reports listed above may overlap with each other so that the total of potentially fraudulent loans and grants may not equate to the total of all the numbers above. The loans and grants were potentially fraudulent because of these issues:

- Duplicate Internet Protocol (IP) addresses
- Duplicate email addresses
- Duplicate physical addresses
- Duplicate bank accounts
- Applicants found in Treasury's Do Not Pay database
- Applicants who registered Employee Identification Numbers (EIN) after the cut-off date
- Applicants with no EIN claiming numerous employees
- Applicants who changed their bank account numbers prior to disbursement

Although there is some overlap, there are a significant number of loans and grants that require further investigation. If fraud is confirmed or suspected, there are administrative actions the agency should take to hold the fraudsters accountable. SBA should refer the potentially fraudulent loans and grants to OIG

for investigation. It will be a significant challenge for SBA to review the potentially fraudulent loans and grants and subsequently remedy those determined to be fraudulent.

Agency Progress

The fraud review team in the Processing and Disbursement Center, the Chief Data Officer within the SBA Office of Performance, Planning, and the Chief Financial Officer collaborated on a data analytics project to help identify COVID-19 EIDLs that may be associated with identity theft or fraud. The results of this project are being used by the fraud review team in the Processing and Disbursement Center with their ongoing effort to research suspected cases of identity theft and fraud.

If it is determined that a file should be flagged for suspected fraud or identity theft, an agency hold (or hold funding) is added to the processing system. Holds are added to an application at any stage. They alert staff that special attention is required and that it should be reviewed. SBA is still reviewing loans that have been in hold for review to make a fraud determination.

The agency hold review system allowed staff to review an average of up to 1,500 files a day and recategorize or refer agency holds to the SBA Office of Disaster Assistance fraud review team. The SBA completed 157,705 reviews of electronic loan files on hold as of June 17, 2022.

While SBA has made progress in identifying and reviewing fraud and agency holds, we believe the sheer volume of potential fraudulent loans and grants discovered in OIG reports will be a continuing challenge to the agency as the deferment period ends for some EIDLs in October 2022 and borrowers are expected to begin making payments on these loans.

Challenge 2: Inaccurate Procurement Data and Eligibility Concerns in Small Business Contracting Programs Undermine the Reliability of Contracting Goal Achievements

Why This Is a Challenge

The government-wide goal of the Small Business Act is to ensure that 23 percent of all prime contracts are awarded to small businesses each fiscal year. Since FY 2013, the SBA has reported in its annual Small Business Procurement Scorecard that the federal government has met or exceeded that goal. This year SBA announced the federal government exceeded the FY 2021 goal, awarding 27 percent of prime contracts to small businesses. These contracts awarded to small businesses totaled \$154.2 billion, an \$8 billion increase from the previous fiscal year. SBA reported the federal government earned an “A” on this year’s government-wide scorecard.

Over the years, Congress has expressed concerns about the accuracy of the report. OIG and Government Accountability Office (GAO) audits have revealed a widespread problem of misreporting by agencies that award contracts to small firms with provisions or other contract language that allows larger companies to do most of the work. We recently found this to be the case in our evaluation of SBA’s set-aside contract awarded for COVID-19 EIDL recommendation services at the beginning of the pandemic ([Report 22-10](#)). SBA awarded the contract to a small business that subcontracted with a large business without assessing whether the relationship made the two businesses affiliated. Also, we found the subcontractor exceeded the subcontracting limits for this contract, which totaled \$773.8 million, at the time of our review.

As the federal government’s primary advocate for small business, SBA must continue to strive to ensure federal agencies award small business contracts only to eligible entities and that those qualifying businesses are counted in the assessment. SBA’s achievement reports do not portray federal contracting dollars obligated only to small businesses, and this reduces the ability of Congress and other federal policymakers to determine whether the government is maximizing contracting opportunities for small businesses.

Issue: Agencies Receive Credit for Ineligible Firms or Those No Longer in the HUBZone or Women-Owned Small Business Programs



SBA has changed HUBZone program requirements, widening eligibility and deviating from Congressional intent. These small, disadvantaged businesses are located in historically underutilized business zones. OIG continues to find that SBA does not consistently detect ineligible firms in its small business contracting certification programs.

A disadvantaged small business enters a 9-year program and is designated as an SBA 8(a) business. Agency contracting officers have reported ineligible firms as certified either in the HUBZone or 8(a) Business Development programs in the System for Award Management (SAM.gov). In 2020, the General Services Administration Office of Inspector General found \$89 million in contracting dollars erroneously recorded as awarded to small businesses in the Federal Procurement Data System—Next Generation, the contract reporting system of record at the time of the audit.

In 2018 and 2019, we found SBA did not ensure only eligible firms entered the HUBZone program. In 2020, SBA changed a HUBZone requirement, allowing certified businesses to have employees who are not current HUBZone residents. Under the new requirements, the business continues to meet the requirement as long as it has employees who lived in a HUBZone for at least 180 days after the business was first certified.

HUBZone businesses could have no employees residing in the HUBZone at all and still qualify because employees initially hired as HUBZone residents moved out of the HUBZone after the 180-day period. The requirements of the rule are clearly inconsistent with legislative intent.

SBA program success and integrity could be adversely affected if the agency admits ineligible firms into programs intended for disadvantaged small businesses. Before 2008, SBA certified small, disadvantaged businesses. SBA terminated its small, disadvantaged business certification program in 2008 as a result of court decisions, and since then, firms have self-certified. The awards made to these firms count toward the agency's contracting goals.

The Small Business Act requires that 5 percent of all prime and all subcontracts for the federal government be awarded to contractors with small, disadvantaged business status. In December 2021, the Office of Management and Budget raised the prime contracting goal for such businesses to 11 percent for FY 2022. Participants in the 8(a) program are considered small, disadvantaged businesses and awards made to them are also counted toward agency goals.

As of October 2022, SBA's Dynamic Small Business Search database included 149,326 firms that self-certified as small, disadvantaged businesses. Firms that falsely certify they are socially and economically disadvantaged may receive federal contracts counting toward the agency's goal achievements.

Even though self-certification is inherently risky, SBA removed regulations allowing for protests of a firm's disadvantaged business status in FY 2020. While firms are still subject to protests related to their small business size, business owners' status as socially or economically disadvantaged cannot be challenged. On September 9, 2022, SBA proposed to authorize reviews and protests of the small, disadvantaged business status in connection with prime contracts and subcontracts to a federal prime contract. SBA requested comments on that proposal and others by November 8, 2022.

Based on FY 2021 contract data retrieved from SAM.gov, as much as \$12.4 billion in prime contracts was awarded to small, disadvantaged businesses that were not certified as 8(a), a Woman-owned Small Business, an economically disadvantaged women-owned small business, HUBZone, service-disabled veteran-owned small business, or a joint venture that included a firm with one of these designated certifications. Given the large amount of federal contracting dollars awarded to these self-certified small, disadvantaged businesses, it is crucial for SBA to ensure that only eligible firms are counted. Federal agencies will need to expand procurement activities to deliver on the President's goal of increasing the share of federal contracts awarded to small, disadvantaged businesses from 5 to 15

percent by 2025. Program officials should consider the impact this regulatory void could have on the accuracy of the goaling achievements agencies report annually.

Agency Progress

SBA has made substantial progress in adding controls to detect ineligible firms in the 8(a) and HUBZone programs. In FY 2020, SBA updated and trained staff on its HUBZone policy directives to standardize analysis and oversight. SBA started requiring that HUBZone firms annually recertify that they meet program eligibility requirements. SBA also requires each firm to complete a program examination every 3 years. As a result of implementing these program changes, SBA has taken action to decertify firms that are no longer eligible for the program. Since initiating the annual recertifications and triannual program examinations in FY 2021, SBA decertified 2,548 firms as of May 31, 2022.

SBA instituted procedures to ensure program officials justified their recommendations to admit firms into the 8(a) program. The agency is also tracking complaints about firms' eligibility to participate in the program.

While recent regulatory and procedural changes improved SBA's oversight of firms continuing in the HUBZone program, the changes also removed certain controls that are essential for proper oversight. The new HUBZone employee residency requirement may reduce the program's ability to meet legislative intent. Allowing certified businesses to count employees who are not current HUBZone residents does not ensure continual employment of individuals who live in distressed areas. We question if the full economic benefits of the HUBZone program will be realized in these areas.

Similarly, SBA's removal of regulations allowing for protest of a firm's small, disadvantaged business status jeopardizes the integrity of the federal government's small, disadvantaged business contracting and subcontracting achievements. SBA should continue to strengthen its oversight of these certification programs to ensure only eligible firms are participating.

Issue: Women-Owned Small Business Federal Certification Program Susceptible to Abuse



SBA's Women-Owned Small Business (WOSB) program is intended to give eligible companies greater access to federal contracting opportunities, ensuring a level playing field for women business owners. Both OIG and GAO have reported weaknesses in SBA's controls intended to ensure only eligible firms receive federal contracts set aside for these businesses.

The federal government's annual contracting goal for WOSBs is 5 percent of all federal contracting dollars. The WOSB program is a subset of this larger goal, but not the sole driver. The government limits competition for set-aside WOSB and economically disadvantaged women-owned small business federal contracts to participants in the WOSB Federal Contracting Program. Some contracts are awarded directly with no competitive bidding. Such contracts are known as sole-source awards. This means significant contracting dollars and taxpayer funds are at stake, beginning with program eligibility and certification of the designation.

The 2015 National Defense Authorization Act required qualifying small businesses to be certified by a federal agency, a state government, SBA's Administrator, or a national certifying entity approved by the Administrator.

Women business owners seeking to participate in the WOSB program may submit an application and supporting documents to SBA at no cost using the website beta.Certify.sba.gov or pay a fee to be certified by an official third-party organization. As mandated in FY 2015, SBA has four approved third-party certifiers that are allowed to charge a fee to certify the WOSB or an economically disadvantaged women-owned small business.

Government contracting officers have a history of improperly awarding WOSB contracts because of certification complexities. In a 2018 audit ([Report 18-18](#)), OIG found contracting officers at various federal agencies made sole-source awards without having the necessary documentation to determine WOSB eligibility.

In September 2022, we reported that SBA established its WOSB certification process to collect documents to verify applicants met most program eligibility requirements, but did not require any documentation to ensure businesses met SBA size standards ([Report 22-20](#)). SBA analysts also did not always ensure women were the majority owners and controlled the business. In our analysis, we found 3 of the 25 firms we reviewed did not have documentation that supported a woman controlled the business. To ensure that only small businesses owned and controlled by women benefit from the WOSB certification program, SBA must create a control environment requiring all eligibility requirements to be verified.

Further, despite relying on third-party certifier's decisions on a firm's eligibility to participate in the program, SBA did not conduct consistent reviews of these organizations. This has been a challenge for the agency since 2014, when GAO first recommended SBA establish procedures to assess the performance of the third-party certifiers.

Agency Progress

SBA has made limited progress toward addressing this challenge. In July 2020, SBA launched beta.Certify.sba.gov, the operational platform used to manage the certification process for the Women-Owned Small Business and economically disadvantaged women-owned small business programs. In October 2020, SBA began conducting WOSB certification determinations. SBA hired additional WOSB analysts, a program director, and increased the number of staff supporting the program.

However, the agency did not develop a reliable system that accurately reports data and interfaces with other essential databases that contracting officers across the federal government rely on for awarding WOSB set-aside contracts.

Also, SBA did not ensure the staffing levels were appropriate to handle the initial surge of applications, resulting in processing times that exceeded the established timeframes. As of May 31, 2022, the WOSB program has approved 5,780 firms into the program and denied 214. Additionally, as part of SBA's review process, 12,000 applications were screened and returned to the applicant for more information. The slow progress in issuing prompt certifications affects SBA's ability to adequately serve the needs of women-owned businesses.

Challenge 3: SBA Faces Significant Challenges in IT Investment, System Development, and Security Controls

Why This Is a Challenge

Over the past decade, the agency has struggled with big, high-dollar information technology (IT) projects. Development challenges and risks have increased as SBA used outward facing third-party systems to provide emergency COVID-19 and disaster economic assistance. The inherent risks and related controls outlined in this challenge are comparable to three areas on GAO's federal high-risk list: IT investments, SBA's emergency loan process, and cybersecurity. According to GAO, this list comprises federal programs and operations that need reform because they are vulnerable to waste, fraud, abuse, and mismanagement.

SBA contracted with third-party providers to provide application processing services for multiple disaster assistance programs, including PPP loan forgiveness, EIDL processing, and the Shuttered Venue Operators Grant (SVOG) program. Federal guidance, such as OMB Circular A-123 and the Federal Information Security Modernization Act (FISMA), requires agency management to validate the adequacy of controls by third-party service providers. Presidential Executive Order 14028 further emphasizes the importance of strengthening supply chain controls. The security of software used by the federal government is vital to its ability to perform critical functions. Commercial software development requires transparency, ability to resist attack, and controls to prevent tampering by malicious actors. Consequently, SBA needs to implement rigorous and predictable programs to improve security.

The SBA Business Technology Investment Council (BTIC) oversees significant IT investments and monitors system development, design, and security controls. The BTIC is responsible for implementing key provisions of the Clinger-Cohen Act (Information Technology Management Reform Act), which charges chief information officers with the duty to monitor, evaluate, and report agency performance of IT programs. The BTIC monitors development performance against requirements and baseline controls, facilitates corrective actions, and provides transparency to the investment control process.

IT investments, system development, and security controls are managed primarily through entity-level control activities. These activities allow the agency to meet its objectives, address related risks, and ensure information technology continues to properly operate. SBA must maintain and establish IT design and security control baselines essential to protect information and preserve data integrity.

Issue: SBA's IT Investment Controls Need Improvement



SBA must establish effective IT investment controls and ensure they meet functional requirements, projected schedules, and estimated costs. Our review of the Certify project in July 2020 ([Report 20-17](#)) showed that the project's investment cost, schedule, and performance baseline data needed to be submitted for BTIC review. This data shows the amount of work accomplished and incurred costs against the original investment baseline to provide critical management visibility

on the achievement of, or deviation from, goals. Although the SBA BTIC is the principal governance body in managing SBA IT investments, it appears the most recent board meeting was on September 15, 2021. Past BTIC minutes showed limited vetting and oversight of third-party system contracts and related system development activities. BTIC minutes show limited evidence of project performance oversight on IT investments in the last 2 years. SBA used systems developed by third-party service providers to deliver the majority of its pandemic assistance.

SBA's Standard Operating Procedure IT Investment Performance Baseline Management Policy requires that the BTIC be involved for the whole life of the IT project/investment. The policy further states the BTIC should provide direction on reviewing and approving the SBA IT portfolio. The council should be helping the agency create the optimum return on its IT investment. The BTIC should be supporting the agency's mission and ensuring the accountability of SBA business and IT investments.

Agency Progress

A major focus of last year's challenge was related to agency investment controls. This year's work showed that the recommendations we made for the Certify.gov (its current version is beta.Certify.sba.gov) investment controls were not fully implemented across the agency. Our recommendations addressed agency-wide development activities. The BTIC has not published meeting minutes since September 2021. Consequently the BTIC is not providing effective oversight of IT investments.

Issue: Existing System Development and Monitoring Controls Need to Reflect Changing IT Design Risks



During the past 2 years, SBA procured new systems from third-party service providers to deliver emergency COVID-19 disaster assistance. For example, two newly procured systems delivered \$808.5 billion of disaster assistance from 2020-2021. These outward facing systems allowed accelerated delivery of critical disaster assistance funds, performing mission critical functions. These systems processed large volumes of sensitive data and were subject to cyber threats, incidents,

and risks. Our audit work found the agency allowed the third-party systems to be put into service without conducting baseline control assessments. With no baseline, the agency could not perform effective continuous monitoring. Also, we found that control processes did not identify, communicate, capture privacy or identity risks. These risks include identity theft, misappropriated social security numbers, and modified applicant addresses.

The following control areas require improvement:

Enterprise-wide communication of privacy and identity risks

From 2020 to 2022, OIG identified and communicated to the agency potential privacy and identity internal control weaknesses in the disaster assistance systems. Subsequently, OIG was unable to obtain evidence that the previously identified privacy and identity risks were communicated across the agency to be considered for mitigation in other systems. The agency responds to security incidents through the Enterprise Cybersecurity Service to address cybersecurity intelligence, risk management, and incident

response. However, improvement is needed to ensure identity and privacy risks are fully integrated into the risk management process.

Improved coordination for system contracts and data management

System acquisition controls play a significant role in the effective management of an information system. OCIO and program officials need to ensure third-party system security and data migration contract provisions are followed in accordance with federal guidance. Effective coordination of activities is needed throughout the project life cycle from project inception to decommissioning of a system. In our report on COVID-19 IT security controls ([Report 22-19](#)), we found SBA did not provide documentation to validate that system functionality and security was included and reviewed in the acquisition contracts. In July 2022, we found ([Report 22-16](#)) management did not follow its policies when migrating COVID-19 EIDL program data from the service provider's cloud platform to SBA's data warehouse. Without advanced planning for data migration and defined acceptance criteria, SBA took reactive measures when the contract ended.

Oversight of third-party systems used to process transactions integral to SBA's mission

SBA has an outdated system development policy which is a roadmap for the purchase, launching, and management of software and related application development activities. Updated system guidance is crucial for monitoring third-party systems used to process transactions integral to the mission of SBA. The agency must update its guidance for purchasing and related system development to validate essential controls exist before a system is put into production.

System and Organization Controls (SOC) 1 Type 2 reports for all new and existing external financial systems

OIG's Independent Public Accountant was unable to obtain reasonable assurance regarding the reliability and integrity of reported financial data for critical third-party systems, which contributed to two disclaimer audit opinions for FYs 2020 and 2021. A disclaimer of opinion results when an auditor cannot obtain sufficient information to render an opinion on an organization's financial statements. The SOC 1 Type 2 report provides assurance that reported financial data is complete and reliable.

System acceptance controls and continuous monitoring to limit security and processing risks

SBA expedited pandemic aid to eligible taxpayers, but the agency must still ensure design of system controls meets federal guidance in delivering program funds. For that reason, testing protocols must be fully addressed, even within limited timeframes, and then independently tested to ensure they operate as intended. Acceptance criteria specify the minimum desired functionality acceptable for a system to be put into operation.

The agency did not fully implement a robust internal control baseline that addressed the need for essential security controls and continuous monitoring over the third-party systems. A baseline is a set of minimum-security controls for an information system. Parts of the assessment and authorization process were incomplete or completed more than 9-14 months after the systems were put into operation.

Agency Progress

Since this challenge area was introduced last year, the agency has made limited progress by introducing a supply chain risk management policy and updating its IT Investment Performance Baseline Management Policy. The agency should continue to establish policies that address essential entity-wide controls. Some examples of these controls include independent assurance reviews of third-party financial systems, processes to identify and communicate privacy and identity risks, and an enterprise-wide system development process that ensures consistency in system design.

The agency should also continue its oversight of IT investments and related system development controls through the Business Technology Investment Council. The BTIC performs an essential governance role in implementing key provisions of the Clinger-Cohen Act, which includes monitoring, evaluating, and reporting agency performance of IT programs.

Issue: Additional Progress Needed in IT Security Controls



Inspectors general are required by FISMA to assess the effectiveness of information security programs on a maturity model spectrum and assess security capability in eight domains.

The current benchmark for an effective program within the context of the maturity model is level 4, managed and measurable. In the maturity model, domain performance that scores below the level of managed and measurable, such as ad hoc, defined, or consistently implemented, means IT security is ineffective.

For FY 2022, the scope of the FISMA evaluation required an accelerated evaluation timeframe. It focused on a reduced core set of 20 metrics with supplemental metrics being introduced in future fiscal years. This evaluation of core metrics across the nine domains indicated that SBA continued to achieve level 4 in the area of incident response but is at level 2, defined, or level 3, consistently implemented, in the remaining eight areas. The maturity model criteria places SBA at an overall level of not effective.

Agency Progress

SBA quickly responded to identified vulnerabilities but continues to experience security control challenges in areas of user access, configuration management, security training, and risk management.

SBA made progress in supply chain risk management. The agency continues to be rated at the effective maturity level in the area of incident response. However, continued improvement is needed in the areas of risk management, including hardware and software inventories, configuration management controls around patch management, security training and access controls particularly for administrator privileges.

Challenge 4: SBA Risk Management and Oversight Practices Need Improvement to Ensure the Integrity of Loan Programs

Why This Is a Challenge

SBA's Office of Credit Risk Management manages credit risk for the agency's loan portfolio of approximately \$240 billion (as of March 2022), and this includes the remaining outstanding loans made through the Paycheck Protection Program (PPP). As discussed in Management Challenge 1, SBA's lack of internal controls led to significant fraud risk and vulnerabilities. Additionally, we found that SBA did not have an organizational structure with clearly defined roles, responsibilities, and processes to manage and handle potentially fraudulent PPP loans. As of March 2022, SBA has made forgiveness payments exceeding \$700 billion to over 4,700 PPP lenders, which the Office of Credit Risk Management has the responsibility to oversee. PPP loans are originated by lenders and other companies that often have a low degree of expertise in SBA loan program requirements, which is why this continues to be a challenge for FY 2023.

Lenders often rely on the services of fee-based and other third-party agents to help originate, close, service, and liquidate SBA loans. Most traditional SBA-guaranteed 7(a) and 504 Certified Development Company loans are originated by lenders with delegated approval authority. Generally, these lenders are subject to only limited SBA oversight and quality control unless a borrower defaults on a loan.

Our previous audits have found SBA has not adequately recognized or managed significant lender weaknesses. In an audit of SBA's oversight of high-risk lenders ([Report 20-03](#)), we identified additional internal control weaknesses in lender oversight.

Previous OIG audits have also shown that SBA did not effectively identify and track third-party agent involvement in its 7(a) and 504 loan portfolios. Tracking such agents is crucial in managing the portfolios because many lenders rely on the services of fee-based and other third-party agents to help originate, close, service, and liquidate SBA loans.

Issue: SBA's Oversight of High-Risk Lending Participants



The risks inherent in delegated lending require effective oversight to monitor compliance with SBA policies and procedures and corrective actions to address noncompliance. However, OIG's 2019 audit of SBA's oversight of high-risk lenders ([Report 20-03](#)) found that the SBA Office of Credit Risk Management did not always effectively oversee high-risk lenders to identify and mitigate risks. SBA did not always

- conduct planned high-risk lender reviews,
- recommend appropriate and consistent risk mitigation actions for the deficiencies identified during the oversight reviews of high-risk lenders, or
- communicate loan deficiencies noted during high-risk lender reviews to SBA approval and purchase loan centers.

Agency Progress

SBA has worked to address issues with its oversight of lenders in response to our audit recommendations. In FY 2021, SBA took three actions to improve its ability to oversee high-risk lenders:

1. Issuance of the Final 7(a) Lending Oversight Rule and publication of Standard Operating Procedure (SOP) 50 53 (2) on supervision and enforcement
2. Realignment of the organizational structure of the Office of Credit Risk Management to strengthen lender oversight and add resources to the review teams for effective oversight
3. Implementation of quarterly meetings to ensure adequate oversight of lenders with elevated risk profiles

In FY 2022, SBA continues to revise SOP 51 00 and document the process for on-site lender reviews and examinations. SBA is testing the viability of improvements to oversight activities, such as a new approach to monitor lenders with higher risk profiles by performing quarterly loan file reviews and providing timely feedback.

The Office of Credit Risk Management has implemented the communications protocol that was developed in FY 2020 to document deficiencies identified during loan file reviews and to then share this information with SBA loan centers and other internal stakeholders. The communications protocol will be included in the revised SOP 51 00 2.

Although SBA has made substantive progress, agency management has indicated it needs time to finalize and implement oversight policies and procedures, including SOP 51 00 2. Agency management needs to obtain additional information to confirm that identified deficiencies have been corrected.

We will continue to monitor SBA’s ongoing efforts to address open recommendations in [Report 20-03](#), including developing effective oversight policies and procedures and a comprehensive database or workflow management tool to manage oversight of high-risk lenders.

Issue: Increased Risk Introduced by Loan Agents



Previous OIG audits and investigations have shown SBA could not effectively identify and track loan agent involvement in its 7(a) and 504 loan portfolios. OIG investigations have also revealed a pattern of fraud by loan packagers and other fee-based agents in the 7(a) loan program involving hundreds of millions of dollars. Despite the prevalence of fraud in its loan portfolios, SBA’s oversight of loan agents was limited.

SBA requires lenders to provide a loan agent disclosure form (Form 159) to SBA’s fiscal and transfer agent for 7(a) loans that involve a loan agent. The fiscal and transfer agent is a contractor who supports SBA by serving as paying agent for all investor payments, processes lender loan reporting, and payment remittance reconciliations. The fiscal and transfer agent also serves as the central registry for all guaranteed secondary-market interests. The fiscal and transfer agent must enter the data into a database accessible to SBA. Prior OIG audits identified significant issues in the data quality of Form 159 being tracked by the fiscal agent. We also found that SBA had not begun tracking Form 159 in the 504-loan program.

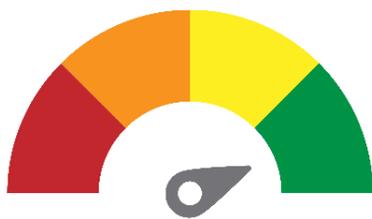
Agency Progress

SBA’s oversight of loan agents has been a long-standing challenge that the agency has made great progress in resolving. SBA determined the best way to gather information on loan agents was by improving Form 159. The improved Form 159 allows SBA to aggregate and report on loan agent activity to analyze the lender’s portfolio. SBA initiated targeted Form 159 reviews of lenders to determine compliance with SBA requirements. SBA also undertook a new, more effective method of disclosing and tracking loan agent involvement in the 504 loan program. SBA requires 504 lenders to electronically submit Form 159 directly into SBA’s electronic lending system.

SBA contracted with a new fiscal and transfer agent who developed application and follow-up controls, including requiring lenders to electronically submit Form 159s through the Capital Access Financial System. These controls ensure critical fields on each form are completed. Lenders put information into the system, such as broker name, service provided, and the amount of compensation paid, which then populates Form 159. The lender signs the form and may upload the form into the system.

Because loan agent involvement in the 7(a) program is significant, it is important for SBA to have oversight tools that monitor loan agent involvement in this sizeable program. SBA also needs to effectively manage the risk introduced by high-risk loan agents. OIG plans to conduct work related to agents involved in the PPP and monitor risks related to SBA’s oversight of loan agents.

Issue: Increased Risk Introduced by Lender Service Providers



In August 2021, five former officers and employees at one of the largest lender service providers were convicted on all charges in a 13-year conspiracy to defraud SBA in connection with programs to guarantee loans made to small businesses.

The officers fraudulently obtained guarantees for loans SBA deemed ineligible. The officers hid signs of ineligibility from SBA by misrepresenting the use of SBA loan proceeds and unlawfully diverting previously denied loan applications into expedited approval channels. The officers originated dozens of loans, totaling more than \$10 million in disbursements, that were not eligible for SBA guarantees. SBA has had to contend with risks introduced by the outsourcing of traditional lender functions to lender service providers, a type of loan agent, for some time.

The number of SBA-approved lender service provider agreements has grown significantly, in part because of SBA’s effort to better control access to its systems by lender service providers. SBA assigns

an identifying number to all lender service providers that access SBA systems and records all SBA-approved agreements.

Use of the identification number has made it possible for the SBA Office of Credit Risk Management to develop initial statistics on provider participation in SBA's 7(a) program, but the agency's oversight is still limited. SBA's analysis of the performance of loan agents does not include loan-level information from lenders to make it possible to identify high-risk lender service providers.

Agency Progress

Since we first reported on these issues in 2015, SBA has implemented internal controls related to the tracking and monitoring of lender service provider involvement in SBA's loan programs. SBA established a method to track lender service provider involvement at the loan level.

In FY 2020, SBA worked with a contractor to develop a performance analysis for lender service provider portfolios to identify any high-risk providers. In FY 2021 and FY 2022, SBA worked with the contractor to analyze whether lender service providers add risk to the lenders' loan portfolios. The analyses indicated that loans with a service provider generally performed worse than those without provider involvement in both guaranty purchase and early default rates.

As lender service provider involvement in the 7(a) program increases, it will be important for SBA to continue to evaluate performance and act when necessary to effectively reduce the incurred risks. OIG will continue to monitor SBA's oversight of lender service providers, assess risks, and conduct audits and reviews as necessary.

Challenge 5: SBA’s Management and Monitoring of the 8(a) Business Development Program Needs Improvement

Why This Is a Challenge

SBA’s 8(a) Business Development Program was created to provide business development assistance to eligible small, disadvantaged businesses seeking to compete in the federal marketplace. A major benefit of the 8(a) program is that these certified firms can receive sole source and set-aside contracts. Sole-source awards are contracts proposed for award without competition. A set-aside award is a proposed contract with competition limited to small businesses. This means small businesses do not have to compete against large businesses that may have an industry advantage. The goals of these contracts and certification programs are that the federal government receives the needed services for the benefit of taxpayers and also helps diversify the economy by supporting small business.

SBA has adequately addressed issues we raised about ensuring that only eligible firms are admitted into and remain in the 8(a) program, but the agency continues to address challenges in providing effective business development assistance, as well as measuring and reporting the outcomes of the program. In February 2022, OIG issued [Report 22-08](#), which found SBA’s processes did not consistently allow for SBA or stakeholders to determine whether firms met their individual goals to successfully complete the 9-year program.

Issue: SBA Continues to Address Its Ability to Develop Firms in the 8(a) Program and Measure Results



SBA has historically emphasized business development to enhance the ability of 8(a) firms to better compete for federal contracts. SBA offers individualized development assistance to program participants and also makes referrals to its resource partners, Small Business Development Centers, SCORE, a volunteer mentor network composed of retired executives and entrepreneurs, Women’s Business Centers, Veterans Business Outreach Centers, and affiliate

Procurement Technical Assistance Centers.

Despite this, SBA has not fully established an IT system to perform regular performance monitoring and reporting for 8(a) participants to ensure progress within their business plans. Without an effective IT system to monitor 8(a) participant progress in meeting individualized business development goals, SBA may not be able to consistently determine if 8(a) participants have demonstrated the ability to compete in the open marketplace without program assistance (see Challenge 3 for details on [Certify.sba.gov](#)).

SBA is considering next steps for IT development that would provide those features and capabilities that can facilitate tracking, measuring, and monitoring progress. To bridge the gap in the interim, SBA in FY 2020 created the Business Opportunity Specialist Annual Review Workbook. When used, the specialist

uses this Excel workbook to determine continuing eligibility and summarizes current financial conditions for each business during annual reviews.

SBA's IT challenge is not the sole reason the 8(a) program has not improved in measuring the development of firms over the years. In our February 2022 [Report 22-08](#), we found SBA's processes did not consistently allow for SBA or stakeholders to determine whether firms met their individual goals to successfully complete the 9-year program.

SBA did not ensure specialists regularly monitored a participant's business goals, assessed business development needs, and followed up with actions for training and accountability. We found that 15 of the 40 firms tested did not have approved business plans with identified goals, making them ineligible to receive 8(a) contracts. We questioned \$93 million in 8(a) set-aside or sole-source contracts that four of the firms were awarded.

SBA also did not establish performance measures at the program level to know whether the 8(a) program was successful as an SBA program. There are no relevant performance metrics to gauge the outcomes from the program or to know the effects the program is having on small businesses.

Without consistent procedures, there is no assurance that participants received the business development assistance needed for them to become viable competitors in the contracting arena. As a result, the agency continues to face challenges on how it can best manage a program that will effectively increase the participation of small businesses in the American economy.

Agency Progress

SBA made some progress to address OIG recommendations issued this year.

To address OIG's most recent report findings, SBA implemented a standard process to ensure initial business plans are monitored and annual reviews capture the 8(a) participant's business plan updates. An SBA Procedural Notice, effective August 10, 2022, requires all district offices to ensure that 8(a) firms obtain their business plan approval prior to the first contract being awarded. Program officials are working on improving the FY 2023 Business Opportunity Specialist Annual Review Workbook to better measure business development. SBA added questions to the business opportunity specialist workbook to place emphasis on monitoring a firm's strengths, financial targets, and business goals. The enhancements will help emphasize business development rather than solely focusing on eligibility and annual compliance.

SBA plans to mandate the use of the workbook for all 8(a) firms that will be admitted to the program in the near future. Until the new procedures are fully in place, the effectiveness of the workbook has yet to be determined. The agency is also working on updating standard operating procedures by August 1, 2022. SBA continues to respond to emerging issues related to the pandemic economic crisis, providing timely guidance and resources to 8(a) program participants.

Challenge 6: Identification of Improper Payments in SBA’s 7(a) Loan Program Remains a Challenge

Why This Is a Challenge

OIG audits and reviews have identified 7(a) loans that were ineligible, given to borrowers who did not have the ability to repay, or were not properly closed, resulting in improper payments. Improper payments occurred in part because SBA did not adequately review related loans, which is why this remains a management challenge this year.

In FY 2021, the dollar amount of SBA’s 7(a) loan approvals totaled \$36.8 billion. Most of these loans were made by lenders with delegated approval authority. When a loan goes into default, SBA reviews the lender’s actions on the loan to determine if it is appropriate to pay the lender the guaranty, which SBA refers to as a “guaranty purchase.” “Guaranty” is a variant of “guarantee” used in financial terminology.

About 8 years ago, OIG established a High-Risk 7(a) Loan Review Program to evaluate lender compliance with SBA requirements for high-dollar, early defaulted 7(a) loans. High-dollar, early defaulted loans are \$500,000 or more and default within the first 18 months of initial disbursement. The 7(a) loan has been the agency’s largest financing program for general business needs, so it is vital that SBA identify and reduce the risk of improper payments in order to meet its objectives for the program.

Issue: Improvements Needed to Ensure High-Risk 7(a) Loan Reviews Reduce the Risk of Losses



Between 2014 and 2019, OIG conducted risk based reviews of 7(a) loans and recommended recoveries on 17 loans totaling more than \$19.3 million. In addition, we identified suspicious activity on five loans totaling nearly \$4 million, which were ultimately referred to our Investigations Division. Although SBA completed purchase and quality control reviews on all the loans, the agency did not identify or fully address the material deficiencies noted in the OIG review.

The OIG High-Risk 7(a) Loan Review Program uses an internal scoring system to prioritize loans for review by level of risk. This evaluation includes a review of high-risk loans purchased by SBA to determine whether lenders complied with SBA requirements and identified suspicious activity.

Our reviews of high-risk loans have consistently identified issues regarding eligibility, repayment ability, size standards, franchise agreements, business valuations, appraisals, equity injection, and debt refinance. Our review program also has helped us identify concerns with change of ownership transactions and SBA’s identification of improper payments.

Agency Progress

SBA has made significant progress in addressing the identification of improper payments in the 7(a). In FY 2020, SBA began to allow loan specialists more time to review complex early defaulted loans. In addition, the agency improved its review of loans, training loan specialists, and updating the loan review checklist.

In FY 2020, SBA internally evaluated its purchase process and quality control reviews for 7(a) guaranteed loans to determine why the loan center reviews did not identify or correct lenders' noncompliance with SBA requirements, as has also been noted in OIG reports.

In FY 2021, SBA held a training session at the loan center that focused on the requirements and SBA review of documentation related to the source of funds used for equity injection, which has been a continuing issue in our reviews and in the agency's own internal evaluations.

In FY 2022, SBA continued to provide monthly feedback to management and staff at the National Guaranty Purchase Center. Additionally, SBA is drafting revisions to the 7(a) loan servicing and liquidation requirements. SBA has stated they are finalizing and plan to issue revised requirements designed to reduce improper payments, which should result in continued progress. We continue to communicate with the agency about previous recommendations for recoveries as part of the audit follow-up process. We will monitor risks in this area and conduct audits and reviews as necessary.

Challenge 7: SBA's Disaster Assistance Program Must Balance Competing Priorities to Deliver Prompt Assistance but Prevent Fraud

Why This Is a Challenge

This SBA loan program plays a vital role in the aftermath of disasters by providing long-term, low-interest loans to affected homeowners, renters, businesses of all sizes, and nonprofits. SBA must continually balance the priority of quickly assisting disaster survivors in the immediate aftermath of a devastating event with the need to mitigate fraud risk and ensure program integrity. To do so, the agency faces challenges in staffing, quality assurance, and increased loan servicing requirements.

As a result of the pandemic's widespread economic effects on the U.S. economy, Congress approved legislation that increased funding to SBA's disaster loan program, providing over \$520 billion in funding to the Economic Injury Disaster Loan (EIDL) program. Since the start of the pandemic, SBA has approved \$390 billion in COVID-19 EIDL assistance, which is a significant increase over all disaster loan funding disbursed in the agency's 70-year history. SBA's existing disaster assistance infrastructure could not keep up with the unprecedented demand caused by the pandemic, so the agency contracted out for new systems to deliver vital aid to struggling small businesses. SBA's infrastructure must be properly equipped to ensure that staffing, processing systems, and servicing capabilities can efficiently adjust to meet future needs.

Issue: Reserve Staff Need Training to Sustain Productivity During Mobilization



The magnitude of the pandemic relief demand (27.7 million applications received as of December 31, 2021) required SBA to rapidly increase and train staff; staffing numbers rose to historic levels. The number of personnel needed to serve during the pandemic was almost twice the previous record high staff total. In addition, the agency had to develop the needed training to address the new criteria for COVID-19 EIDLs.

SBA's Office of Disaster Assistance increased its trained staff from 800 to more than 5,000 employees in December 2017 to respond to hurricanes Harvey, Irma, and Maria. In response to the COVID-19 pandemic, the Office of Disaster Assistance increased its permanent and temporary staff size from about 1,200 at the onset of the pandemic to more than 11,500 by December 2020. In those 9 months, the staff increased nearly 10 times.

SBA outsourced the COVID-19 EIDL processing to a subcontractor to make recommendations for approval or denial of loan applications. SBA staff made the final decision to approve or deny COVID-19 EIDLs. SBA had to train the existing staff and the newly hired employees on the new contractor's system, a tremendous undertaking.

Agency Progress

SBA management made good progress on this long-term issue during the pandemic. SBA had previously made progress in this area by implementing a cross-functional training plan, as well as online and automated tutorials, a change that resulted from an after-action report's findings on SBA's response to prior major disasters. The COVID-19 pandemic required SBA to train and mobilize the largest number of new employees ever in its history.

Effective July 5, 2022, the agency moved the entire disaster lending program from the Office of Disaster Assistance to the Office of Capital Access. The Office of Disaster Assistance will continue to manage the agency's non-lending aspects of the disaster program (such as the immediate response group).

Bringing on a large temporary staff in response to a major natural disaster will always be a challenge for any organization, including SBA. However, during the past couple of years, SBA was able to increase its staff by almost tenfold to provide COVID-19 pandemic financial assistance. The new disaster assistance employees expanded the pool of reserve staff that can be activated for future disasters. The lessons learned from this surge inform the agency's current hiring and training practices; therefore, this issue has achieved a rating of yellow.

Although the agency has now achieved a rating of yellow for this issue, the Office of Capital Access is urged to keep monitoring the need to revise and update its plan for rapid staff surge and the associated need up to update its training. This is needed to ensure a high level of customer service with reduced applicant processing times, and to ensure eligible applicants receive the federal assistance they need in a timely manner.

Issue: Improper Payment Quality Assurance Process Needs Strengthening



SBA received a historic number of loan applications in FY 2020 and FY 2021 when COVID relief programs were established. SBA tests a statistical sample of these loans for improper payments. Because the total of the number of loans that have been approved and disbursed is so large, the statistical sample is also large, which has highlighted issues in SBA's improper payment process.

An improper payment is any federal government payment made to an ineligible recipient or for an ineligible good or service, duplicate payment, or payment for goods or services not received (except for such payment authorized by law).

In February 2020, we reported on weaknesses we found in the improper payment quality assurance process ([Report 20-07](#)). We found the improper payments appeal process effectively assessed improper payments, but the initial review process was inefficient.

The Payment Integrity Information Act of 2019 requires agencies to evaluate fraud risks and use a risk-based approach for financial and administrative controls to counter identified fraud risks. The law reinforces the requirement for agencies to review prepayment and pre-award procedures. Further, the law specifies use of the Treasury Do Not Pay database to determine award eligibility. Agencies are

required to thoroughly review the databases to determine award eligibility and prevent improper payments.

SBA removed typical controls in the EIDL program and relied on self-certification by the applicants to get funding out quickly to struggling businesses at the beginning of the pandemic. This led to significant fraudulent activity in the program.

OIG [Report 22-06](#) identified a lack of pre-award controls during the period March 2020 to November 2020, resulting in over \$3.1 billion in COVID-19 EIDL and \$550 million emergency EIDL grants distributed to potentially ineligible recipients found in Treasury’s Do Not Pay databases.

SBA did not report an estimate improper payments rate for the COVID-19 EIDL program in FY 2021 because they received an exemption from OMB for this new program.

Agency Progress

SBA has made significant improvements to the process since our February 2020 report was issued. The agency has

- conducted monthly audits for issues of non-compliance;
- conducted focused/targeted audits, reviewing a specific area to focus future training efforts;
- targeted training to quality control specialists, leads, and supervisors to continually improve knowledge necessary to accurately identify improper payments;
- established quality assurance team with an agile database to review agency holds in the agency review hold system; and
- employed an independent fraud review team to look at potential fraud activities that can be referred at any time in the loan or grant process.

Additionally, SBA issued ODA Memo 21-13 on April 28, 2021, which included a requirement to check against the Treasury Do Not Pay system prior to approval of COVID-19 EIDLs.

Overall, SBA has made substantial progress in improving the improper payment quality assurance process. OIG will conduct an inspection of the effectiveness of the new controls established to use Treasury’s databases to determine SBA’s effectiveness in reducing improper payments. Additionally, SBA will be reporting the estimated COVID-19 EIDL improper payments rate for the first time in FY 2022. OIG will perform its annual evaluation of the estimation process which will include determining whether the process addresses the significant fraud risk present in the COVID-19 EIDLs as identified in prior OIG reports.

Issue: Unprecedented Increase in Servicing COVID-19 EIDLs



SBA has two Disaster Loan Servicing Centers, one in Birmingham, Alabama and the other in El Paso, Texas, servicing disaster loans that have been approved and fully disbursed. The two centers manage the portfolio and provide customer service, including accepting and

processing loan payments, making routine collection efforts by phone, email, and postal letters, and handling any loan-related issues, such as insurance, title, or lien matters.

After a disaster loan becomes 90 days delinquent, it is transferred to a third center known as the National Disaster Loan Resolution Center in Santa Ana, California. The loan resolution center manages the portfolio of defaulted disaster loans with increased collection efforts, including foreclosure when necessary.

The center also handles other loan servicing activities, such as processing loan payments. When disaster loans are deemed ultimately uncollectable and charged-off, or removed from the agency's loan portfolio, the borrowers and guarantors are referred to the Treasury Department.

Treasury has the authority to take stronger efforts to collect, including offset of other federal payments. In this context, offset means diverting federal payments to satisfy the delinquent loan.

Before the COVID-19 pandemic, SBA was servicing about 263,000 outstanding disaster loans, totaling approximately \$9 billion, across the three servicing centers. As of May 31, 2022, because of the unprecedented number of pandemic relief loans, SBA was servicing about 4 million outstanding disaster loans. This is over 15 times what the agency was doing before the pandemic. The current total dollar amount is about \$390 billion, over 43 times the pre-pandemic disaster loan portfolio. A total of 30 months of payment deferment was instituted for all COVID EIDLs. The end of this deferment period will start to in October 2022. Because the COVID-19 EIDLs were approved with repayment terms of 30 years, the expected servicing duration of this portfolio is long term. Simply put, the number of payment transactions estimated for this portfolio is 1.4 billion (based on 4 million loans x 12 months x 30 years).

Because SBA loaned billions in pandemic relief loans, the agency has millions of additional loans in its portfolio that must be serviced. SBA does not currently have the staff or infrastructure to manage this volume. We anticipate the agency will face significant challenges in managing this volume going forward.

Agency Progress

SBA officials informed us the agency is adding additional staff and resources across the disaster servicing and liquidation centers to meet the increasing demand. As of May 31, 2022, the loan servicing staff totaled 344 across the three centers. SBA plans to achieve a COVID-19 EIDL service staff of up to 2,000 full-time employees by the end of Q2 FY23. This increase is mostly coming from the 1,500 full-time loan processing agents who will be transitioned to servicing during 2022.

To meet the increased call demand, SBA officials said they overhauled customer service by changing management and contractors, streamlined the process for adding customer service agents, added performance and quality metrics, improved call scripts and customer service guidelines.

To increase servicing efficiencies, SBA officials stated they will enhance their servicing platform. They have been developing a series of new initiatives allowing SBA to directly service the entire portfolio over the long term. These include a new e-billing capability that replaces traditional paper billing processes, a borrower self-service portal, and automated transactions for routine requests, such as loan charge off. This enhanced servicing platform is expected to be operational by the second quarter of FY 2023.

Because this issue is a significant challenge for SBA, staffing and process changes are planned but not yet in place. SBA's servicing portfolio has increased so significantly, this issue is being rated moderate or limited progress because more attention and monitoring is warranted.

Challenge 8: SBA Needs Robust Grants Management Oversight

Why This Is a Challenge

In FY 2021, pandemic relief legislation authorized new, multibillion-dollar grant programs in addition to SBA’s existing entrepreneurial development grant program portfolio. Congress had authorized \$45.3 billion for SBA to administer as grants to provide economic relief and technical assistance, nearly doubling SBA’s existing technical assistance programs.

Because of the government-wide emphasis on grants management reform, it is SBA’s responsibility to maximize the value of its grant funding to ensure its programs accomplish program objectives. In recent OIG audits, we have found ineffective oversight of grant recipients and systemic issues with the accuracy of SBA grant data in both financial and performance reporting.

Issue: SBA’s Grants Management System Needs Improvement



Previous OIG reports have found SBA used an inefficient and error-prone system to manage its grant awards. The federal Procurement Request Information System Management (PRISM) that SBA used to award, monitor, and report on technical assistance programs required substantial manual data entry, which can lead to input errors.

Data inaccuracies inhibit the ability to effectively track federal spending. Errors also affect the agency’s ability to report complete and accurate information on time, as required by the Digital Accountability and Transparency Act of 2014. In March 2018, we issued an advisory memorandum ([Report 18-15](#)) on material weaknesses identified by an independent accounting firm in SBA’s controls over the accuracy of grant award data reported in USASpending.gov.

Immediately after the alert was issued, program officials requested an internal A-123 review of the grant management process to assess and verify OIG’s findings. SBA’s internal auditors found that all 45 of the sampled awards included inaccuracies and reported a number of deficiencies per award.

PRISM was not completely integrated with SBA’s financial system and required additional manual entry to obligate funds and authorize payments to grant recipients. The lack of an integrated system increased the need for grants management personnel to manually input entries. Reliable data in a grants management system ensures the federal funds are awarded to eligible recipients, disbursements are accurate, and that management can make informed decisions to effectively administer programs.

Agency Progress

SBA has made substantial progress in modernizing its grants management system. In 2019, SBA entered into an interagency agreement with the U.S. Department of Health and Human Services for transition

analysis, infrastructure setup, and training services to launch GrantSolutions.gov. SBA will spend \$2.5 million over 5 years to help the agency

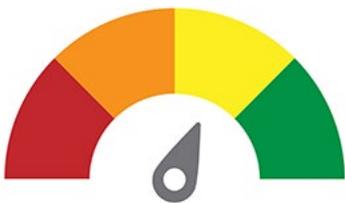
- improve funding management, awarding of grants, processing payments, and closeouts;
- enhance ability to develop accurate performance metrics reporting;
- reduce compliance violations; and
- increase auditability, accountability, and transparency.

During FYs 2020 and 2021, the SBA Office of Grants Management implemented the GrantSolutions system for program office use. In 2021 and 2022, SBA and the Health and Human Services GrantSolutions team trained program officials on how to use the system. The SBA Office of Grants Management also works with each program office to identify program-specific system customizations that ensure the agency complies with federal and SBA policies.

Although most of the program offices adopted the system in 2021, the Shuttered Venue Operators Grant (SVOG) program opted to use Salesforce, a contracted customer relationship management system, to manage its grants. Also, instead of using the GrantSolutions system, the Restaurant Revitalization Fund (RRF) program developed its own application portal that interfaced with the SBA Office of Capital Access's systems to manage the application intake, processing, and award approvals for pandemic assistance. Both the SVOG and RRF programs were integrated into SBA's Joint Administrative Accounting Management System.

Since 2020, SBA has been working to integrate the SBA's Joint Administrative Accounting Management System with GrantSolutions.gov. Until the agency integrates the financial interface, program offices are still required to use the PRISM system, which is not completely integrated with SBA's financial system and requires manual entry to obligate funds and authorize payments to grant recipients. While SBA continues to have to work around the limitations, grants management officials perform monthly data quality assessments of the manually input data and reports deficiencies to program offices to correct the errors. Without an effective grants management system, the agency must continue manual and burdensome processes to manage compliance requirements, which may continue to hinder its ability to effectively oversee and manage SBA grant programs.

Issue: Better Performance Measurements Needed to Monitor Grant Program Achievements



An OIG review of SBA's administration of the SVOG program ([Report 21-13](#)) found SBA did not establish performance goals and measurements for the grant recipients.

We also found in our review of CARES Act entrepreneurial development cooperative agreements and grants ([Report 21-11](#)) that the agency did not establish clearly defined goals with targets for the grant recipients.

Because of this, SBA cannot effectively measure and accurately report performance results to assess whether the grant recipient's performance met objectives, ensuring the pandemic relief programs were effective.

Federal regulations require awards to include performance goals. The agency must provide a standard to effectively measure grantee performance, such as the estimated number of jobs saved or created, tax revenue generated, or entity operational status.

Without specific grantee performance reporting measures and requirements, SBA may have disbursed \$14.6 billion in SVOG funds without knowing whether the program successfully aided small businesses in the live arts and entertainment industry. GAO recently reported similar concerns about how SBA took limited steps in enforcing RRF reporting. Thirty-two percent of RRF recipients have not yet reported how they used their funds for 2021 ([GAO-22-105442](#)).

Program officials did establish performance goals and indicators for the supplemental CARES Act funds provided to Small Business Development Centers, Women's Business Centers, and the Resource Partner Training Portal, but SBA should have clearly defined the goals and set targets to more effectively ensure they were achieved as intended.

We first identified oversight of grant program performance as a top management challenge in FY 2019. To address these weaknesses, SBA updated its grant management policies and procedures. The agency required grant officers to enforce performance requirements and verify reported information as well as to ensure applicants' proposals include plans to measure performance in a way that will help SBA achieve program goals.

The SBA Office of Entrepreneurial Development had until September 2020 to fully adopt the updated policies, which are not reflected in the CARES Act Entrepreneurial Development grants. Without clearly defined performance goals and targets, SBA cannot effectively measure and accurately report performance results. In 2022, we reported that SBA and its grant recipient that implemented the Resource Partner Training Portal, an initiative authorized under the CARES Act, did not set targets for performance goals to assess whether the portal met the intended purpose ([Report 22-07](#)). We found the portal did not serve as a major source for COVID-19 information; SBA's Resource Partner counselors and mentors generally did not use the training portal. SBA awarded the grant recipient \$18.6 million and less than 1 percent of 30 million eligible small businesses used the portal within the first year of the pandemic. Only about 62 resource partner counselors and mentors out of approximately 13,000 completed any of the training modules.

Without performance targets, program officials could not hold the Resource Partner training portal grant recipient accountable for ensuring the hub served as a major source of COVID-19 related resources for small businesses and a training portal for resource partner counselors and mentors.

The authorizing language for the SVOG program included no specific performance measurements, so SBA created a logic model in March 2021. The model helped identify outputs and outcomes for the program.

Agency Progress

SBA has made substantial progress establishing performance measures for its grant programs. In FY 2022, the SBA Office of Grants Management collaborated with all of SBA's grants-making program offices to oversee an overall approach for implementing effective performance monitoring.

The SBA Office of Entrepreneurial Development applied lessons learned from OIG's review of entrepreneurial development CARES Act awards ([Report 21-11](#)) and established a variety of output and outcome-focused measures for the Community Navigator pilot program, authorized by the American Rescue Plan Act of 2021. In the announcement for the program, SBA required grant applicants to establish realistic targets for the goals to measure achievements during grant performance.

In FY 2022, the SVOG program established performance measures, developed a customer experience and award outcomes survey, and finalized program evaluation framework to examine the effects the program had on venues' survival and other program outcomes across industry, geography, and business owner demographics. SVOG program plans to survey all award recipients on their customer experience and award outcomes as part of the grant closeout process.

Issue: Comprehensive Oversight Plan with Strong Controls Will Help SBA Better Assess Risk, Distribute Payments, and Audit the Shuttered Venue Operators Grant and Restaurant Revitalization Fund Programs



We alerted management to concerns about SBA's initial plans for assessing applicant risk and setting payment disbursements in the SVOG program.

Since the majority of SVOG grant awards were under a certain dollar threshold, they were categorized as low risk. These awards were disbursed in lump sum payments with minimal financial reporting requirements and expectations for post-award accountability.

SBA reported that as of July 5, 2022, the agency completed processing applications for the SVOG program. In total, SBA awarded \$14.6 billion to 13,011 grant recipients, of which 9,800 received supplemental awards.

The Economic Aid to Hard-Hit Small Businesses, Nonprofits, and Venues Act of 2020 required SBA to submit the policies and procedures used to conduct oversight and audits of the grants to Congress. It also required measurement standards to determine which grants should undergo an audit. The SBA Office of Disaster Assistance based its audit plan for this program on the risk level established for the payment distributions and financial reporting requirements for the grant recipients.

All grant recipients who received \$10 million, which is the maximum amount for any single award, were going to be audited. It is likely a minimal number of recipients will be subject to an audit. The office's initial audit plan exposed the \$16.25 billion grant program to potential misuse of funds because the bulk of grant funds will not be subject to a reasonable degree of scrutiny. SBA has finalized its oversight plan

to include monitoring, audit, and closeout strategies that address the agency's obligation to uphold federal grant regulations and other applicable requirements.

Some of the issues we identified on SVOG were identified by GAO for the Restaurant Revitalization Fund program. GAO's FY 2022 report ([GAO-22-105442](#)) on SBA's RFF found that while SBA emphasized putting pre-award controls in place to manage risk, there were weaknesses in the design and operation of the internal controls. As a result, the agency did not effectively prevent systemic control weaknesses throughout the award process.

Program officials did not design a fraud risk framework that assigned appropriate levels of risk to categories of applications, which left the program vulnerable to making payments to potentially fraudulent applicants. GAO found that SBA had relied heavily on third-party controls without fully leveraging data the agency already had from administering its other COVID-19 relief programs, such as the PPP. GAO found SBA underestimated the number of manual reviews that would be needed and did not thoroughly review all awards that met the criteria for a manual review. In response, SBA officials stated that they did not plan to assess the effectiveness of the controls and whether they operated as expected. OIG is working on an audit of SBA's post-award monitoring efforts.

Agency Progress

In FY 2022, we reported that even after determining multiple disbursements would better protect grant funds from fraud or misuse, SBA switched to a riskier single advance payment for all grantees ([Report 22-15](#)). This lump sum payment method may have hastened award disbursement, but multiple disbursements are a better way to protect taxpayer funds. Multiple disbursements enable program officials to verify that grant recipients used initial award funds for allowable activities, before then disbursing the remaining award. Because SBA made this change, program officials will not be able to monitor grantees' use of the proceeds until the end of the award, when closing out the grant, after all the funds have been disbursed.

In a sample of 10 awards we reviewed, program officials did not ensure they had adequate support for 3 of the grant amounts. SBA awarded these three recipients \$2.6 million above the total amount that they had requested. The higher grant award amounts did not correspond to the recipients' budgets. Nor was there supporting documentation to show why SBA awarded each recipient higher amounts than they had requested.

In addition, SBA did not consistently ensure the recipient's budget accurately summarized the financial plan for the award amount. Awards made to 1,849 recipients, totaling \$1.49 billion, did not have a budget that reconciled to the award amount. It is essential that SBA approve budgets that match the award amount to hold grant recipients accountable for meeting program requirements.

SBA finalized its revised oversight plan for the SVOG program and established procedures to monitor, audit, and closeout awards. The agency contracted with a firm that provided support to develop the strategy and oversight plan. SBA will audit a statistically significant sample of low, moderate, and high-risk level SVOG recipients. The contractor also developed training materials on audit and grant management policies and procedures for both SBA staff and SVOG grant recipients.

Issue: Leveraging SBA’s Workforce to Ensure Effective Administration of New and Significantly Expanded Grant Programs to Aid Small Businesses



Although the SVOG program started with only one official and temporary staff, SBA has since trained a substantial workforce to review and approve applications.

As of July 5, 2022, SBA has awarded 13,011 grants, totaling \$14.6 billion. With more than 13,000 grants to service through monitoring, audit, and closeout, SBA will need to leverage and maintain a skilled workforce to meet the demands of ongoing grant management and

administration of new awards.

According to SBA’s federal assistance directive, only warranted grant officers can commit the agency to enter into a federal assistance agreement, such as a grant, obligating federal funds. Despite the federal assistance directive, the SBA acting Chief Operating Officer waived several of the criteria necessary for new grants management staff, including training and certification requirements.

This waiver negated the previous progress SBA had made on addressing the skills gap of the grants management workforce. We have recommended that SBA train all grants officers and program personnel on the policies, procedures, and best practices for awarding and monitoring grants ([Report 19-02](#)). To address this challenge, SBA established a training plan for all grants officers and program officials responsible for monitoring grant recipients to address the systemic weaknesses OIG found in previous audits of SBA’s grants management.

Since SBA decided to make single advanced payments with minimal financial reporting requirements and agency oversight to all SVOG award recipients, the application reviewing officials must carefully review the applicants’ proposed budgets to ensure funds will be used for allowable, allocable, and reasonable expenses.

GAO’s FY 2022 report ([GAO-22-105442](#)) on SBA’s Restaurant Revitalization Fund found that there was a greater than expected need for manual reviews because of the number of applications flagged by automated controls. In contrast to the program officials’ early planning estimate of 10 percent, SBA data indicates 71 percent of applications should have been manually reviewed, of which 25 percent were considered higher risk for characteristics such as high dollar request or missing documentation. Furthermore, GAO found that there is no evidence that manual reviews were done on about 17 percent of all awards that met the criteria for requiring one.

Agency Progress

SBA made progress on ensuring the SVOG had staff, both permanent employees and contract support staff, to support the application processing. During the peak, the office had 500 staff to support the manual reviews. Similarly, for RRF, GAO found that program officials had a staff level of 400 employees to perform manual reviews, sufficient to meet anticipated needs, and therefore not a factor as to why SBA did not complete the needed manual reviews.

The program has trained staff on oversight procedures now that it has transitioned to monitoring the 13,011 shuttered venue grants. The agency detailed a grants management specialist to provide strategic guidance on all monitoring, auditing, and closeout activities.