

Top Management and Performance Challenges

Facing the Small Business Administration in Fiscal Year 2025

Report 25-01 | October 15, 2024

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Message From the Inspector General

Each year, as required by the Reports Consolidation Act of 2000, the U.S. Small Business Administration (SBA) Office of Inspector General (OIG) reports on the top management and performance challenges facing the agency.

This year, we reframed our approach to elevate this discussion in a more holistic manner, specifying challenges that are systemic and cross-cutting in nature, as opposed to the highlighting of specific programs. Our new approach no longer uses color-coded challenge areas; however, we continue to base our report on audit and investigative oversight work, dialogue with agency program officials, and assessments of programs and activities that rise to the level of a top challenge. In so doing, we believe we can better and more systematically promote programmatic change, resulting in direct benefit to small business owners who depend on SBA services.



Hannibal "Mike" Ware

Although the Coronavirus Disease 2019 pandemic economic crisis is behind us, SBA continues to face challenges related to it and protecting the integrity of SBA programs, while managing large loan portfolios and a burgeoning number of lenders. The systemic challenges overlap SBA services, affecting the agency's flagship capital, contracting, and counseling programs. We identified several underlying issues: mitigating improper payments, ensuring only eligible entities gain access to programs, reducing or eliminating self-certification as a practice, and strengthening internal controls.

Additionally, technology must be integrated within programs in a manner that assures eligibility criteria are met, and that robust verification and validation are inherent in the internal control framework. Further, SBA must meet its lender oversight responsibilities to avoid missteps that occurred in its pandemic response. These issues continue to be at the forefront of our recommended corrective actions.

The nation can depend on OIG to provide independent, objective, and timely oversight of SBA. We will continue to focus our resources on systems and processes that present serious management and performance challenges within SBA programs with a goal of improving the integrity, accountability, and performance of those programs for the benefit of the American people.

A handwritten signature in black ink, appearing to read "H. Ware".

Hannibal "Mike" Ware
SBA Inspector General

Introduction

The management challenges report is an important tool to help the agency prioritize its work to improve program performance and enhance operations. OIG remains committed to protecting the interests of American taxpayers by promoting positive change within SBA and across government, ensuring taxpayer dollars are spent efficiently according to intent.

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 challenges are longstanding, inherently difficult, and will likely continue to be challenges in the coming years. Addressing the challenges will require consistent attention from agency management and ongoing engagement with Congress, the public, and other stakeholders. We continue to collaborate with SBA program officials in identifying and mitigating the top challenges and associated issues facing the agency.

Table 1: Top Management and Performance Challenges Facing SBA in Fiscal Year 2025

Challenge	Issues
Challenge 1 Protecting the Integrity of SBA Programs	Managing Fraud Risk Improving Verification of Eligibility Mitigating Improper Payments Seizure and Return of Funds
Challenge 2 Managing SBA's Loan Portfolio and Participating Lenders	Servicing Disaster Loans Overseeing Lenders
Challenge 3 Measuring Performance and Monitoring SBA Programs	Measuring Program Performance Monitoring Program Performance Results Ensuring Funds Are Used for Intended Purposes
Challenge 4 Managing Data	Storing, Monitoring, and Analyzing Program Data Sharing Authorized Data Between Government Agencies Evaluating and Improving Data Reliability

Challenge 5 <u>Managing Risks in Information Technology Systems and Cybersecurity</u>	<u>Improving Information Technology Systems Management</u> <u>Preparing for Artificial Intelligence Challenges</u> <u>Deploying and Monitoring New Third-Party Systems</u> <u>Complying with Federal Information Security Modernization Act Management Requirements</u>
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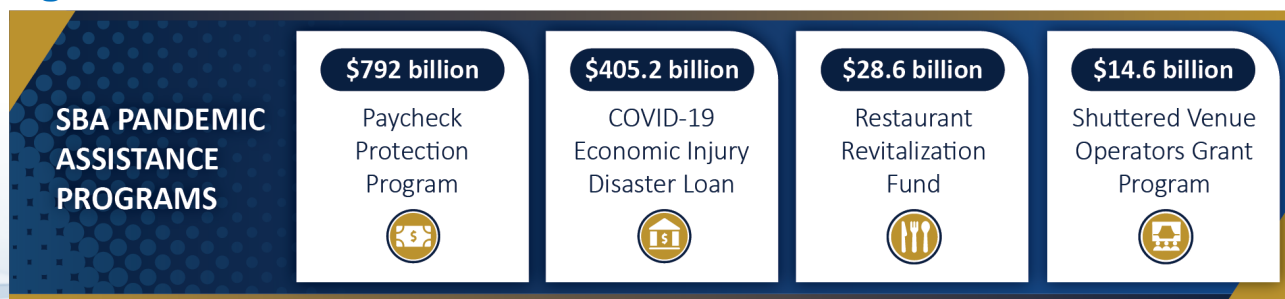
Challenge 1: Protecting the Integrity of SBA Programs

The U.S. Small Business Administration (SBA) provides loan guaranties, direct disaster assistance loans, contracting certifications, and business development programs to qualifying small business owners and entrepreneurs. SBA's challenge is to fulfill its mission by balancing the priority of delivering prompt assistance while also protecting the integrity of its programs. We see this in the fundamental tension that exists between quickly delivering capital to qualifying small businesses while minimizing potential fraud. A strong internal control environment helps meet the need for prompt service that benefits eligible small businesses, which should be in place before funds are awarded. We see a need for this strong internal control environment in SBA's contracting certification programs to ensure only deserving and eligible small business owners benefit from contracting opportunities associated with these programs.

Managing Fraud Risk

In the wake of the Coronavirus Disease 2019 (COVID-19) pandemic, action was needed to avert an economic crisis caused by lockdowns, business closures, and other impediments. More than 30 million small businesses in the nation were adversely affected by the economic crisis. In March 2020, the Coronavirus Aid, Relief, and Economic Security (CARES) Act authorized SBA to administer an unprecedented amount of disaster assistance and guaranteed loan funds to help eligible small business owners and entrepreneurs adversely affected by the crisis. Over the course of 18 months, the agency's pandemic relief expanded to four main programs and delivered 22.1 million loans and grants, totaling \$1.2 trillion (Figure 1). SBA has progressed to reviewing, forgiving, and servicing the pandemic assistance loans (Figure 2).

Figure 1: Disbursed Pandemic Assistance Funds



Source: OIG generated

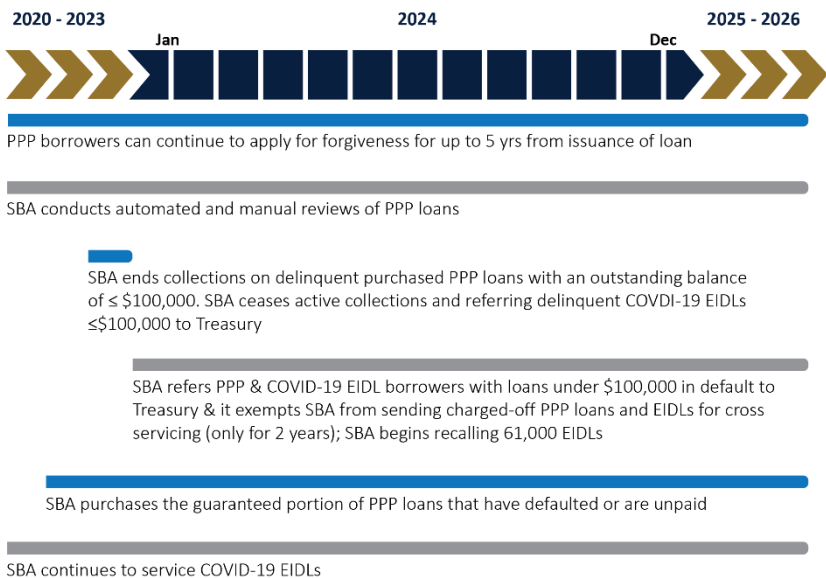
At the start of the pandemic in 2020, SBA reduced or eliminated key internal controls as it sought to follow legislative requirements intended to expedite aid during the crisis. Many existing controls and design features in SBA's longstanding flagship disaster lending and loan guaranty programs were replaced with less effective controls.¹ These internal controls could have mitigated fraud and ensured only eligible entities received taxpayer funds.

The pandemic exacerbated risks we have already found in SBA's flagship loan guaranty programs (see [Overseeing Lenders](#)). Our previous and ongoing audit work has found SBA did not always adequately recognize or manage significant lender weaknesses. OIG audits and investigations have shown SBA previously could not effectively identify and track loan agent involvement in its 7(a) and 504 loan portfolios. Our investigative work has found SBA's guaranteed loan programs susceptible to borrower fraud in regard to false statements and documentation, misrepresentation of equity injections, as well as misuse of proceeds. Investigations have also revealed a pattern of fraud by loan packagers and other fee-based agents in the 7(a) loan program.

The pandemic also magnified the long-standing control weaknesses of self-certification of eligibility (see [Improving Verification of Eligibility](#)) and the limited use of the U.S. Department of the Treasury's Do Not Pay system to verify eligibility.² The Do Not Pay system is a series of databases designed to prevent and detect improper payments to those not eligible for government payments because of past fraudulent activity or other high-risk factors.

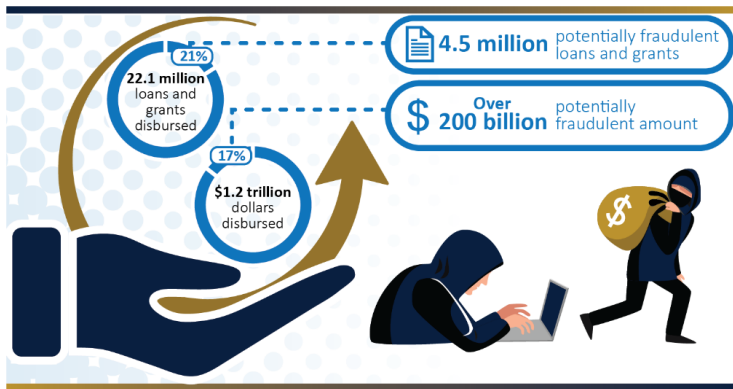
SBA eventually started using the Do Not Pay system for pandemic programs, but the challenge remains to better integrate the use of the system in all its programs and not rely on self-certification. We will continue to keep watch over SBA's burgeoning flagship loan guaranty programs, particularly with SBA increasing Small Business Lending Company participation (see [Overseeing Lenders](#)).

Figure 2: Current and Ongoing Actions Related to the PPP and COVID-19 EIDL



Source: OIG generated from SBA data

Figure 3: Potentially Fraudulent Pandemic Assistance Loans and Grants



Source: OIG generated

In our fraud landscape report issued in June 2023, we estimated SBA’s missing or weakened internal controls resulted in the disbursement of over \$200 billion in potentially fraudulent Paycheck Protection Program (PPP) loans and COVID-19 Economic Injury Disaster Loans (EIDL) to those who exploited control vulnerabilities (Figure 3).³ We estimated potential fraud and misuse of proceeds in the EIDL program at approximately \$136 billion and \$64 billion in the PPP. Using investigative casework, prior OIG reporting, and

advanced data analytics, we identified various schemes used to steal from American taxpayers. Fraudsters stole identity information, created synthetic identities, and duplicated information to exploit programs meant to help those in need.

As of September 30, 2024, we have issued 47 reports and made 127 recommendations related to identified weaknesses in SBA’s pandemic programs control environment (73 recommendations have been closed). Key recommendations for strengthening internal controls to mitigate fraud in the pandemic relief programs, include:

- Issuing clear requirements and communicating with lending partners in a timely manner;
- Establishing and monitoring performance measures and proper internal controls;
- Establishing a quality assurance plan to prevent and detect improper payments;
- Tracking program data to support accurate measurement and reporting;
- Establishing the organizational structure to manage and handle potentially fraudulent PPP loans and EIDLs.

SBA also faces the challenge of ensuring federal agencies award small business contracts only to eligible entities. OIG investigators currently have 23 cases involving allegations of firms not meeting contracting program requirements, including in the 8(a) Business Development, Women-Owned Small Business (WOSB), service-disabled veteran-owned small business, and the Historically Underutilized Business Zone (HUBZone) programs.

The agency has developed and implemented a fraud risk management policy and framework, developed aggregate review processes to identify different types of fraud, increased antifraud

controls for 2020 loans, established a Fraud Risk Management Board in 2022, and hired a new Chief Risk Officer to lead its Office of Enterprise Integrity. SBA also developed a webpage raising awareness of preventing fraud and identity theft that includes a section for lenders.

SBA continues to take actions to address identified fraud risks in its programs. Implementing corrective actions and strengthening internal controls are imperative in sustaining an effective risk management program that will reduce fraud and enhance program integrity for current and future programs.

Improving Verification of Eligibility

Strong internal controls must be in place prior to issuing loans, grants, or conferring certifications. OIG believes SBA should obtain documented evidence to verify an applicant's compliance with the program's eligibility requirements for all of its programs, ensuring that only eligible applicants receive program benefits.

The CARES Act required SBA to rely on borrower self-certification for eligibility in the PPP and required acceptance of self-certification from applicants under penalty of perjury for the COVID-19 EIDL program. For the COVID-19 EIDL program, the Act allowed self-certification for business size and type, such as for a sole proprietorship or a cooperative under 500 employees. Self-certification made the program vulnerable to noncompliance and opened the door wider to fraudsters and those who misused program funds, thus facilitating a pay and chase environment. Many applicants in the pandemic loan programs falsified their operating status and provided false information to qualify.

SBA also has relied on self-certifications for its contracting certification programs. These programs were intended by Congress to help diversify and improve the U.S. economy, fulfilling needed public services while also helping small businesses gain experience in the federal contracting arena. The goal is for these small businesses to then better compete in the open marketplace without government assistance. The U.S. government is the largest single purchaser of goods and services in the world, awarding over \$760 billion in prime contracts annually. SBA works to maximize opportunities for small businesses to receive these contract awards. As mandated by the Small Business Act, the government-wide goal is to award at least 23 percent of contract dollars to small businesses.

Business owners have been able to attest they qualify as "small" based on the number of employees and revenue, according to industry classification. Although the Agency's Audit Follow-up Official adjudicated on the permissibility of self-certification in these programs, we continue to believe Congress intended for SBA to certify these businesses eligibility for set-aside contracts. Relying on self-certification without any verification sets up a system that enables ineligible businesses and unscrupulous business owners to obtain funds for which they are not entitled. OIG has identified

instances where SBA did not consistently detect ineligible firms in its small business contracting certification programs. In our recent reviews of the WOSB and HUBZone certification programs, we recommended SBA implement procedures and guidance for eligibility and size determinations and strengthen controls over the annual certification process.⁴

We also found SBA's Dynamic Small Business Search database did not consistently update when SBA made decisions on applicants' WOSB certifications. Contracting officers throughout the government rely on the certification status reported in the database, the system of record for SBA's small business contracting programs. The Dynamic Small Business Search database integrates with SAM.gov. Without reliable information, contracting officers may award contracts set aside for disadvantaged small businesses to ineligible firms.

SBA is developing a standardized fraud risk framework within its administration platform to evaluate available data to ensure the applicants are eligible for the program. If SBA implements a robust framework and reviews its effects, it will help mitigate this challenge.

Mitigating Improper Payments

An improper payment is a payment that should not have been made or was made in an incorrect amount, including an overpayment or underpayment, under a statutory, contractual, administrative, or other legally applicable requirement. SBA has been unable to provide accurate estimates of improper payment rates for some programs during the last 2 fiscal years, and OIG has identified multiple issues of noncompliance with the Payment Integrity Information Act (PIIA) of 2019 for fiscal years 2022 and 2023, raising concerns regarding the accurate measurement of the rate of improper payments.⁵

Prior and ongoing OIG audit work has identified 7(a) and PPP loans given to borrowers who were ineligible, resulting in improper payments. In addition, OIG's external independent accounting firm found SBA did not publish improper and unknown payment estimates for multiple programs under the debt relief program, according to Report 24-16. Also, sampling and estimation methodology plans for disaster assistance loans, COVID-19 EIDLs, and EIDL Targeted Advance program activities were not fully compliant with the Payment Integrity Information Act of 2019.

Specifically, SBA did not design and implement adequate sample review procedures to produce reliable sample results that could be used to develop accurate improper payment estimates. In addition, SBA did not always publish corrective action plans as required or publish reduction targets for those over the allowable thresholds. SBA's assessment methodology for some programs did not consider certain identified risk factors for determining the likelihood of improper payments.

Payment integrity actions, such as the accurate measurement and reporting of an agency's improper payment rate and efforts to reduce those rates, aid in reducing fraud, waste, abuse, and

mismanagement in government programs. These actions enhance program missions, efforts to advance equity, efficiency, and customer experience.

By adhering to its plan to address improper payments, the agency will decrease risk to SBA programs. SBA has initiated several corrective actions to enhance and develop additional controls to address loan reviews, loan forgiveness, and fraud, including establishing guidelines for loan and forgiveness reviews and implementing SBA and contractor fraud risk management policy and framework. SBA has also developed machine learning models to focus on areas of higher risks. Although many of its efforts related to pandemic assistance programs, learning from past mistakes will help the agency mitigate improper payments in future programs.

Seizure and Return of Funds

SBA, SBA OIG, and our external law enforcement partners are continuing to work together to seize or return pandemic-related program funds that remain frozen at financial institutions. SBA is also working to claw back funds the agency has determined to be improper payments.

As of August 2024, SBA and OIG have played a key role in the return of more than \$30 billion in funds through working with law enforcement partners and financial institutions. This includes \$1.1 billion in seized or forfeited assets and over \$900 million in restitution orders. In addition, OIG's collaboration with SBA, the U.S. Secret Service, and other federal agencies and financial institutions has resulted in nearly \$9 billion in COVID-19 EIDL funds being seized or returned to SBA and \$20 billion paid from borrowers prior to the deferment period ending. Borrowers can make a voluntary payment or return funds because of concerns they do not meet certain program eligibility requirements, such as the economic need criteria or that the deposits are suspected to be fraudulent. SBA first issued guidance on how borrowers can return funds in December 2023.

OIG's audit work recommended and SBA agreed to conduct a cost-benefit analysis that led to SBA reversing its decision to end collections and referring to Treasury the delinquent unsecured purchased PPP loans with an outstanding principal balance of \$100,000 or less, and delinquent COVID-19 EIDLs with an original loan balance amount of \$100,000 or less.

Our independent auditor found in the 2023 financial statements audit a material weakness in the agency's accounting for the PPP, COVID-19 EIDLs, Restaurant Revitalization Fund (RRF), and Shuttered Venue Operators Grant (SVOG) programs. Because these programs are either in the servicing or post-payment review phases, SBA needs to improve the process to recover funds or identify funds that need to be recovered. Management did not adequately design and implement controls to account for the recovery of funds related to these programs.

Also, management did not have adequate documentation about the financial reporting considerations related to the recovery of funds for the RRF and SVOG programs including the

respective accounting entries. Management did not provide sufficient evidence of documented accounting policies for the recovery of funds related to the COVID-19 EIDLs and PPP loan programs. Further, management did not have adequate documentation about the appropriate accounting treatment and the respective accounting entries throughout each step of the recovery life cycle in accordance with generally accepted accounting principles.

The loss of taxpayer funds could be mitigated if SBA establishes clear, detailed guidance and tracking on returned funds. SBA's challenges are enforcing its current guidance for returning loan funds and standardizing procedures on clawing back funds. Of particular concern is how SBA is going to claw back PPP loans that were found to be ineligible after forgiveness. We recommended SBA establish clearly defined and detailed roles, responsibilities, and processes for returning PPP funds.⁶ As a result, SBA developed a procedural notice to provide guidance to borrowers, lenders, and other financial intermediaries on the return of PPP loan funds to SBA. OIG will continue to evaluate the effectiveness of the established processes.

OIG Highlighted Work

¹ *Inspection of Small Business Administration's Initial Disaster Assistance Response to the Coronavirus Pandemic* ([Report 21-02](#))

² *SBA's Eligibility and Forgiveness Review of PPP Loans Made to Borrowers with Treasury's Do Not Pay Data Matches* ([Report 24-06](#))

³ *COVID-19 Pandemic EIDL and PPP Loan Fraud Landscape* ([Report 23-09](#))

⁴ *SBA's Implementation of the Women-Owned Small Business Certification Program* ([Report 22-20](#)); *SBA's Oversight of HUBZone Program Participants' Continuing Eligibility* ([Report 24-23](#))

⁵ *Independent Auditors' Report on SBA's Fiscal Year 2022 Compliance with the Payment Integrity Information Act of 2019* ([Report 23-07](#)); *Independent Auditors' Report on SBA's Fiscal Year 2023 Compliance with the Payment Integrity Information Act of 2019* ([Report 24-16](#))

⁶ *Serious Concerns Regarding the Return of Paycheck Protection Program Funds* ([Report 23-08](#)); *SBA's Handling of Potentially Fraudulent Paycheck Protection Program Loans* ([Report 22-13](#))



Challenge 2: Managing SBA's Loan Portfolio and Participating Lenders

SBA provides entrepreneurs looking to start, grow, or expand their small businesses access to financial assistance through several business loan programs. The 7(a) loan program is SBA's principal vehicle for providing small businesses with access to credit that cannot be obtained elsewhere. Recipients may use proceeds from a 7(a) loan to establish a new business or assist in acquiring, operating, or expanding an existing business. This program relies on numerous outside parties (such as loan agents and lenders)

to originate loans, and the agency has recently expanded non-bank lender participation. SBA also provides long-term, low-interest direct disaster assistance loans to businesses of all sizes, private nonprofits, homeowners, and renters following a declared disaster.

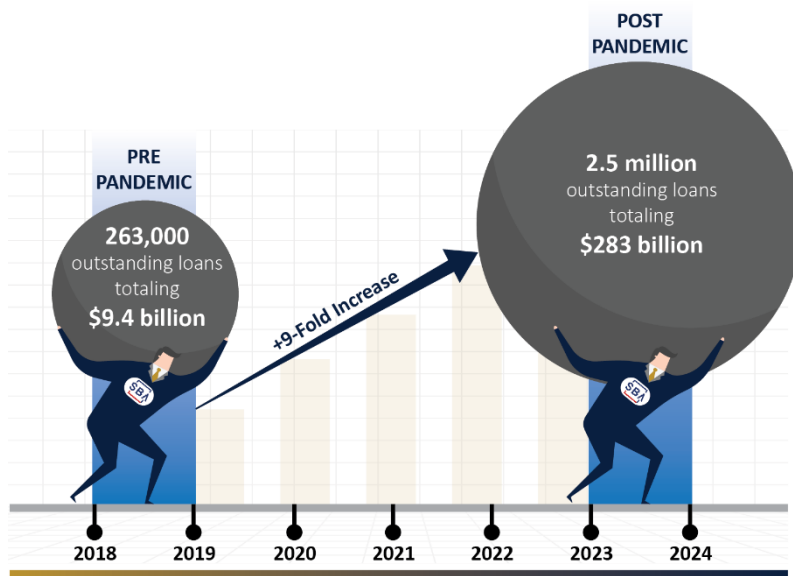
Even though the agency has disbursed and serviced billions in loans since its inception in 1953, the COVID-19 pandemic presented a significant challenge because of the unprecedented demand in funds and services from small business owners. SBA systems were never intended to handle such a crisis, and OIG will continue to monitor how the agency handles long-term loan servicing that is ninefold over what it handled before the pandemic. To protect taxpayer dollars, the challenge is for SBA to increase its capacity to effectively service disaster loans, recover delinquent loans, and maintain adequate oversight of financial institutions participating in its loan programs.

To protect taxpayer dollars, SBA must effectively service disaster loans and maintain oversight of financial institutions participating in its guaranteed loan programs

Servicing Disaster Loans

Prior to the pandemic, SBA typically serviced about 263,000 disaster loans totaling approximately \$9.4 billion. After the pandemic, SBA has the challenge of servicing approximately 2.5 million outstanding disaster loans totaling approximately \$283 billion — a ninefold increase in the amount the agency was managing previously (Figure 4).

Figure 4: The Increased Burden of COVID-19 EIDL Servicing on SBA



Source: OIG generated based on SBA data

SBA typically services a disaster loan until it is paid in full or up until default at 180 days. Treasury and SBA have agreed that the agency will service even defaulted loans and attempt recovery on these loans for up to 2 years, or until SBA's recovery efforts are exhausted. This will further stress SBA's ability to fully and completely service current loans and perform full-spectrum collection efforts on past-due and defaulted loans.¹ SBA's challenge is to be responsive to recipients of these loans and perform its due diligence to mitigate loss to the taxpayer.

In response to the exponential increase in servicing responsibility, SBA has taken actions, such as establishing the standalone COVID-19 EIDL Servicing Center in Fort Worth, Texas with more than 1,500 employees servicing over 2.2 million loans with a total value of \$284 billion (as of August 2024).

Overseeing Lenders

SBA's Office of Credit Risk Management manages program credit risk on financial assistance portfolios of guaranteed loans that totaled about \$153 billion as of March 2024. The office monitors lender performance and enforces lending program requirements.

SBA made significant policy changes to its traditional 7(a) loan program with the goal of helping expand access to capital, including increasing non-bank lender participation, such as Community Advantage and Small Business Lending Companies. Lenders that participated in SBA's mission-lending Community Advantage Pilot Program and over 30 additional lenders were granted access to the 7(a) loan program as Community Advantage Small Business Lending Companies, bringing the total to over 140. Additionally, for over 40 years, traditional SBA Small Business Lending Companies licenses were limited to 14, but SBA granted 3 additional licenses in fiscal year (FY) 2024.

SBA's challenge is to reach more entrepreneurs while mitigating increased risk to its 7(a) loan program. Many non-bank lenders are not regulated by other federal entities, which means they are

primarily regulated and examined by SBA. These lenders are considered by SBA to be higher risk than those lenders with federal regulators and require more oversight by SBA's Office of Credit Risk Management.² OIG has conducted prior audit work related to third-party service providers in the 7(a) program, and we are currently assessing the risk associated with non-bank lenders in PPP. In addition, we have investigative cases that reflect some of the effects non-bank lenders have had on the PPP.

For the PPP, third-party service providers could perform a variety of services in either the loan origination or forgiveness processes, including assisting lenders with certain lender functions (e.g., determining eligibility), technology services, and referral services.

Related to prior work OIG has conducted in this area, SBA has significantly improved its tracking and monitoring of third-party providers in the traditional loan programs and the inherent risks associated with delegated lending require effective oversight to monitor compliance with SBA policies and procedures as well as timely corrective actions to address noncompliance. With this in mind, it is vital that SBA continue to

- Enhance the oversight of program lenders;
- Enhance the oversight of third-party service providers, including loan agents who lenders place significant reliance on; and
- Address emerging issues in a timely manner to reduce risks.

Ensuring Retention of Pandemic-Related Loan and Award Records

SBA guarantees a certain percentage of a business loan made by a participating lender to the small business borrower. Lenders maintain the loan files and service the loan until either the loan is paid in full or SBA purchases the guaranty

Our Investigative Actions Involving PPP Lenders

"When the nation was facing a pandemic-induced crisis, Kabbage received tens of millions of dollars through the PPP to help lend taxpayer funds to businesses in need. Instead of safeguarding those funds, Kabbage doled out inflated and fraudulent loans, in an effort to maximize its profits."

[U.S. Attorney's Office
District of Massachusetts](#)

CEO of PPP lender MBE Capital *"lied to get money that was supposed to help people through the challenges of COVID-19. He lied so that he could fund a lavish lifestyle of cars, jets, and fancy homes."*

[U.S. Attorney's Office
Southern District of New York](#)

and charges off any uncollectible balance.³ That means most loan documents and data reside only with the participating lender.

For the PPP, SBA only required the lenders to enter applicant information into data fields in the SBA system. SBA did not obtain borrower bank account details associated with the disbursement or internet protocol addresses and web log data associated with the electronic signature on the applications. This means SBA was not able to fully capitalize on data analytics technology, such as artificial intelligence and machine learning, to identify noncompliance with program requirements and likely fraud. Future programs could be designed to capture this data.

For example, two PPP lenders are no longer in business and not all data and documentation were maintained; therefore, the agency has been challenged in conducting oversight of PPP loans issued by those lenders.

Retaining documentation and sufficient evidence to support loan decisions is consistent with federal standards for internal controls. These controls require managers to support their decisions and determinations with supporting documentation, which includes the rationale of how loan decisions were made. For this reason, it is important that all loan records are properly managed, maintained, and available.⁴

The challenge is for SBA to continuously monitor and communicate with participating lenders to safeguard loan information and documents related to lending decisions, which is imperative in cases where the lender dissolves or ceases to service the loan. We recommended SBA conduct reviews of PPP lenders to ensure they complied with their communication, servicing, and debt collection activity requirements. We also recommended SBA require lenders to submit evidence of these activities with the borrower prior to guaranty purchase.

If the agency does not take these steps, SBA will not have adequate information to make loan decisions, and law enforcement personnel will not have access to the information needed to prosecute parties that fraudulently obtained the loans guaranteed by taxpayer dollars.

Congress and the Administration took swift action to extend the statutes of limitations for prosecution of PPP and COVID-19 EIDLs from 5 to 10 years, to end in 2032, but it will be difficult to prosecute bad actors if loan documents and data are not available. To correspond to the 10-year PPP fraud statute of limitations, SBA extended the records retention requirement for all PPP lenders to 10 years from the date of final disposition of each PPP loan.ⁱ

ⁱ 89 F.R. 68090 Business Loan Program Temporary Changes; PPP-Extension of Lender Records Retention Requirements, (August 2024).

This increase in the statute of limitations does not apply to the Restaurant Revitalization Fund and Shuttered Venue Operators Grant programs, which remains at 5 years from application or reporting date. SBA only requires Restaurant Revitalization Fund recipients to retain their grant records for 3 years. If program officials do not conduct reviews in a timely manner, or extend the record retention period, SBA could miss the opportunity to prosecute bad actors and recover funds incorrectly or fraudulently obtained.

OIG Highlighted Work

¹ *Ending Active Collections on Delinquent COVID-19 Economic Injury Disaster Loans* ([Report 23-16](#))

² *Audit of SBA's Oversight of High-Risk Lenders* ([Report 20-03](#))

³ *SBA's Guaranty Purchases for Paycheck Protection Program Loans* ([Report 22-25](#))

⁴ *SBA's Eligibility and Forgiveness Review of PPP Loans Made to Borrowers with Treasury's Do Not Pay Data Matches* ([Report 24-06](#))



Challenge 3: Measuring Performance and Monitoring SBA Programs

SBA manages programs to help support American entrepreneurs access funds, federal contracts, and business counseling. Integral to this is measuring performance and monitoring these programs to help small businesses, directly affecting the strength of the American economy. SBA's challenge is to improve the measures it uses to assess its' programs effects and improve grantee oversight, better serving entrepreneurs and ensuring that every dollar spent delivers results. OIG audits and reviews have consistently identified opportunities for SBA to enhance and improve its performance data, measures, and goals to assess its programs and better inform Congress and taxpayers about program effectiveness. We have also raised concerns about SBA's practices used to oversee grant recipients' use of funds to ensure effective support of agency initiatives to help start and grow small businesses.

Measuring Program Performance

Federal guidance requires management to establish meaningful performance goals and measure progress,ⁱ which provides proof of success and helps improve future programs. With over 33 million small businesses supporting the economy, having clearly defined program goals and targets are essential to achieving program objectives.

However, our reviews, including of the SCORE mentorship network, an SBA Resource Partner, and of the State Trade Expansion Program, the Boots to Business program, and the 8(a) Business Development program, consistently found opportunities for SBA to improve its measures used to assess program goal accomplishments.¹

For example, when SBA initially established the Shuttered Venue Operators Grant (SVOG), we issued a management alert suggesting the agency establish performance goals and measures before disbursing \$14.6 billion in funds to shuttered venues.² In response to this alert, SBA established performance measures to assess whether the program successfully aided small businesses in the live

ⁱ 2 C.F.R. §200.202.

arts and entertainment industry. We are in the process of assessing SBA's oversight of program performance.

Monitoring Program Performance Results

Federal standards for internal controls require managers to use quality information to achieve their objectives. This requires that program officials ensure information is complete, accurate, accessible, and provided on a timely basis so that leaders can make informed decisions and evaluate performance. Without accurate and complete performance reporting and comprehensive reviews of performance reports, SBA grant programs may not achieve their intended results.

In a recent review of SBA's oversight of Small Business Innovation Research (SBIR) and Small Business Technology Transfer (STTR) programs, we found there was limited assurance that small businesses met minimum performance standards.³ The programs also relied on self-certifications. Small businesses must meet minimum performance standards to compete for SBIR and STTR awards. These programs help entrepreneurs explore their technological potential and provide an incentive to profit from commercialization. Changes to the Small Business Act could improve SBA's ability to monitor performance standards, reducing risks because the small businesses may not have the ability to achieve program goals for commercialization as intended by the Act.

Our review of the SBA Mentor-Protege Program found program officials established program outcomes and a process to measure results, but they did not collect sufficient data to accurately assess whether the program had its intended effect.⁴

SBA's challenge is to monitor grantee performance in such areas as the estimated number of jobs saved or created, tax revenue generated, and entity operational status.

Ensuring Funds Are Used for Intended Purposes

We have identified systemic issues with SBA's oversight of grant recipients' use of federal funds. These issues included not enforcing financial reporting requirements, not detecting grant recipient budget reallocations, using weak financial review procedures, and missing supporting documentation. SBA's challenge is to improve its grant management processes and procedures to ensure funds are used for allocable, allowable, and reasonable expenditures.

In our review of Women's Business Centers and their use of award funds, we found monitoring practices could've been improved in recipients' accounting for federal expenses, matching funds, and program income.⁵ SBA has developed guidance that, once fully implemented, will more effectively monitor if funds are used for their intended purpose.

Federal funds can greatly assist struggling small businesses during an economic crisis. For example, SVOG and Restaurant Revitalization Fund (RRF) awards were intended to help businesses in the restaurant industry and venues struggling to stay in business during the pandemic. SBA has transitioned from quickly disbursing SVOG and RRF awards to monitoring and closing them out.

In a recent audit of SBA's oversight of RRF recipients, we found program officials needed to obtain sufficient information to monitor the recipients to ensure funds were used as intended.⁶ RRF recipients were required to submit their final use of funds report to SBA by April 30, 2023. As of August 2024, 9.7 percent of all recipients, with awards totaling \$1.6 billion, had not yet filed the required report.

To oversee the RRF and SVOG programs, SBA selected samples of the award recipients to manually confirm eligibility, award calculation, and use of funds (Figure 5). We found the reviews for both programs were being conducted at a rate that would extend beyond the required timeframe for grantees to retain award records and the statute of limitations for prosecution of fraud or misuse. Program officials' challenge is to prioritize the RRF and SVOG reviews to increase the opportunity to

Figure 5: Total Number of RRF and SVOG Awards that SBA Must Review Manually



Source: OIG generated based on SBA data

save taxpayer funds.⁷ SBA managers stated they have increased staff allocated to these reviews and are working to manage resources to complete the reviews within the critical timeframes.

In addition, we found program officials did not review all awards made to potentially fraudulent or ineligible recipients, as the agency had originally planned to do.⁸ We also found SBA needed to implement procedures for recipients to return unused or improperly awarded funds to Treasury.

SBA's challenge is to effectively manage its resources to meet the demands of monitoring awardee compliance with award requirements. Improving awardee oversight will better position the agency to effectively measure and accurately report performance results and assess whether the federal assistance programs were effective and funds were used appropriately.

OIG Highlighted Work

¹ *Audit of SBA's Oversight of the SCORE Association* ([Report 19-12](#)); *Audit of SBA's State Trade Expansion Program* ([Report 18-11](#)); *The Small Business Administration's Boots to Business Program* ([Report 18-20](#)); *SBA's Business Development Assistance to 8(a) Program Participants* ([Report 22-08](#))

² *Serious Concerns about SBA's Control Environment and the Tracking of Performance Results in the Shuttered Venue Operators Grant Program* ([Report 21-13](#))

³ *SBA's Implementation of the SBIR and STTR Extension Act of 2022* ([Report 24-14](#))

⁴ *Evaluation of SBA's All Small Mentor-Protege Program* ([Report 19-17](#))

⁵ *Audit of SBA's Oversight of Women's Business Centers' Compliance with Cooperative Agreement Financial Requirements* ([Report 21-14](#))

⁶ *SBA's Oversight of Restaurant Revitalization Fund Recipients* ([Report 23-15](#))

⁷ *Improvements Needed in SBA's Shuttered Venue Operators Grant Post-Award Review Process* ([Report 24-21](#))

⁸ *SBA's Administrative Process to Address Potentially Fraudulent Restaurant Revitalization Fund Awards* ([Report 23-10](#))



Challenge 4: Managing Data

SBA's data systems are a primary method for customer service and interaction, helping disburse vital assistance and meet program goals. But during the pandemic economic crisis, the lack of data standards and the data environment, which did not include a centralized data warehouse, limited SBA's ability to respond to risks. Data standards and data reliability improves analytical decision making and fraud identification. By implementing best practices in data management, the agency will have a stronger foundation for identifying and preventing fraud schemes.

SBA will be prepared to mitigate fraud risks in future crises if it better manages its own internal data and data from other federal agencies

SBA's challenge is to mitigate the risk of fraud in future crises by enhancing its management of both internal data and data from other federal agencies. By enhancing data handling and sharing practices, SBA can efficiently exchange relevant information with other government entities and leverage data from federal partners to make more informed decisions, ultimately benefiting the American people.

Storing, Monitoring, and Analyzing Program Data

During the pandemic economic crisis, SBA's internal controls and processes were insufficient to address fraud risks because there was no centralized database of applicant information. For example, PPP loans were made by two institutions that subsequently failed. Some borrower information was lost, making it more difficult for the government to detect fraud, investigate, and prosecute wrongdoers (see [Ensuring Retention of Pandemic-Related Loan and Award Records](#)).

The agency would be better positioned to fight fraud by consistently collecting key data attributes, such as applicant contact information, deposit bank accounts, and web log data across all its programs, and then storing it in a centralized database.¹ This database would be key in fraud prevention analysis across all programs.² ⁱ

ⁱ GAO, GAO-15-593SP, *A Framework for Managing Fraud Risks in Federal Programs*, (2015).

SBA's challenge is to minimize fraud risk and manage funding to eligible applicants by implementing consistent data standards, data storage, and data collection requirements.ⁱⁱ ⁱⁱⁱ This starts with a strong internal effort to require the consistent collection of relevant data across all loan and grant programs.

For 4 consecutive years, the independent public accounting firm that performed SBA's annual financial statement audit has found material weaknesses in the agency's design and monitoring processes. These areas include data management controls in the PPP, COVID-19 EIDL, RRF, and SVOG programs.³ This means the agency's financial reports do not meet federal criteria for a complete and accurate population of loans disbursed to eligible recipients as of the end of fiscal year (FY) 2024, according to the FY 2023 Financial Statements audit.

For example, SVOG data is maintained in a separate database. If integrated in a centralized warehouse enforcing data standards, SBA could analyze fraud indicators across its programs and prevent additional disbursements to fraudulent actors in current and future programs.^{iv}

SBA programs with different eligibility requirements can still collect and maintain much of the same data, including verified applicant names, contact information, deposit bank accounts, and web log data. The consolidation can be accomplished even with credit programs that use third-party lenders. Consistent data standards, collection, and storage are foundational elements of an analytics strategy. SBA could use data analytic tools to systematically validate all applicants against fraud indicators detected across data from all its loan and grant programs. Using data analytics across all programs, as permitted by law, will help SBA better identify cases of fraud before the loan or grant is disbursed.

Sharing Authorized Data Between Government Agencies

As recommended by the Pandemic Response Accountability Committee, expanding government data sharing is a critical component for effective fraud prevention in federal agencies.^v SBA's challenge is to secure sufficient and complete data sharing agreements with other federal agencies and ensuring

ⁱⁱ Office of Management and Budget, M-19-18, "Federal Data Strategy – A Framework for Consistency" (June 4, 2019).

ⁱⁱⁱ GAO, GAO-24-106565, *Fraud Risk Management: Agencies Should Continue Efforts to Implement Leading Practices*, (2024).

^{iv} GAO, GAO-24-107395, *Small Business Administration: Progress and Work Remaining to Implement Key Management Improvements*, (2024).

^v Pandemic Response Accountability Committee, *Blueprint for Enhanced Program Integrity, Chapter 2: Opportunities for Policymakers to Improve Program Integrity*, (August 2024).

expired agreements are reestablished. These agreements can better help federal agencies verify applicant information and detect fraud.

SBA has effectively used data sharing in the past, such as with the Department of Housing and Urban Development, pursuant to the Stafford Act, to prevent duplication of benefits with community development block grants.⁴ Also, we have ongoing audit work to identify opportunities for data sharing with the U.S. Department of Labor.

A key component of this issue is SBA efficiently sharing relevant data with other government agencies and, in turn, analyzing the information it receives to better serve the American people. Prior to initiating new programs, the agency should undertake rigorous risk assessments to protect data and mitigate the inherent risks of fraud,^{vi} such as matching against Do Not Pay data before deploying new loan or grant programs.

Another example of effective data sharing between agencies would be if SBA pursues a legal framework to establish Social Security Number verification data. Given the volume of identity theft associated with SBA pandemic loan fraud, Social Security Number verification could have helped mitigate the fraud. If statutory limitations prevent SBA from accessing this or other critical data assets, there are other opportunities for responsible data sharing that could strengthen fraud detection efforts as outlined by GAO and OMB. As was done with Do Not Pay data sharing agreements with Treasury, the agency could undertake additional collaborative efforts to uncover fraud, waste, and abuse. The most effective programs would start with the agreements and systems in place to mitigate fraud, rather than chasing after fraudsters after the funds have been disbursed.

Evaluating and Improving Data Reliability

Our 2023 financial statements audit found another challenge to SBA's internal controls that are integral for financial data reliability and accuracy. OIG's independent auditors were unable to find reliable financial reporting evidence to provide a basis for an audit opinion in the agency's financial reports. As a result, the auditors were unable to provide an opinion on the reliability and integrity of financial information reported by the agency.

^{vi} OMB, M-18-16, "Appendix A to OMB Circular No. A-123, *Management of Reporting and Data Integrity Risk*" (June 6, 2018).

The *Standards for Internal Control in the Federal Government* and SBA's 2023 *Agency Financial Report* highlight proper procedures for evaluating and improving data reliability.^{vii} ^{viii} OMB also gives priority to data reliability.^{ix}

The agency should improve the design and implementation of monitoring processes to allow for transparent and accurate financial reporting.

We believe if SBA conducts a comprehensive data quality evaluation, it can then complete a full evaluation of current infrastructure, program data quality, and IT processes. SBA's data quality evaluation should monitor consistent data standards, data completeness, and data accuracy. A data quality assessment is particularly relevant as the agency starts to investigate and integrate artificial intelligence into its programs and services.

OIG Highlighted Work

¹ *SBA's Handling of Identity Theft in the COVID-19 Economic Injury Disaster Loan Program* ([Report 21-15](#)); *COVID-19 Pandemic EIDL and PPP Loan Fraud Landscape* ([Report 23-09](#))

² *SBA's COVID-19 EIDL Program Data Migration Challenges* ([Report 22-16](#))

³ *Independent Auditors' Report on SBA's Fiscal Year 2022 Compliance with the Payment Integrity Information Act of 2019* ([Report 23-07](#)); *Independent Auditors' Report on SBA's Fiscal Year 2023 Financial Statements* ([Report 24-03](#))

⁴ *SBA's Controls to Prevent Duplication of Benefits with Community Development Block Grants* ([Report 15-14](#))

^{vii} SBA, *Agency Financial Report Fiscal Year 2023*, at 53 (2024).

^{viii} GAO, GAO-14-704G, *Standards for Internal Control in the Federal Government*, principles 10 and 13, Design Control Activities and Use Quality Information, (2014).

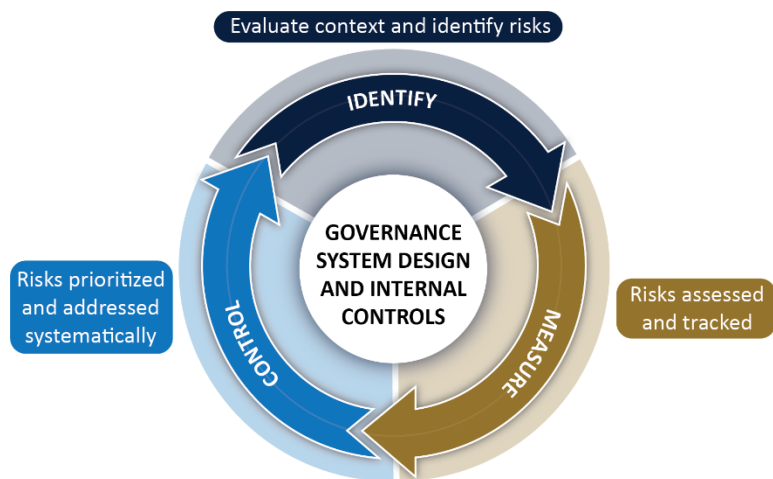
^{ix} OMB, M-18-16, "Appendix A to OMB Circular No. A-123, *Management of Reporting and Data Integrity Risk*" (June 6, 2018).



Challenge 5: Managing Risks in Information Technology Systems and Cybersecurity

OIG and GAO have reported on significant SBA information technology (IT) systems internal control and cybersecurity issues, which the agency has also identified. This remains a challenge for SBA because a strong IT governance framework enables the agency to achieve mission goals and objectives while safeguarding taxpayer funds. A governance framework in this challenge area is an integrated strategy that identifies, measures, and controls risk in IT investments, fraud, and artificial intelligence (AI) (Figure 6). These processes will help the agency better deliver SBA programs and services, particularly in times of crisis.

Figure 6: Risk Management Best Practices Strategy



Source: OIG generated from NIST data

Improving Information Technology Systems Management

In March 2024, OIG determined SBA has not had effective IT management policies and procedures for several years, and the new IT systems framework is not scheduled to be implemented until FY 2025. The agency has had issues related to IT software investment governance that include:

- Lack of oversight from the governance board;
- Not identifying the intended purpose of software investments and their expected benefits;
- Lack of monitoring against performance measurement baselines.¹

An IT system is essential to mission delivery and enhances organizational performance. IT system management is on GAO's high-risk list because these purchases are often a large investment of taxpayer funds for mission critical functions. For example, SBA plans to spend more than \$328 million on IT investments for FY 2025.ⁱ

SBA plans to invest over
\$328 million
in taxpayer funds for
mission critical IT
functions in FY 2025

Preparing for Artificial Intelligence Challenges

OIG's preliminary review of the agency's charter and minutes of the AI Governance Council indicates the agency has taken preliminary measures to meet the requirements of OMB M-24-10, "Advancing Governance, Innovation, and Risk Management for Agency Use of Artificial Intelligence." The agency established an AI Governance Council in May 2024 to identify, measure, and control AI risks. In addition, the AI Governance Council has established criteria to assess AI use cases, and it has reviewed several AI use cases to date.

SBA is using a machine-based system to predict loan guaranty default rate. This machine-based modeling would be considered AI under 15 U.S.C. § 9401(3), which is why this is a top issue for 2025. SBA is using an updated machine-based model to predict the probability that a 7(a) loan or a 504 Certified Development Company loan will default within a year. Projected defaults are predicated based off data variables such as loan payment behavior, loan characteristics (like loan amount, term, interest type), and borrower data types (like number of delinquent accounts, credit history, payment experience, and age of oldest account).

We have found no evidence, as of September 2024, that the predictive risk machine-based modeling system was vetted through SBA's Business Technology Investment Council, although it was a major investment of more than \$500,000. The council should be reviewing all IT investments to ensure best use of taxpayer dollars and value to the agency.

We also determined that an AI risk assessment was not conducted, as of June 2024. OMB states that while agencies can capitalize on AI to boost agency performance, they must also manage a range of risks.ⁱⁱ The memorandum requires several key actions, such as:

ⁱ SBA, *FY 2025 Congressional Budget Justification FY 2023 Annual Performance Report*, (March 11, 2024).

ⁱⁱ OMB, M-24-10, "Advancing Governance, Innovation, and Risk Management for Agency Use of Artificial Intelligence" (March 28, 2024).

- Designating a Chief AI Officer who is responsible for developing best practices that correspond with the National Institute of Standards and Technology Artificial Intelligence Risk Management Framework 1.0;
- Assessing risks with all AI applications to ensure compliance with the OMB memo;
- Identifying AI purposes and its expected benefits to the agency;
- Testing the AI for performance in a real-world environment before launching it;
- Independently evaluating and monitoring AI, regularly evaluating risks;
- Promoting competition in AI software purchases from contractors or vendors.

SBA's challenge is to take a proactive stance to risk management in IT system development. So far, we have been unable to review tools and controls that show SBA is prepared for AI risks. This challenge includes enacting appropriate safeguards against fraud, privacy infringements, and unintended bias and discrimination.² This means the AI could learn from its past decisions to unintentionally categorize certain borrowers as more likely to default. Effective risk management will also reduce the likelihood that fraudsters will be able to steal from taxpayers and exploit programs meant to help eligible small business owners and entrepreneurs.

Deploying and Monitoring New Third-Party Systems

The agency relies on external vendors or third-party service providers for software and IT services. While these outside solutions are expedient, SBA's challenge is to implement robust due diligence and continuous monitoring to ensure data integrity is maintained throughout the processing cycle. Shortfalls in these processes have contributed to SBA having material weaknesses and disclaimers of financial reporting reliability going back to FY 2020.^{iii 3}

We also found SBA's work to address this challenge is stymied by an outdated system development policy 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.

Proper guidance on monitoring third-party systems can be found through System and Organization Controls 1 reviews.^{iv} Our independent financial statement auditors also identified material weaknesses related to insufficient technical support and inadequate system controls, possibly leading

ⁱⁱⁱ SBA, *Agency Financial Report Fiscal Year 2020*, (2021).

^{iv} OMB, A-123, "Management's Responsibility for Enterprise Risk Management and Internal Control" (July 2016).

to operational inefficiencies and increased risk of errors. These reviews allow agencies to evaluate the effectiveness of their internal controls over financial reporting.

SBA's development guidance requires that systems are designed with adequate controls to prevent unauthorized access and data breaches. It is also a challenge for the agency to establish clear guidelines for system use, including collaboration with program end users, ensuring that ongoing technical support is readily available. New platforms must be configured to provide OIG statutory access to its data and systems access for oversight needs and to detect fraud, waste, and abuse. As new systems are developed, the importance of robust technical support and continuous system monitoring is integral to data quality.⁴

Complying with Federal Information Security Modernization Act Management Requirements

Our evaluations of SBA's systems, policies, and procedures regarding the Federal Information Security Modernization Act (FISMA) show this area continues to be a challenge for the agency. The agency's overall security program continues to be rated as "not effective" in accordance with federal guidance.^v ⁵ Because of SBA's mission and the personal identifiable information it is required to collect to carry out that mission, the agency is susceptible to privacy and data breaches.

Cyberattacks and related threats could imperil critical SBA operations and programs, potentially compromising service. Improving the agency's readiness for cybersecurity threats requires an adaptation of mindset and organizational change across SBA. The agency is working on several significant investments to withstand the potential risk, to align with its policy, including employing a risk-based approach to identifying and implementing information system security solutions to protect technology and data, and requiring contractors, loan servicers, and other external entities to implement these comprehensive cybersecurity solutions.⁶

^v Council of the Inspectors General on Integrity and Efficiency, *FY 2023 – 2024 Inspector General Federal Information Security Modernization Act of 2014 Reporting Metrics*, (February 10, 2023).

OIG Highlighted Work

¹ *SBA's IT Investment Governance Framework* ([Report 24-10](#))

² *COVID-19 and Disaster Assistance Information Systems Security Controls* ([Report 22-19](#))

³ *Independent Auditors' Report on SBA's FY 2020 Financial Statements* ([Report 21-04](#))

⁴ *SBA's Eligibility and Forgiveness Review of PPP Loans Made to Borrowers with Treasury's Do Not Pay Data Matches* ([Report 24-06](#))

⁵ *Fiscal Year 2023 Federal Information Security Modernization Act* ([Report 24-07](#))

⁶ *Independent Auditors' Report on SBA's Fiscal Year 2023 Financial Statements* ([Report 24-03](#))

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