

U.S. SMALL BUSINESS ADMINISTRATION

OFFICE OF INSPECTOR GENERAL

**Approved Disaster Assistance Loans
Matching COVID-19 EIDLs and PPP Loans
With Fraud Hold Codes**



Evaluation Report

Report 25-03

November 5, 2024



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NOTICE:

Pursuant to the James M. Inhofe National Defense Authorization Act for Fiscal Year 2023, Public Law 117-263, Section 5274, any nongovernmental organizations and business entities identified in this report have the opportunity to submit a written response for the purpose of clarifying or providing additional context as it relates to any specific reference contained herein. Comments must be submitted to AIGA@sba.gov within 30 days of the final report issuance date. We request that any comments be no longer than two pages, Section 508 compliant, and free from any proprietary or otherwise sensitive information. The comments may be appended to this report and posted on our public website.



U.S. Small Business Administration Office of Inspector General

EXECUTIVE SUMMARY

Approved Disaster Assistance Loans Matching COVID-19 EIDLs and PPP Loans With Fraud Hold Codes (Report 25-03)

What OIG Reviewed

This report presents the results of our evaluation to determine whether the U.S. Small Business Administration (SBA) approved disaster assistance loan applications to individuals or businesses that also had a Coronavirus Disease 2019 (COVID-19) Economic Injury Disaster Loan (EIDL) or Paycheck Protection Program (PPP) loan with a hold code marking the loan as potential or confirmed fraud (referred to as “fraud hold codes” herein).

SBA provided about \$1.2 trillion in direct and guaranteed loans to businesses impacted by the COVID-19 pandemic through the COVID-19 EIDL program and PPP. In our report *COVID-19 Pandemic EIDL and PPP Loan Fraud Landscape* (Report 23-09), we noted rampant potential fraud totaling over \$200 billion in both programs. Of that, SBA flagged \$51 billion in loans with fraud hold codes.

SBA simultaneously operated the disaster assistance program, providing low-interest disaster assistance loans to individuals and businesses impacted by other declared natural disasters. During and after the pandemic, between March 2020 and May 2024, SBA provided \$3.6 billion in disaster assistance loans (non-COVID-19 EIDLs).

In October 2022, SBA established an informal review process in Disaster Credit Management System (DCMS) 2.0 to match disaster assistance loan applications to pandemic loans that had fraud hold codes based on taxpayer identification numbers.

In August 2023, SBA began transitioning from DCMS 2.0 to a new system called the Unified Lending Platform (ULP). The ULP uses fraud detection software to review each loan application and includes a check for pandemic program loans with fraud hold codes.

What OIG Found

SBA implemented controls to mitigate fraud risks in its disaster assistance loan program that prevented the approval of loans to borrowers who also had COVID-19 EIDLs or PPP loans with fraud hold codes. These controls resulted in the declination of 5,625 potentially fraudulent disaster assistance loan applications; however, we found SBA approved 188 loans totaling \$8,127,613 even though they were flagged. Agency officials took action to prevent one of these loans from being disbursed after we brought this to their attention.

What OIG Recommended

We recommended SBA review and verify the 187 loans that matched to a related COVID-19 EIDL or PPP loan with a fraud hold code for legitimacy and eligibility.

Agency Response

SBA agreed with our recommendation and intends to review the 187 loans that matched to a related COVID-19 EIDL or PPP loan with a fraud hold code for legitimacy and eligibility. Management’s proposed corrective actions satisfy the recommendation.



**OFFICE OF INSPECTOR GENERAL
U.S. SMALL BUSINESS ADMINISTRATION**

MEMORANDUM

Date: November 5, 2024

To: Isabella Casillas Guzman
Administrator

From: Hannibal "Mike" Ware
Inspector General

A handwritten signature in black ink, appearing to read "H. Ware", is placed next to the name of the Inspector General.

Subject: Approved Disaster Assistance Loans Matching COVID-19 EIDLs and PPP Loans With Fraud Hold Codes (Report 25-03)

This report represents the results of our evaluation of Approved Disaster Assistance Loans Matching COVID-19 EIDLs and PPP Loans With Fraud Hold Codes. We considered management comments to the draft of this report when preparing the final report. SBA management agreed with our recommendation.

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact John Provan, Director, Disaster Assistance Programs Group, at (817) 684-5341 or Andrea Deadwyler, Assistant Inspector General for Audits, at (202) 205-6586.

cc: Dilawar Syed, Deputy Administrator, Office of the Administrator
Arthur Plews, Chief of Staff, Office of the Administrator
Isabelle James, Deputy Chief of Staff, Office of the Administrator
Therese Meers, General Counsel, Office of General Counsel
Michael Simmons, Attorney Advisor, Office of General Counsel
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Deborah Chen, Deputy Chief Financial Officer, Office of Performance, Planning, and the
Chief Financial Officer
Katherine Aaby, Associate Administrator and Chief Financial Officer, Office of Performance,
Planning, and the Chief Financial Officer
Tonia Butler, Director, Office of Internal Controls

Contents

Introduction	1
Background	1
Objective	4
Results	4
SBA Implemented Controls that Reduced the Number of Disaster Assistance Loans with Pandemic Loan Program Fraud Indicators	4
Informal Process.....	5
Automated Process	5
Recommendation	6
Evaluation of Agency Response.....	6
Summary of Actions Necessary to Close the Recommendation	6

Figures

1 Risk Review Process.....	3
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Appendices

1 Scope and Methodology	1-1
2 Agency Response.....	2-1

Introduction

This report presents the results of our evaluation to determine whether the U.S. Small Business Administration (SBA) approved disaster assistance loan applications to businesses or individuals that also had a related Coronavirus Disease 2019 (COVID-19) Economic Injury Disaster Loan (EIDL) or Paycheck Protection Program (PPP) loan with a fraud hold code. Disaster assistance loan applications are related to COVID-19 EIDLs or PPP loans if an applicant's taxpayer identification number matched to a COVID-19 EIDL or PPP loan borrower's taxpayer identification number. A hold code is an identifier placed on a loan in the agency's system. Hold codes are not always fraud related; for example, SBA may place a hold code on a loan for general eligibility issues. For our evaluation, we only included hold codes that indicated potential or confirmed fraud, referred to as "fraud hold codes" herein.

Background

SBA disbursed over \$387 billion in direct loans through the COVID-19 EIDL program and over \$800 billion in guaranteed loans made by third-party lenders through the PPP to provide financial assistance to businesses impacted by the COVID-19 pandemic.

In Report 23-09, *COVID-19 Pandemic EIDL and PPP Loan Fraud Landscape*, we noted rampant potential fraud totaling over \$200 billion in the COVID-19 EIDL program and the PPP. Of that, SBA flagged \$51 billion of disbursed or guaranteed assistance loans with hold codes for suspected or confirmed fraud (COVID-19 EIDLs totaling \$34 billion and PPP loans totaling \$17 billion).

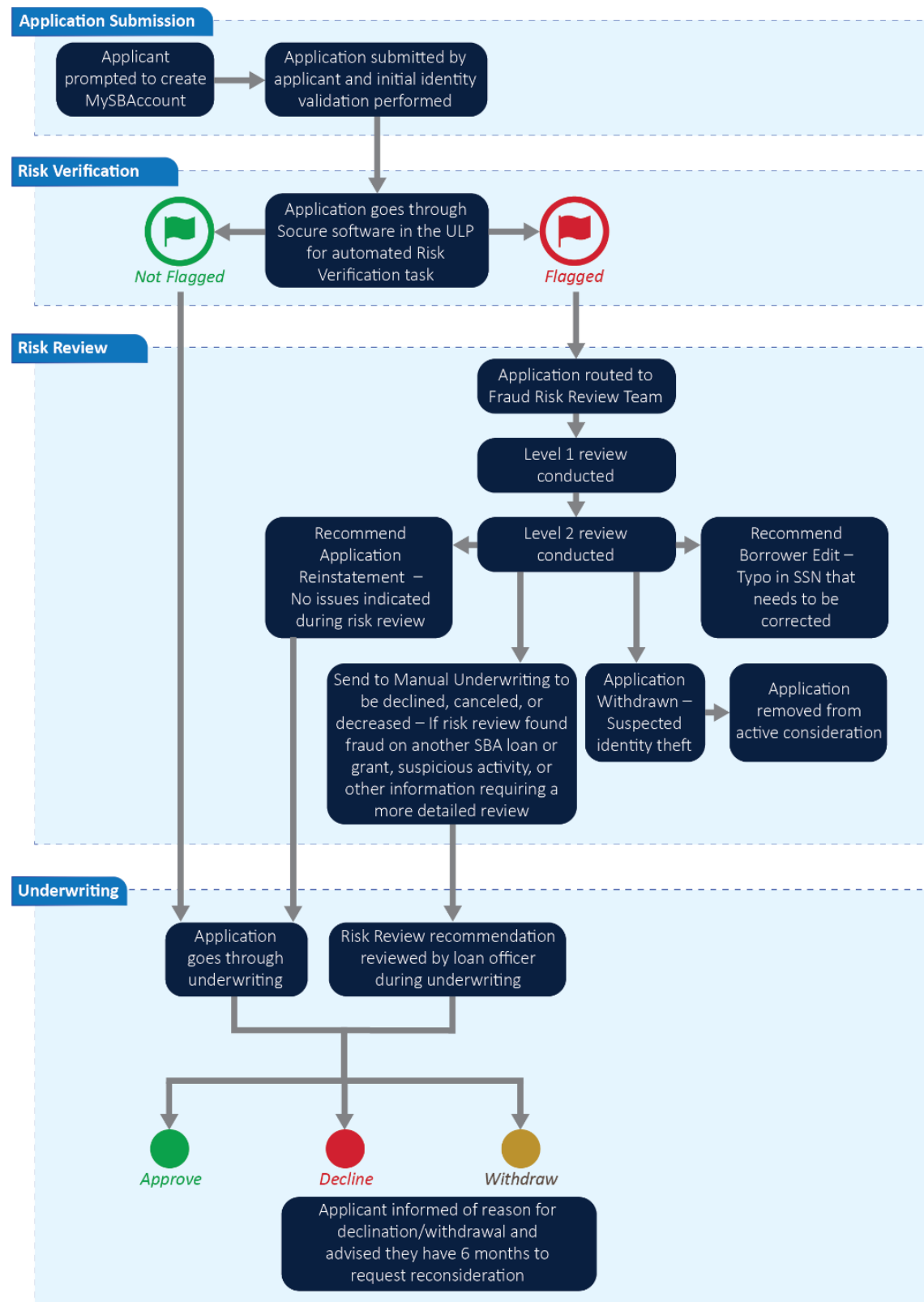
In addition to SBA's efforts to help businesses affected by the COVID-19 pandemic, the agency simultaneously operated the disaster assistance program, providing low-interest disaster assistance loans to individuals and businesses impacted by other declared natural disasters to support the recovery of affected communities. During and after the pandemic, between March 2020 and May 2024, SBA provided \$3.6 billion in disaster assistance loans (non-COVID-19 EIDLs).

To prevent providing additional disaster assistance to borrowers who had pandemic loans with fraud indicators, SBA established an informal review process in Disaster Credit Management System (DCMS) 2.0 to match any new disaster assistance loan applicants against the borrowers of COVID-19 EIDLs with fraud hold codes. In October 2022, SBA loan officers began receiving daily reports of in-process disaster assistance loan applications that matched to a COVID-19 EIDL that had been flagged for potential fraud. The match was based on the applicant's taxpayer identification number. SBA stated that DCMS 2.0 did not match disaster loan applications to PPP loans with hold codes; however, this control weakness was addressed in their new loan application processing system, the Unified Lending Platform (ULP).

In August 2023, SBA began transferring all in-process disaster assistance loan applications from DCMS 2.0 to the ULP in a concerted effort to improve fraud detection. This transition was completed in January 2024, and all new disaster loan applications after that date are processed entirely within ULP. The ULP uses fraud detection software for risk verification tasks such as reviewing applicant identity information against various databases and an internal watchlist for suspected identity theft. Additionally, the risk verification checks each application for related COVID-19 EIDLs or PPP loans with fraud hold codes using the Loan Information and Reporting Application and ETRAN, SBA's loan servicing system.

If a disaster assistance loan application was flagged by the fraud detection software in the ULP during the risk verification, it was routed to a Risk Review team that conducted a risk review. The risk review was a two-level process in which flagged applications were reviewed for identity theft and other potential fraud issues by a risk reviewer and then by a team lead. If the risk reviewer determined there was fraud or other suspicious activity, they sent the file to manual underwriting to be declined, canceled, or decreased. If the risk reviewer suspected identity theft, the application was withdrawn and removed from active consideration. If the risk reviewer identified an error in the application, such as a typo in the Social Security number, they recommended a borrower edit to be completed by underwriting. Lastly, if the risk reviewer did not identify any issues with the loan application, they recommended the application be reinstated for processing. See Figure 1 for a full depiction of the risk review process.

Figure 1: Risk Review Process



Source: SBA OIG analysis

Objective

Our objective was to determine whether SBA approved disaster loan applications with related COVID-19 EIDLs or PPP loans with fraud hold codes.

Results

SBA implemented controls to mitigate fraud risks in its disaster assistance loan program. These controls successfully reduced the number of approved disaster assistance loans with a related COVID-19 EIDL or PPP loan fraud hold code since implementing the risk verification and risk review processes. Although SBA's fraud controls resulted in the declination of 5,625 potentially fraudulent disaster assistance loan applications, we found SBA approved 188 disaster assistance loans to borrowers who also had potentially fraudulent pandemic loans. SBA should review these approved loans for eligibility and legitimacy.

SBA Implemented Controls that Reduced the Number of Disaster Assistance Loans with Pandemic Loan Program Fraud Indicators

The informal process in DCMS 2.0 and the automated process in the ULP declined 5,625 potentially fraudulent disaster assistance loan applications. We found that the number of disaster assistance loan applications with fraud indicators approved by SBA decreased even further with the implementation of the automated fraud detection software. Using the informal process, SBA approved 5 percent of disaster assistance loan applications with fraud indicators. Using the automated process, SBA approved less than 1 percent of disaster assistance loan applications with fraud indicators.

Although SBA reduced the number of approved disaster assistance loans with fraud indicators, our evaluation identified the agency approved 188 disaster assistance loans totaling \$8,127,613 to borrowers who had related COVID-19 EIDLs or PPP loans with fraud hold codes. Prior to the system conversion, SBA relied on an informal review process to match new disaster loan applications to COVID-19 EIDLs and PPP loans with active fraud hold codes. This process was based on Social Security numbers or Employer Identification Numbers. SBA's implementation of the automated fraud detection software for new disaster loans enhanced the fraud detection process and has resulted in more effective controls to prevent loans to potential fraudsters.

Informal Process

From March 2020 to December 2023, SBA declined 3,380 out of 3,554 (or 95 percent) disaster assistance loan applications that had related pandemic loans with fraud hold codes. In October 2022, SBA implemented an informal process to help ensure that loans were not being approved for applicants who had pandemic loans with fraud hold codes. The remaining 174 disaster assistance loan applications (or 5 percent) totaling \$7,815,700 were approved and disbursed even though the loan applications had related active fraud hold codes. These approvals occurred because SBA did not have a reliable process in DCMS 2.0 to check if applicants had prior loans with fraud hold codes.

Automated Process

From September 2023 to May 2024, SBA declined 2,251 of 3,214 (or 70 percent) of disaster assistance loan applications with related fraud hold codes when they implemented an enhanced process using automated fraud detection software to conduct a risk verification on all disaster assistance loan applications. At the time of our evaluation, about 938 (29 percent) of loan applications were either in process or canceled. SBA's Risk Review team appropriately reviewed and cleared 11 of the loan applications. The remaining 14 loans (less than 1 percent) were approved due to other errors.

Specifically, while SBA implemented an enhanced fraud detection process that resulted in more effective controls to prevent loans to potential fraudsters, we found the agency approved 13 disaster assistance loan applications to borrowers who also had COVID-19 EIDLs or PPP loans with fraud hold codes due to internal miscommunication resulting in two fraud hold codes being excluded from the risk verification search. These two fraud hold codes have since been reinstated, in part, due to our review and SBA's proactive response. As of August 9, 2024, SBA had disbursed \$311,913 on these 13 loans.

We identified one additional disaster loan application that the risk reviewer recommended for approval. The reviewer stated the related hold codes were not fraudulent even though the related loan was part of a fraud scheme in which the perpetrator pled guilty to conspiracy to commit wire fraud and money laundering. According to agency officials, this occurred due to a training issue with the individual who conducted the risk review. After we brought this to SBA's attention, the agency stated they would take action to cancel the loan, as it had not yet been funded. As a result, SBA declined this loan application on August 13, 2024, due to potential fraud.

Recommendation

To address the risk of fraud associated with approved disaster assistance loans with related COVID-19 EIDLs or PPP loans with fraud hold codes, we recommend the Administrator direct the Associate Administrator for the Office of Capital Access to:

Recommendation 1: Review the 187 loans that matched to a related COVID-19 EIDL or PPP loan with a fraud hold code for legitimacy and eligibility. If any of the 187 loans are found to be illegitimate, ineligible, or fraudulent, take appropriate action to 1) prevent disbursement of funds, 2) recover the funds, and 3) refer potentially fraudulent loans to OIG.

Evaluation of Agency Response

SBA management provided formal written comments that are included in their entirety in Appendix 2. Management agreed with our recommendation to review the 187 loans that matched to a related COVID-19 EIDL or PPP loan with a fraud hold code for legitimacy and eligibility.

Summary of Actions Necessary to Close the Recommendation

The following section summarizes the status of our recommendation and the actions necessary to close it.

Recommendation 1

Review the 187 loans that matched to a related COVID-19 EIDL or PPP loan with a fraud hold code for legitimacy and eligibility. If any of the 187 loans are found to be illegitimate, ineligible, or fraudulent, take appropriate action to 1) prevent disbursement of funds, 2) recover the funds, and 3) refer potentially fraudulent loans to OIG.

Status: Resolved

Management agreed with our recommendation to review the 187 loans provided by OIG. Management further stated they will take appropriate action if any of those loans are found to be illegitimate, ineligible, or fraudulent. This recommendation can be closed when SBA provides evidence of the appropriate action taken for the 187 loans that matched to a related COVID-19 EIDL or PPP loan with a fraud hold code.

Appendix 1: Scope and Methodology

This report presents the results of our evaluation to determine whether the U.S. Small Business Administration (SBA) approved disaster assistance loan applications with related Coronavirus 2019 Disease (COVID-19) Economic Injury Disaster Loans (EIDL) or Paycheck Protection Program (PPP) loans with fraud hold codes. Our scope of work covered disaster assistance loan applications submitted from March 2020 through May 2024.

To answer our objective, we reviewed laws, regulations, policies, procedures, and guidance pertaining to SBA's risk review process to detect, prevent, and decline potential fraudulent disaster assistance loan applications with related COVID-19 EIDLs and PPP loans with fraud hold codes.

We interviewed SBA personnel from various offices in the Office of Capital Access and the Office of Performance and Systems Management to gain an understanding of related processes, procedures, and system controls. Additionally, we interviewed officials of the SBA contractor tasked with monitoring the fraud software used in the Unified Lending Platform to detect suspicious activity.

Further, we analyzed data for disaster assistance loan applications other than COVID-19 EIDLs submitted from March 2020 to May 2024 by extracting the employer identification numbers and Social Security numbers from this universe of data and matching those to COVID-19 EIDLs or PPP loans with a potential fraud or confirmed fraud hold code to help identify the number of loans with related pandemic fraud issues that were approved. The disaster application data was retrieved from the LIRA Data Warehouse on May 2, 2024.

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

Use of Computer-processed Data

We relied on data from SBA's Loan Information and Reporting Application and the Unified Lending Platform. We performed limited testing on data extracts to ensure the data was complete, reliable, and met the scope parameters of this evaluation. We also performed a data

reliability assessment to ensure the data materially supports the findings, conclusions, and recommendations. As a result, we believe the data is sufficiently reliable to support the findings in this report.

Prior Audit Coverage

The following lists the Office of Inspector General's previous audit coverage related to the objective of this report:

Report Number	Report Title	Report Date
Report 24-17	<i>7(a) Loan Approval for Borrowers with Unresolved COVID-19 Pandemic Loan Compliance Issues</i>	May 21, 2024
Report 23-09	<i>COVID-19 Pandemic EIDL and PPP Loan Fraud Landscape</i>	June 27, 2023
Report 22-22	<i>Follow-Up Inspection of SBA's Internal Controls to Prevent COVID-19 EIDLs to ineligible Applicants</i>	September 29, 2022
Report 22-06	<i>COVID-19 EIDL Program Recipients on the Department of Treasury's Do Not Pay List</i>	November 30, 2021
Report 21-15	<i>SBA's Handling of Identify Theft in the COVID-19 Economic Injury Disaster Loan Program</i>	May 6, 2021

Appendix 2: Agency Response

U.S. Small Business Administration Response to Report



U.S. SMALL BUSINESS ADMINISTRATION
WASHINGTON, DC 20416

To: Hannibal “Mike” Ware
Inspector General
U.S. Small Business Administration

From: Jihoon Kim, Director **JI KIM**
Office of Financial Program Operations
Office of Capital Access

Digitally signed by JI KIM
Date: 2024.10.21 13:31:50
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Date: October 21, 2024

Subject: Response to OIG Draft Report – “Approved Disaster Assistance Loans Matching COVID-19 EIDLs and PPP Loans with Fraud Hold Codes”

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

Recommendation 1 – We recommend the Administrator direct the Associate Administrator for the Office of Capital Access to review the 187 loans that matched to a related COVID-19 EIDL or PPP loan with a fraud hold code for legitimacy and eligibility. If any of the 187 loans are found to be illegitimate, ineligible, or fraudulent, take appropriate action to 1) prevent disbursement of funds, 2) recover the funds, and 3) refer potentially fraudulent loans to OIG.

SBA Response: SBA agrees and will review the 187 loans provided by OIG. If any of those loans are found to be illegitimate, ineligible, or fraudulent, SBA will take appropriate action.