

U.S. SMALL BUSINESS ADMINISTRATION

OFFICE OF INSPECTOR GENERAL

SBA's Handling of Identity Theft in the COVID-19 Economic Injury Disaster Loan Program



Verification Inspection

Report 24-04

December 19, 2023



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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.




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

MEMORANDUM

Date: December 19, 2023

To: Isabella Casillas Guzman
Administrator

From: Hannibal "Mike" Ware 
Inspector General

Subject: Verification Inspection of SBA's Handling of Identity Theft in the COVID-19 Economic Injury Disaster Loan Program (Report 24-04)

This report presents the results of our verification inspection of the U.S. Small Business Administration's (SBA) corrective actions for the five recommendations from the Office of Inspector General (OIG) evaluation report *SBA's Handling of Identity Theft in the COVID-19 Economic Injury Disaster Loan Program* (Report 21-15). A verification inspection is a short review that focuses on closed recommendations from prior OIG reports.

We determined OIG Report 21-15 recommendations 1, 2, 3, and 4 to be fully implemented; however, SBA management has not fully implemented recommendation 5. We will track management's execution by reopening the recommendation and will work with SBA to establish a target date for enacting corrective actions through the audit follow-up process.

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

cc: Katie Frost, Associate Administrator, Office of Capital Access
Katherine Aaby, Associate Administrator, Office of Performance, Planning, and the Chief Financial Officer
Therese Meers, General Counsel, Office of General Counsel
John Miller, Deputy Associate Administrator, Office of Capital Access
Tonia Butler, Director, Office of Internal Controls
Anna M. Calcagno, Director, Office of Program Performance, Analysis, and Evaluation
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Rachel Wilson, Program Analyst, Office of Capital Access

Background

In March 2020, Congress passed the Coronavirus Preparedness and Response Supplemental Appropriations Act,¹ which deemed the Coronavirus Disease 2019 (COVID-19) pandemic a disaster, allowing the U.S. Small Business Administration (SBA) to issue Economic Injury Disaster Loans (EIDLs) to eligible organizations. SBA provided EIDLs of up to \$2 million to eligible entities to help meet financial obligations and operating expenses. Also in March 2020, Congress passed the Coronavirus Aid, Relief and Economic Security Act (the CARES Act),² which provided funding for emergency EIDL advance grants of up to \$10,000 per eligible recipient. As noted in Report Number 21-15, *SBA's Handling of Identity Theft in the COVID-19 Economic Injury Disaster Loan Program*, SBA had approved over \$204 billion in COVID-19 EIDLs and advance grants as of December 2020. That grew to over \$385 billion in COVID-19 EIDLs and advance grants approved by April 2022. Moreover, the Office of Inspector General (OIG) received over 250,000 hotline complaints, which included allegations of COVID-19 EIDL identity theft, and over 3,000 requests for investigative support from other law enforcement agencies investigating fraud, including requests related to alleged identity theft.

In response, we evaluated SBA's handling of identity theft pertaining to COVID-19 EIDLs and EIDL advance grants, and issued Report Number 21-15, *SBA's Handling of Identity Theft in the COVID-19 Economic Injury Disaster Loan Program* on May 6, 2021. The objective of the evaluation was to assess SBA's handling of identity theft in the COVID-19 EIDL Program, actions SBA had taken to provide relief to the victims, and actions SBA had taken to mitigate the risk of financial loss.

We found SBA had insufficient processes in place to:

- Maintain and track identity theft complaints;
- Provide status updates to each complainant alleging identity theft;
- Restore identity theft victims to their condition prior to the fraud; and
- Charge off fraudulent loans and remove Uniform Commercial Code (UCC) filing fees for loans associated with identity theft without affecting the victim's credit standing.

¹ The Coronavirus Preparedness and Response Supplemental Appropriation, Public Law 116-123, was signed into law on March 6, 2020.

² The CARES Act, Public Law 116-136, was signed into law on March 27, 2020.

Additionally, we noted SBA received over 150,000 returned EIDL billing statements, potentially indicating identity theft had occurred. As a result, we made five recommendations to address the issues noted above. All recommendations were all subsequently closed by SBA between September 30, 2021, and December 2, 2022.

We initiated this verification inspection to determine whether the closed recommendations were fully implemented or if further corrective actions were needed. Accordingly, our objective was to determine the effectiveness of the corrective actions SBA implemented to 1) resolve credit-related issues for COVID-19 EIDL identity theft victims, 2) charge-off fraudulent loans and remove UCC filing fees for loans associated with identity theft, and 3) review over 150,000 returned billing statements and resolve any involving identity theft.

Summary of Results

Program officials effectively implemented corrective actions for four of the five recommendations made by OIG. Specifically:

- Recommendation 1: SBA implemented processes using two software systems to maintain and track all identity theft complaints.
- Recommendation 2: SBA implemented an effective process to review identity theft complaints and send complainants letters notifying them of the outcome.
- Recommendation 3: For validated cases of identity theft, SBA developed an effective process to suspend automated notices, disassociate the victims' tax identification numbers from the fraudulent loans, and mail victims a UCC-3 Termination Form.
- Recommendation 4: SBA developed an effective process that requires two reviewers to charge off loans and UCC filing fees connected to validated identity theft complaints.

However, SBA corrective actions only partially addressed the fifth recommendation. Specifically:

- Recommendation 5: SBA implemented a campaign in which phone calls were made to obtain updated mailing addresses for returned billing statements. However, the agency did not implement a process to identify, resolve, and refer to OIG statements connected to identity theft.

Report Number 21-15: SBA’s Handling of Identity Theft in the COVID-19 Economic Injury Disaster Loan Program

The following information details the original finding, recommendations, and SBA’s corrective actions for recommendations 1–5.

Recommendation 1

OIG Finding	OIG Recommendation	SBA Corrective Actions
SBA officials did not know the exact number of individuals who have filed an identity theft complaint.	Develop a process to maintain and track all identity theft complaints.	OIG closed this recommendation on September 30, 2021, because SBA provided documentation explaining how they are tracking identity theft complaints.

Inspection Result

We verified SBA developed a process to maintain and track identity theft complaints using two systems. The first system collects and houses identity theft complaints submitted via SBA’s website, by fax, or through the mail. Its counterpart, SBA’s Unified Lending Platform (ULP), acquired the ability to receive complaints on March 31, 2023, and allows borrowers with outstanding SBA loans to login to the ULP and submit identity theft complaints. SBA uses both systems and then assigns the complaints to staff who then validates them and responds to the complainants.

We held several meetings with, and requested documents from, SBA to verify the agency implemented a process for maintaining and tracking all identity theft complaints. The meetings allowed us to understand the distinction between the two systems, including under what circumstances identity theft complaints would be recorded in one system instead of the other. We received live demonstrations of the first system and ULP. Finally, we reviewed and used data from both systems as the basis for the testing we performed related to recommendations 2–4.

We consider this corrective action fully implemented and effective.

Recommendation Number 2

OIG Finding	OIG Recommendation	SBA Corrective Actions
SBA did not provide status updates to those reporting COVID-19 EIDL identity theft.	Develop a process to provide status updates to each complainant alleging identity theft.	OIG closed this recommendation on September 30, 2021, after SBA provided OIG with its written process to inform complainants after completing an internal review of the identity theft complaint. The agency also provided a copy of the letter it issues to the complainant outlining SBA's findings from the internal review.

Inspection Result

We verified SBA developed a written process for providing status updates to complainants alleging identity theft. This process begins when the complainant submits Form 3513, "U.S. Small Business Administration Declaration of Identity Theft," photo identification, and an official police report or Federal Trade Commission complaint. SBA then reviews the documentation to determine whether it is complete and, if so, whether the complaint can be validated. If SBA validates identity theft occurred, the agency sends a letter to the victim informing them of the results of its review. The letter also details the additional actions SBA will take, such as disassociating the loan from the victim's identity and stopping all notices and billing statements. Should SBA be unable to confirm that identity theft occurred, or the complaint package lacks required documentation, SBA sends the complainant a letter informing them of this.

After developing an understanding of SBA's process for providing status updates to complainants, we verified through testing that SBA effectively implemented the process. Specifically, we judgmentally selected 50 identity theft complaints for review and found SBA sent validation letters to complainants, where applicable, for all but one complaint. It is important to note that even though the status letter was not sent to the victim, SBA disassociated the victim's social security number from the loan, stopped mailing billing statements to the victim, and charged off the loan in a timely manner. After we brought this to SBA's attention, program officials sent the complainant a letter explaining that their identity theft complaint was validated. We did not find this to be a systemic issue.

We consider this corrective action fully implemented and effective.

Recommendation Number 3

OIG Finding	OIG Recommendation	SBA Corrective Actions
<p>SBA did not have a process to restore the victims to the financial condition they were in prior to the fraud by:</p> <ul style="list-style-type: none"> • Removing any UCC liens on the victim’s assets to avoid any future repossession efforts; • Ceasing loan statements; • Preventing collection actions; and • Releasing the victim from loan liability. 	<p>Complete and formalize a process to restore identity theft victims to their condition prior to the fraud. The process should include steps to stop the loan billing statements, prevent delinquency collections, and release the victims from loan liability and UCC liens.</p>	<p>OIG closed this recommendation on September 30, 2021, after SBA provided their written process to restore identity theft victims to their condition prior to the fraud. This included mailing a UCC-3 Termination Form to the complainant; permanently stopping deferment notices, billing statements, and all collection or other derogatory actions; and preventing any tax notices from being distributed.</p>

Inspection Result

We verified SBA completed and formalized a process to restore identity theft victims to their financial condition prior to the fraud. This process includes taking several actions after validating instances of identity theft, such as stopping loan billing statements, disassociating the victim’s tax identification number, and resolving the UCC lien.

In order to stop the loan billing statements, the Automated Management System letters are turned off in the Capital Access Financial System (CAFS). Further, the victim’s tax identification number is replaced in CAFS with a “dummy” number, disassociating the victim’s identity from the fraudulent loan. To resolve the UCC lien, SBA mails the victim a UCC-3 Termination Form. The victim must then file the form with their state government to provide evidence that SBA does not have a security interest in their assets as collateral.

We judgmentally selected 50 identity theft complaints for review and found SBA took appropriate actions to restore identity theft victims to their financial condition prior to the fraud, where applicable, for all but two complaints. Specifically, SBA had validated one identity theft complaint but did not change the victim’s social security number to a “dummy” number in ETRAN until we brought this to the agency’s attention. In addition, SBA had validated another identity theft complaint but did not send the victim the UCC-3 Termination Form. We do not believe these two cases represent a systemic issue.

We consider this corrective action fully implemented and effective.

Recommendation Number 4

OIG Finding	OIG Recommendation	SBA Corrective Actions
SBA did not have a process to charge off or remove the fraudulent loans when the funds have not been returned or to remove the UCC filing fees associated with any collateral for loans made using stolen identities.	Develop a process to remove any fraudulent loans and related UCC filing fees from its financial records.	OIG closed this recommendation on December 2, 2022, after SBA provided their written process to charge off loans and remove UCC filing fees when identity theft was validated.

Inspection Result

We verified SBA developed a written process for removing fraudulent loans and related UCC filing fees from its financial records. This process includes multiple steps for charging off loans and UCC filing fees associated with validated claims of identity theft. After validating a complaint, the relevant loan's system status is changed to Confirmed Identity Theft in CAFS. Next, the victim's tax identification number is changed to a "dummy" number. The final act requires two reviewers. The first reviewer updates the loan's liquidation status to "litigation" with a justification of "confirmed identity theft." The second reviewer approves the task and finalizes the charge-off of the loan, including any associated UCC filing fees.

We judgmentally selected 50 identity theft complaints for review and found SBA implemented controls that required two reviewers to charge off loans and remove UCC filing fees connected to validated identity theft complaints in all but two cases. Specifically, SBA had validated the identity theft in two complaints but did not charge off the loans and remove UCC filing fees until OIG brought it to the agency's attention. We do not believe these cases represent a systemic issue.

We consider this corrective action fully implemented and effective.

Recommendation Number 5

OIG Finding	OIG Recommendation	SBA Corrective Actions
SBA's Office of Performance Management and the Chief Financial Officer have received over 150,000 returned loan statements. Additional potential identity theft victims could be unaware of fraudulent loans in their names.	Review over 150,000 returned billing statements, and resolve any involving identity theft, then refer fraudulent loans to OIG.	OIG closed this recommendation on December 2, 2022, after SBA provided evidence they had completed 50 percent of the returned billing statement reviews.

Inspection Result

SBA successfully addressed the first part of the recommendation by implementing a phone calling campaign to obtain updated mailing addresses for over 150,000 returned billing statements. However, the latter part of the recommendation directing SBA to resolve and refer to OIG returned billing statements involving identity theft was not addressed.

We verified SBA has a thorough process for obtaining updated contact information when it receives returned billing statements. First, SBA scans the returned billing statements and sends the list daily to the Customer Service Center (CSC). Upon receiving the list, CSC uses an automated system to call the listed individuals with the sole purpose of obtaining current contact information, especially physical addresses. Assuming the system connects with an individual, the call is forwarded to a live agent who requests an updated address. Should the automated call fail, an automated messaging system emails the individuals. Multiple attempts are made to contact the individuals listed on the loan account. The process is continuous, as returned mail is a routine occurrence.

However, SBA did not implement a formal process to resolve billing statements involving identity theft. The script SBA uses for the calling campaign does not include an inquiry to the caller regarding identity theft. If the caller states they believe they are a victim of identity theft, the SBA representative refers them to the identity theft reporting portal. However, SBA does not track whether callers allege their identity was stolen. Lastly, SBA does not conduct a review to determine if the returned billing statements involved identity theft.

As a result, we are reopening this recommendation for SBA to ensure that any returned billing statements involving identity theft are subsequently resolved and referred to OIG.

Evaluation of Agency Response

While formal comments were not required and are not typical for verification inspections, the agency elected to provide formal comments that are included in their entirety in appendix 1. SBA management agreed to work with OIG to demonstrate that SBA is taking appropriate actions to close Recommendation 5.

Recommendation 5

Review over 150,000 returned billing statements, and resolve any involving identity theft, then refer fraudulent loans to OIG.

Status: Reopened

This recommendation is being reopened because SBA did not implement a formal process to resolve billing statements involving identity theft. The recommendation can be closed when management provides evidence that returned billing statements involving identity theft are being resolved and referred to OIG.

Scope and Methodology

This verification inspection included all five recommendations from OIG Report 21-15. For the five recommendations, we reviewed management's justification and documentation of the corrective actions implemented to close the recommendations. These recommendations were closed because SBA provided evidence it had implemented corrective actions addressing the issues we found during our prior audit.

Our inspection scope covered the period from issuance of the May 2021 report to July 2023. To answer our objectives, we reviewed pertinent legislation and read SBA's policies and procedures for handling identity theft complaints, loan charge-offs resulting from complaints validated as identity theft, and returned EIDL billing statements. Further, meetings were held with SBA personnel to understand SBA's processes and procedures implemented to review identity theft complaints, provide complainants with the outcome of those reviews, and refer fraudulent loans to OIG. In addition, we received demonstrations of the two systems SBA uses to track and maintain identity theft complaints. We also reviewed reports and data showing the results of SBA's processes for remediating the recommendations, such as the results of identity theft complaint reviews, status updates to complainants, and charged-off EIDLs. Finally, we performed limited testing to determine whether SBA's processes for addressing the recommendations were effective and operating as intended.

We performed this review in accordance with the Council on Inspectors General on Integrity and Efficiency's *Quality Standards for Inspection and Evaluation*. Those standards require we plan and perform a review to obtain sufficient and appropriate evidence to provide a reasonable basis for our conclusions and observations based on our objective. We believe the evidence obtained provides a reasonable basis for our conclusions and observations based on our objectives.

Use of Computer-processed Data

We relied on data from the two systems SBA uses to track, maintain, and resolve identity theft-related matters, including identity theft complaints. More precisely, we used the records from the two systems as the basis for our sample selection used to perform testing. Our data reliability efforts for these systems included walkthrough demonstrations and reconciliation to source documentation. As a result, we believe the information provided by SBA is reliable for the purposes of this verification inspection.

Appendix 1: 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 **JI KIM** Digitally signed by JI KIM
Director Date: 2023.12.18 16:29:46
Office of Financial Program Operations -05'00'
Office of Capital Access

Date: 12/18/2023

Subject: Response to OIG Draft Report - Verification Inspection of SBA’s Handling of Identity Theft in the COVID-19 Economic Injury Disaster Loan Program (Project 23802)

We appreciate the role the Office of Inspector General (OIG) plays in working with management to ensure that our programs are effectively managed.

We offer the following comments to OIG Discussion Draft Report, “Verification Inspection of SBA’s Handling of Identity Theft in the COVID-19 Economic Injury Disaster Loan Program (Project 23802).” The response below is specific to Recommendation 5.

Recommendation 5: Review over 150,000 returned billing statements, and resolve any involving identity theft, then refer fraudulent loans to OIG.

SBA Response: SBA will work with OIG to demonstrate that SBA is taking all appropriate actions to close this item.