U.S. SMALL BUSINESS ADMINISTRATION OFFICE OF INSPECTOR GENERAL

Evaluation of COVID-19 Economic Injury Disaster Loan Applicants on the U.S. Department of the Treasury's Do Not Pay List

Evaluation Report

Report 24-18

June 4, 2024

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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.

EXECUTIVE SUMMARY

Evaluation of COVID-19 Economic Injury Disaster Loan Applicants on the U.S. Department of the Treasury's Do Not Pay List (Report 24-18)

What OIG Reviewed

We conducted this evaluation to assess whether the U.S. Small Business Administration (SBA) effectively implemented internal controls when using the U.S. Department of the Treasury's Do Not Pay (DNP) databases to detect and prevent payments of Coronavirus Disease 2019 (COVID-19) Economic Injury Disaster Loans (EIDL) and grants to ineligible entities (also known as improper payments).

On March 2, 2020, the Payment Integrity Information Act of 2019 was signed into law to decrease the amount of improper payments made by U.S. government agencies. This Act established the DNP Initiative, which required executive agencies to review available databases, as applicable, within DNP to prevent improper payments from being made to ineligible applicants.

We reviewed applicable laws, regulations, and requirements governing COVID-19 EIDL eligibility. We also reviewed SBA's procedures to verify applicant COVID-19 EIDL eligibility and interviewed officials tasked with the implementation of internal controls for DNP. Additionally, we reviewed a sample of 278 loans and grants matched to DNP databases to determine the effectiveness of any internal controls implemented by the agency.

What OIG Found

Despite implementing controls requiring loan officers to check DNP databases prior to approval of COVID-19 EIDLs and provide applicants 30 days to rectify any negative information received from DNP, the agency continued to award and disburse COVID-19 EIDL and grant funds to those listed in a DNP database without mitigating the negative information. A total of $145.2 million ($121.3 million in loans and $23.9 million in grants) was disbursed to potentially ineligible applicants whose loans matched a DNP record related to death, suspension or debarment, or delinquent child support.

We reviewed a statistical sample of 278 loans and grants to borrowers listed on one or more of the DNP databases. We did not find any SBA flags in its system to mark the sampled loans as matching a DNP record or any evidence of an attempt to resolve the DNP matches by loan officers prior to loan approval. This occurred because SBA did not match applicants against all available DNP databases but instead relied on credit bureau reports and borrower self-certification to identify applicants who were delinquent on child support and to identify applicants in default on federal debt who were suspended or debarred from doing business with the federal government.

What OIG Recommended

We recommended the agency review the 3,643 potential improper payments we identified and determine if applicants can rectify the negative information; if not, we recommend the agency work to recover the funds.

Agency Response

SBA management partially agreed with our recommendation. Management stated they will review and address loans and grants in the child support population that had information on the application or credit report that was not previously addressed. For the remainder of the DNP population, management stated they will review those grants and loans with an alert in the file that was not previously addressed. Management's proposed corrective actions do not satisfy the recommendation to review the 1,614 loans and 2,029 grants identified in this report as potentially ineligible. OIG will seek resolution of the recommendation with our audit resolution policies and procedures.

OFFICE OF INSPECTOR GENERAL
U.S. SMALL BUSINESS ADMINISTRATION

MEMORANDUM

Date: June 4, 2024

To: Isabella Casillas Guzman
Administrator

From: Hannibal "Mike" Ware
Inspector General

Subject: Evaluation of COVID-19 Economic Injury Disaster Loan Applicants on the U.S. Department of the Treasury's Do Not Pay List (Report 24-18)

This report presents the results of our Evaluation of COVID-19 Economic Injury Disaster Loan Applicants on the U.S. Department of the Treasury's Do Not Pay List. We considered management's comments on the draft of this report when preparing the final report. SBA management partially 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 of the Disaster Assistance Programs Group, 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
Kathryn Frost, Associate Administrator, Office of Capital Access
John Miller, Deputy Associate Administrator, Office of Capital Access
Michael Simmons, Attorney Advisor, Office of General Counsel
Anna Maria Calcagno, Director Office of Performance, Planning, Analysis, and Evaluation
Walter B. Hill Jr., Chief Risk Officer, Office of Performance, Planning, and Chief Financial Officer
Deborah Chen, Deputy Chief Financial Officer, Office of Performance, Planning, and Chief Financial Officer
Katherine Aaby, Associate Administrator, Office of Performance, Planning, and Chief Financial Officer
Tonia Butler, Director, Office of Internal Controls
Peter Meyers, Senior Advisor, Office of Capital Access
Rachel Wilson, Program Analyst, Office of Capital Access
Aaron Wright, Temporary Program Management Analyst, Office of Capital Access, and Office of Financial Programs Operation
Han Nguyen, Associate Administrator, Office of Publications and Communication Liaison
George Holman Jr., Associate Administrator, Office of Congressional and Legislative Affairs

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Introduction

This report presents the results of our evaluation to assess whether the U.S. Small Business Administration (SBA) effectively implemented internal controls by using the U.S. Department of the Treasury's (Treasury) Do Not Pay (DNP) databases to detect and prevent payments to potentially ineligible entities, also known as improper payments, of Coronavirus Disease 2019 (COVID-2019) Economic Injury Disaster Loans (EIDL) and grants.[1]

Treasury's DNP Working System is the designated source of centralized data and analytic services that ensures agencies verify eligibility and identify and prevent fraud, waste, and abuse of federal funds. Treasury's Working System for DNP databases is designated by the Office of Management and Budget (OMB), and its use is required by the Payment Integrity Information Act of 2019 (PIIA). The databases available within Treasury's Working System provide agencies a higher degree of certainty that a payee is legitimate and eligible before making an award or payment.

On March 2, 2020, the PIIA was signed into law in an effort to minimize the number of improper payments made by U.S. government agencies. This Act superseded and repealed the Improper Payments Information Act of 2002, the Improper Payments Elimination and Recovery Act of 2010, the Improper Payments Elimination and Recovery Act of 2012, and the Fraud Reduction and Data Analytics Act of 2015.

In the PIIA, the DNP Initiative required executive agencies to perform a thorough review of available databases in Treasury's Working System to adequately determine program and award eligibility before the release of any federal funds.

Agencies use the Treasury's Working System as a secure method of data matching to verify eligibility of vendors, grantees, and loan recipients for federal awards and is to be used (see figure 1):

- Pre-award
- Pre-payment
- At Time of Payment
- Post-payment

[1] More specifically, the Payment Integrity Information Act of 2019 defines an improper payment as any payment that should not have been made, or that was made in an incorrect amount, including an overpayment or underpayment, under a statutory, contractual, administrative, or other legally applicable requirement.

Figure 1: The DNP Payment Life Cycle

Source: Retrieved from the DNP Business Center

At a minimum, and before issuing any payment or award, each executive agency shall review, as appropriate, the following databases for applicant eligibility:

- Treasury Offset Program Debt Check Database of the U.S. Department of the Treasury
  - A data extract or subset of data on individuals who are delinquent on nontax debts to the federal government and child support obligations to participating states.
- Credit Alert Interactive Voice Response System of the U.S. Department of Housing and Urban Development
  - A shared database of loan applicants who have any federal obligations currently in default or foreclosure or who have a claim paid by the reporting agency within the last 3 years.
- System for Award Management Exclusion Records of the U.S. General Services Administration
  - System for Award Management Exclusion Records contain, for entities registered in the system, active exclusion records entered by the federal government that identify those parties excluded from receiving federal contracts, certain subcontracts, and federal financial and nonfinancial assistance and benefits.

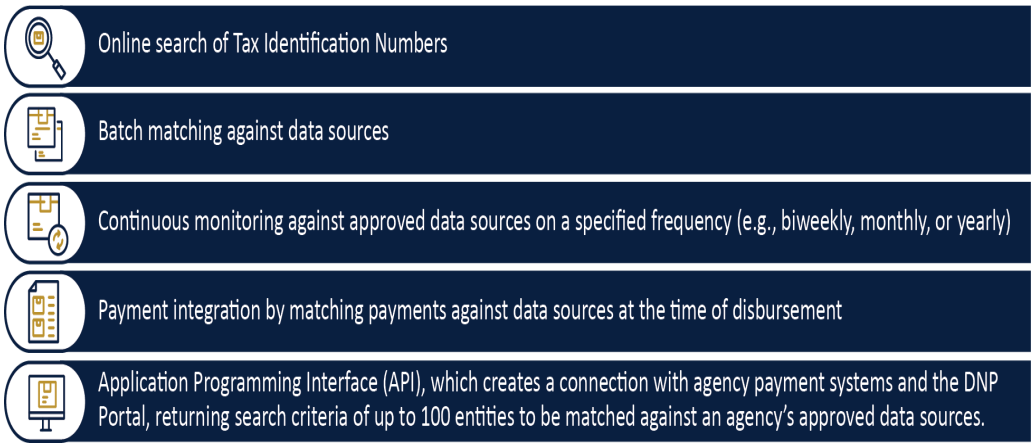
- Death Master File maintained by the Commissioner of the Social Security Administration (SSA)
  - A data source that contains more than 94 million records. The file is built from internal SSA records of deceased persons who possessed Social Security numbers and whose deaths were reported to the SSA.
  - Treasury DNP uses the public Death Master File but does not have access to the full database. Legislation, such as the Social Security Act, precludes the sharing of the full Death Master File with agencies.

In addition, the Treasury's Working System uses the following database:

- American InfoSource
  - A commercial global financial services company that provides obituary and probate death data. This database includes information about deceased individuals from all 50 states. It also gathers information from probate court records and published obituaries. Furthermore, obituaries are gathered from more than 3,000 funeral homes and thousands of newspapers. Probate records are collected from county courts.

The DNP Portal allows agencies to access multiple methods to match data (figure 2):

Figure 2: Five Methods of DNP Searches



Source: Retrieved from the DNP Business Center

Prior to a formal written policy, on March 31, 2021, SBA began to send its first manual batch match against Treasury's DNP databases. On April 28, 2021, the Office of Disaster Assistance (ODA) (now the Office of Disaster Recovery and Resilience) issued a formal written policy in ODA Memorandum 21-13 that required checks be made against the Treasury's Working System prior to loan approval. If applicants' identity information matched a record in DNP, the loan officers were to review the matched record and then contact the applicant to inform them of the match and what was needed to resolve it (e.g., proof the applicant had paid their back child support). Applicants were allowed 30 days to attempt to resolve the match. If the applicant provided the requested information to the agency, it was to be reviewed and a determination made to either accept and continue processing of the application or determine the requested information was unacceptable and thereby decline the application.

On June 2, 2021, SBA implemented Treasury's Web Service/Application Programming Interface (API) as a method to integrate SBA payment systems with Treasury's Working System. The API allowed search criteria to be matched against databases used by SBA. Checks were made against the following databases:

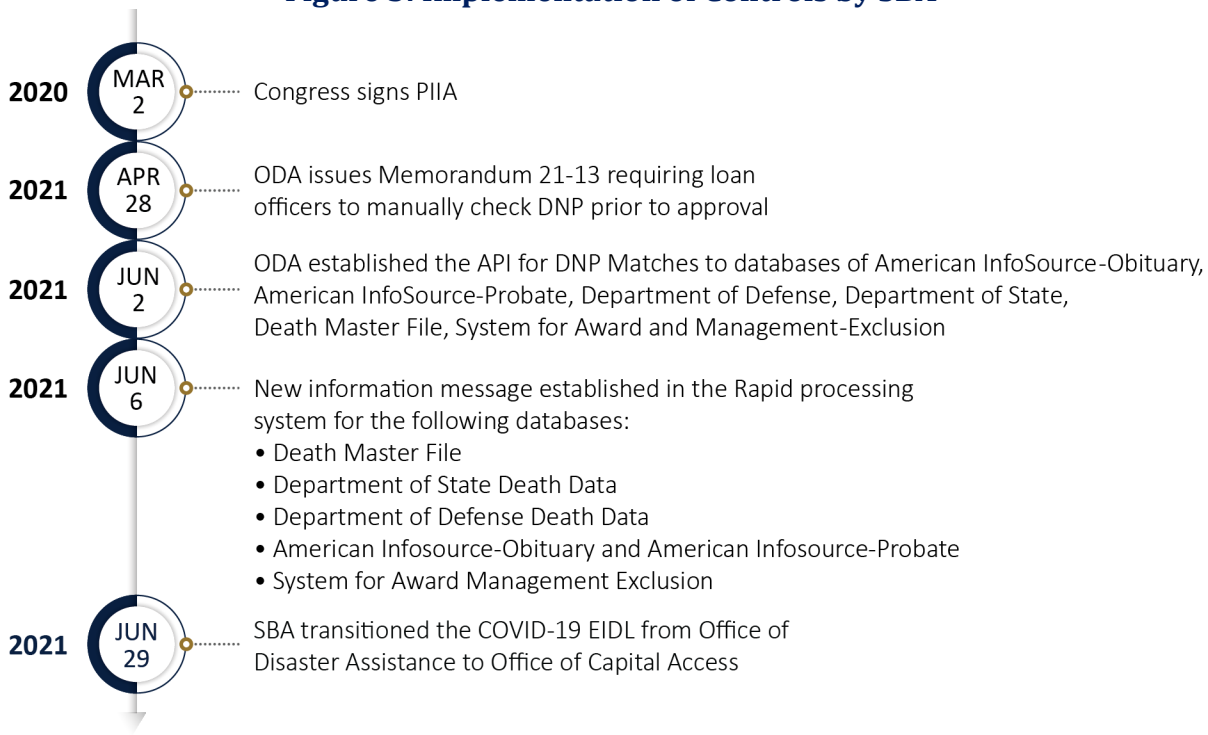
- American InfoSource-Obituary and American InfoSource-Probate
- Department of Defense Death Data – Public
- Department of State Death Data – Public
- Death Master File – Public
- System for Award Management Exclusion Records

We were informed by the agency that the Treasury Offset Program Debt Check database was excluded because the DNP API did not allow for the search of applicants using Taxpayer Identification Numbers.[2] The Credit Alert Interactive Voice Response System database also was excluded because SBA was using another method to perform the checks.

[2] SBA used a public version of the Treasury Offset Program Debt Check Database rather than the restricted version used by Treasury's Working System.

Subsequently, on November 30, 2021, we found issues with SBA's front-end internal controls when using the DNP databases. Specifically, SBA Office of Inspector General (OIG) Report 22-06: *COVID-19 EIDL Program Recipients on the Department of Treasury's Do Not Pay List*[3] emphasized that potentially ineligible recipients received over $3.1 billion in COVID-19 EIDLs and $550 million in emergency EIDL grants from March to November 2020 due to the lack of adequate front-end controls to determine valid eligibility. OIG recommended the use of the batch match or continuous monitoring functions available in Treasury's DNP Working System to identify potentially ineligible recipients listed on the DNP list before disbursing COVID-19 EIDL program funds.

Figure 3: Implementation of Controls by SBA



Source: SBA OIG analysis

[3] SBA OIG, Report 22-06: *COVID-19 EIDL Program Recipients on the Department of Treasury's Do Not Pay List* (November 30, 2021), https://www.sba.gov/sites/default/files/2021-11/SBA%20OIG%20Report%2022-06.pdf

Results

We found SBA took steps toward implementing DNP front-end internal controls (i.e., matching to DNP) to ensure only eligible recipients obtained COVID-19 EIDLs and grants. Specifically, the agency:

- Began sending COVID-19 EIDL application files to DNP prior to disbursement (known as batch matching against the available DNP databases) (March 2021).
- Issued ODA Memorandum 21-13 requiring loan officers to manually check DNP before loan approval (April 2021).
- Integrated the DNP Web Service/API, which created a connection with SBA payment systems and the DNP Portal (June 2021). This allowed for searches of up to 100 entities to be matched against DNP data sources.
- Issued a reference guide that addressed processing loans and grants to which the applicant or business principal of an entity matched to a DNP database (June 2021). This guide established a flag in the processing system for DNP and included instructions to loan officers on how to process the flags.

Despite taking these steps, the agency awarded an additional $121.3 million in loans and $23.9 million in grants to applicants listed in DNP databases since our prior report (SBA OIG Report 22-06)[4], totaling $145.2 million. Of this amount, $122.9 million (84 percent) in loans and grants was disbursed to applicants with business principals who had a 50 percent or greater ownership interest and were listed as being more than 60 days delinquent on child support obligations. The remaining amount was disbursed to applicants who were identified in the System for Award Management Exclusion records or in one of the four death databases listed in table 1.

We also noted SBA waived existing processing requirements for COVID-19 EIDL applicants through ODA Memorandum 20-17, foregoing previous processing requirements in Standard Operating Procedure 50 30 9, by exempting applicants who were delinquent on federal obligations[5] without further review. In total, 4,808 loans and 2,293 grants were disbursed to 6,467 applicants (some applicants received both a loan and grant) listed in the Treasury Offset

[4] SBA OIG, Report 22-06: *COVID-19 EIDL Program Recipients on the Department of Treasury's Do Not Pay List* (November 30, 2021).
[5] SBA categorizes "federal obligations" in Standard Operating Procedure 50 30 9 as any direct federal loans, contracts, and/or grants, and debts owed.

Program Debt Check database for past-due nontax federal obligations, other than delinquent child support, and 2,914 loans and 2,756 grants were disbursed to 4,942 applicants (some applicants received both a loan and a grant) listed in the Credit Alert Interactive Voice Response System for defaulted federal obligations. These applicants received $550,668,343 and $441,552,326 in loans and grants, respectively.

Finding: SBA Implemented DNP Controls but Did Not Adequately Flag or Prevent All Potentially Ineligible Recipients on Treasury's DNP List from Receiving COVID-19 EIDL Funds

We found SBA's API front-end controls were much more effective compared to the controls that were in place at the time of our prior report (SBA OIG Report 22-06). Despite these controls and implementing a requirement to check against the DNP databases for each loan application prior to loan approval, SBA continued to award loans and grants to potentially ineligible applicants on the DNP list. We identified $121.3 million in loans and $23.9 million in grants to borrowers listed in DNP databases, totaling $145.2 million. This occurred because the Treasury Offset Program Debt Check database, which contains information regarding individuals who are delinquent on child support obligations, was not implemented into the agency's front-end controls.[6] Additionally, SBA did not manually check DNP prior to approving a loan or grant to confirm applicants'[7] self-certification that they were not more than 60 days delinquent in any child support obligation as required by ODA Memorandum 21-13.

Further, the System for Award Management Exclusion Records database and death files (Death Master File, American Infosource-Obituary, American Infosource-Probate, and Department of State) were not implemented into SBA's front-end controls or manually checked prior to loan or grant approval. We identified $11.2 million in loans or grants to individuals listed as suspended or debarred according to the System for Award Management Exclusion Records database and another $11.2 million disbursed to applicants who matched to individuals listed as deceased. Table 1 indicates the number and dollar amounts of COVID-19 loans and grants received by applicants matched to DNP databases.

[6] The Treasury Offset Program Debt Check database contains data on individuals who are delinquent on nontax debts and child support obligations.

[7] Applicants (when the applicant is a natural person) include any business principal or individual with a 50 percent or greater ownership interest in the applicant or business.

Table 1: Number and Dollar Amounts of COVID-19 EIDLs and Grants Received by Applicants on the DNP List

DNP Database	Number of Loans	Total Loans ($)	Number of Grants	Total Grants ($)	Total Loans and Grants ($)
Treasury Offset Program Debt Check (delinquent child support only)	1,452	$100,658,291	1,851	$22,268,000	$122,926,291
System for Award Management Exclusion Records	88	10,182,400	94	984,000	11,166,400
Death Master File – Public	5	904,800	10	85,000	989,800
American Infosource-Obituary	66	8,650,700	63	505,000	9,155,700
American Infosource-Probate	3	941,600	9	66,000	1,007,600
Department of State – Public	0	0	2	20,000	20,000
Total	1,614	$121,337,791	2,029	$23,928,000	$145,265,791

Source: SBA OIG analysis

We reviewed a sample of 278 loan files to determine if there was evidence of a system flag of a DNP match or evidence the loan officers took action to mitigate or resolve the match. There was no evidence in the loan files sampled to indicate that the DNP database was used to identify matches and flag applicant records.

The Debt Collection Improvement Act of 1996 authorizes the Secretary of the Treasury to collect past-due child support by the administrative offset of federal payments.[8] In addition, 5 CFR § 1310.5[9] lists OMB Circular A-129,[10] Policies for Federal Credit Programs and Non-Tax Receivables, which states that agencies shall deny federal financial assistance to applicants who are subject to administrative offset to collect delinquent child support obligations. The circular also states the Attorney General issued Executive Order 13019,[11] which agencies shall include in their procedures or regulations promulgated for the purpose of denying federal financial assistance and implementing procedures necessary for the collection of past-due child support.

[8] Debt Collection Improvement Act of 1996.
[9] 5 CFR § 1310.5 – List of current circulars; A–129— Policies for Federal Credit Programs and Non-Tax Receivables.
[10] OMB Circular A-129, Policies for Federal Credit Programs and Non-Tax Receivables.
[11] Minimum Due Process Guidelines: Denial of Federal Financial Assistance Pursuant to Executive Order 13019, 61 Federal Register 51,763 (1996) Supporting Families: Collecting Delinquent Child Support Obligations.

Additionally, 13 CFR § 120.171[12] requires that any holder with 50 percent or greater ownership interest in a business of an SBA loan certify they are not more than 60 days delinquent on any child support obligations. SBA's Standard Operating Procedure 50 30 9 allows such an application to be processed only if that applicant(s) divests all direct and indirect interest in the business.

We found that $122.9 million (or 84 percent) of the $145.2 million in loans and grants to potentially ineligible borrowers were disbursed to applicants who were listed as being more than 60 days delinquent on child support obligations. These applicants had a business principal with a 50 percent or greater ownership interest in the business, and there was no evidence the principal had divested all direct or indirect interest. Therefore, the applicant should have been deemed potentially ineligible to receive a loan or grant, and SBA's loan system should have flagged these loan records. The flags were intended to alert loan officers to review the matches prior to approval or disbursement of funds.

The loans were not flagged because the agency did not use all required DNP databases for DNP matches according to the PIIA but instead relied on credit bureau reports and borrower self-certification (e.g., the applicant affirms any holder of 50 percent or greater ownership interest in an SBA loan is not more than 60 days delinquent on any child support obligations) to identify applicants who were delinquent on child support.

Of the 278 loan files we reviewed, 59 matched to the Treasury Offset Program Debt Check database for child support delinquencies. For these files, we also checked credit bureau reports to determine if the delinquencies were noted there, as SBA informed us that the agency also relied on credit bureau reports to determine child support delinquency. We found 16 of the 59 files had child support delinquency identified in the credit bureau reports; however, when reviewing the loan files, we found that no actions were taken by the loan officers to acknowledge or mitigate the delinquency. In addition, we did not find any verifications by SBA of a self-certification made by the applicant that they were not more than 60 days delinquent in any child support obligations.

Thus, based on our file review, we determined the applicants matched to DNP were not verified by SBA to determine payment eligibility and were potentially ineligible. We did not find any loan

[12] 13 CFR § 120.171 – Compliance with child support obligations states any holder of 50 percent or greater ownership interest in an SBA loan must certify that he or she is not more than 60 days delinquent on any obligation to pay child support.

officer actions to mitigate the applicant's matched information to the DNP database as required by control standards implemented by the agency. These matches are potential improper payments as defined in OMB Circular A-123, Appendix C, which states agencies are to determine eligibility by reviewing pre-payment and pre-award procedures to prevent improper payments before the release of any federal funds.

OMB updated the requirements in OMB Circular A-123, Appendix C, on March 5, 2021, implementing new provisions from language contained in the PIIA. Additionally, the circular states all agencies are required to use the Treasury's Working System to support their payment process (pre-payment, upon disbursement, and post-disbursement). At a minimum, agencies shall use the Treasury's Working System before issuing any payment or award.

SBA believed it had sufficient controls in place (credit bureau reports and borrower self-certifications) to prevent disaster loans from being disbursed to applicants with a business principal who had 50 percent or greater ownership interest and was more than 60 days delinquent on child support obligations. Therefore, the agency did not use the Treasury Offset Program Debt Check database. This is contrary to the intent of the PIIA, and according to OMB guidance, the Treasury Offset Program Debt Check database and other available databases within Treasury's Working System shall be used to reduce the risk of making improper payments.[13]

SBA indicated that the Treasury Offset Program Debt Check and Credit Alert Interactive Voice Response System databases were not integrated into SBA's checks for DNP. An SBA official stated that SBA intentionally did not use the Treasury Offset Program Debt Check database because it provided unreliable data and because the agency "relied on the methods they had always used to determine delinquencies for child support" – credit bureau reports and self-certification of the borrower. However, we found no indication loan officers used the credit bureau reports that identify child support delinquencies in the 16 files we sampled. Additionally, the credit reports did not always reflect the same information as the Treasury's Working System.

[13] Appendix C to OMB Circular A-123 in Memorandum 18-20 defines an improper payment as any payment that should not have been made, or was made in an incorrect amount, in addition to any overpayments or underpayments to eligible recipients.

Recommendation

To address the internal control issues identified in SBA's use of DNP matches for the COVID-19 EIDL program, we recommend the Administrator direct the Associate Administrators for the Office of Capital Access and Office of Disaster Recovery and Resilience to:

Recommendation 1: Review each of the 1,614 loan and 2,029 grant potential improper payments made to COVID-19 EIDL recipients we identified in the finding as also being on Treasury's Do Not Pay List and determine if the applicants can rectify the disqualifying information; if not, recover the funds.

Other Matter: SBA Waived Delinquencies on Federal Obligations

On March 18, 2020, SBA issued ODA Memorandum 20-17. In this memorandum, the agency waived the requirement in Standard Operating Procedure 50 30 9 that requires borrowers to be current on federal obligations. Streamlining the processing of loan applications allowed applicants with delinquent federal obligations[14] to receive disaster assistance without further review by SBA. As a result, applicants in the Treasury Offset Program Debt Check, not listed for delinquent child support obligations, and the Credit Alert Interactive Voice Response System databases would be deemed eligible for a COVID-19 EIDL or grant.

In total, 4,808 loans and 2,293 grants were disbursed to 6,457 applicants (some applicants received both a loan and a grant) listed in the Treasury Offset Program Debt Check database for past-due nontax federal obligations other than delinquent child support. These applicants received $524,512,343 and $26,156,000 in loans and grants, respectively. OIG determined that 1,332 of these applicants were also at least 30 days delinquent on their COVID-19 EIDLs, totaling $319,247,392 as of August 4, 2023.

Additionally, 2,914 loans and 2,756 grants were disbursed to 4,942 applicants (some applicants received both a loan and a grant) listed in the Credit Alert Interactive Voice Response System for defaulted federal obligations. These applicants received $409,814,326 and $31,738,000 in loans and grants, respectively. OIG determined that 448 of these applicants matched to the Credit Alert Interactive Voice Response System and were also at least 30 days delinquent on their COVID-19 EIDLs, totaling $135,483,203, as of August 4, 2023.

[14] SBA categorizes "federal obligations" in Standard Operating Procedure 50 30 9 as any direct federal loans, contracts, and/or grants, and debts owed.

Table 2 indicates the number and dollar amounts of COVID-19 loans and grants made to applicants who were delinquent on nontax federal obligations.

Table 2: Number and Dollar Amounts of COVID-19 EIDLs and Grants Received by Applicants Delinquent on Nontax Federal Obligations

DNP Database	Number of Loans	Total Loans ($)	Number of Grants	Total Grants ($)	Total Loans and Grants ($)
Treasury Offset Program Debt Check (nontax federal and state debt not listed for delinquent child support obligations)	4,808	$524,512,343	2,293	$26,156,000	$550,668,343
Credit Alert Interactive Voice Response System	2,914	409,814,326	2,756	31,738,000	441,552,326
Total	7,722	$934,326,669	5,049	$57,894,000	$992,220,669

Source: SBA OIG analysis

We acknowledge that SBA exercised its authority to waive federal obligation delinquencies; however, given that a portion of the applicants who have previously defaulted on government loans are defaulting again on a current loan, OIG believes SBA's decision to allow all applicants with delinquent nontax federal obligations with judgment liens, excluding delinquent child support obligations, to obtain additional government funds was less than prudent.

Evaluation of Agency Response

SBA management provided formal comments to the draft report, which we considered when preparing this final report. Management partially agreed with our recommendation, stating that for the child support population, they will review and address those loans and grants with information on the application or credit report that was not previously addressed. For the DNP population, SBA stated they will review those loans and grants with an alert in the file that was not previously addressed. Management further stated that in instances where disqualifying information cannot be resolved, SBA will enter a comment in the file, add an appropriate hold code identifying the issue, and recover any loans through its standard collection process. See appendix 4 for management's comments in their entirety.

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 each of the 1,614 loans and 2,029 grants found to be potential improper payments made to COVID-19 EIDL recipients we identified in the finding as also being on the Treasury's DNP List and determine if the applicants can rectify the disqualifying information; if not, recover the funds.

Status: Unresolved

Management partially agreed with this recommendation, stating that they will review and address loans and grants for the child support and DNP populations that were not previously addressed. However, rather than reviewing all the disbursements we identified as being on Treasury's DNP list, management's proposed actions will result in reviewing a much smaller population of disbursements. Specifically, for the child support population, management stated they will review and address those loans and grants with information on the application or credit report that was not previously addressed. We believe focusing only on the application or credit report is imprudent because by doing so, not all potentially ineligible recipients will be assessed for improper payments. In our sample review, we found 16 of the 59 child support files had credit reports with child support delinquency noted. Although the remaining 43 files did not have credit report delinquencies, they were still matched to the DNP list and, thus, could represent an improper payment.

For the remainder of the DNP population, management's proposed action to review and address only those loans and grants with an alert in the file that was not previously addressed is limiting. None of the files we reviewed in our sample had alerts; thus, SBA's review will only address a fraction of the loans and grants identified in our recommendation.

This recommendation can be closed when management provides evidence that they reviewed all the loans and grants included in the recommendation.

Appendix 1: U.S. Department of the Treasury's Do Not Pay Data Sources Mandated by Law

The U.S. Department of the Treasury's (Treasury) Do Not Pay (DNP) Division matched Coronavirus Disease 2019 (COVID-19) Emergency Injury Disaster Loans (EIDL) and Emergency EIDL grant applicant identifiers to data maintained in the following databases:

Treasury Offset Debt Check Database Program

- The Treasury Offset Program Debt Check database is a data extract or subset of data contained in the Treasury Offset Program delinquent debtor database. It was created for the Treasury's DNP Working System to help agencies fulfill the obligation to deny federal loans, loan insurance, and loan guarantees to people who are delinquent on federal nontax debts and child support obligations (if allowed by agency statute and regulations).
- DNP receives weekly Treasury Offset Program Debt Check updates.

Credit Alert Interactive Voice Response System

- A shared database of defaulted federal debtors, the Credit Alert Interactive Voice Response System enables processing of applications for federal credit benefits to identify individuals who are in default or have had claims paid on direct or guaranteed federal loans, or who are delinquent on other debts owed to federal agencies.
- Treasury DNP receives Credit Alert Interactive Voice Response System data from the following agencies:
  - U.S. Department of Justice
  - U.S. Department of Agriculture
  - U.S. Department of Veterans Affairs (database is not open to states)
  - U.S. Department of Housing and Urban Development
  - U.S. Small Business Administration

- The entire Credit Alert Interactive Voice Response System database is refreshed each time any agency source forwards an update. The agency source updates data at various times throughout the month.

System for Award Management Exclusion Records

- The System for Award Management Exclusion Records database contains the data for all active exclusion records entered by the federal government that identify those individuals who are excluded from receiving federal contracts, certain subcontracts, and federal financial and nonfinancial assistance and benefits.
- Treasury DNP receives daily updates from the System for Award Management Exclusion Records database.

Death Master File

- The Death Master File from the Social Security Administration (SSA) is a data source that contains more than 94 million records. The file is built from internal SSA records of deceased persons who possessed Social Security numbers and whose deaths were reported to the SSA.
- Treasury DNP uses the public Death Master File but does not have access to the full database. Legislation, such as the Social Security Act, precludes the sharing of the full Death Master File with agencies that do not pay benefits.
- Treasury DNP receives a weekly update to the public Death Master File and a full refresh every quarter.

American InfoSource (Obituary and Probate)

- American InfoSource is a commercial global financial services company that provides obituary and probate death data. This database includes information about deceased individuals from all 50 states. It also gathers information from probate court records and published obituaries. Furthermore, obituaries are gathered from more than 3,000 funeral homes and thousands of newspapers. Probate records are collected from county courts.
- Treasury DNP receives weekly updates of all American Infosource data.

Department of Defense Death Data

- Department of Defense death data provides information about confirmed or presumed deaths of U.S. military members while abroad and at home.
- Treasury DNP receives an update to Department of Defense data the first week of every month.

Department of State Death Data

- Department of State (DOS) death data provides information about confirmed or presumed deaths of U.S. citizens while abroad. Data is provided by the DOS's Bureau of Consular Affairs and originates from the American Citizen Services System.
- Treasury DNP receives an update to DOS data on the 11th of each month.

Appendix 2: Scope and Methodology

Our objective was to assess whether the U.S. Small Business Administration (SBA) effectively implemented controls when using the U.S. Department of the Treasury's (Treasury) Do Not Pay (DNP) databases to detect and prevent payments of Coronavirus Disease (COVID-19) Economic Injury Disaster Loans (EIDL) and grants to ineligible entities (also known as improper payments). We reviewed laws,[1] regulations, and requirements[2] governing EIDL eligibility. We also reviewed SBA's procedures for EIDL relief eligibility and interviewed officials tasked with the implementation of internal controls for DNP.

Our scope of work covered November 6, 2020, through September 30, 2021.

We interviewed the Office of Capital Access and Office of Disaster Recovery and Resilience (previously Office of Disaster Assistance) officials responsible for DNP control implementation and Treasury DNP Business Center representatives responsible for working with SBA on EIDL DNP processes. We obtained and reviewed all applicable federal, departmental, and SBA-specific regulations, policies, procedures, and guidance, including the Coronavirus Aid, Relief, and Economic Security Act,[3] and policies and procedures for conducting EIDL processing. We conducted this evaluation in accordance with the Council of the Inspectors General on Integrity and Efficiency's *Quality Standards for Inspection and Evaluation*. These standards require that we adequately plan and perform the 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 we obtained from Treasury's DNP Business Center provides a reasonable basis for our findings and conclusions based on our evaluation objective.

[1] Debt Collection Improvement Act of 1996 (Public Law 104-134); Preventing Improper Payments Act (H.R. 9613); Small Business Act (as amended through Public Law 117-328); Public Law 116-117; 13 CFR §123.14; 28 USCS §3201; 2 CFR §180.400; 2 CFR §180-135; 13 CFR§ 120.171; and 31 U.S.C. §3720B.
[2] Standard Operating Procedure 50 30 9; Office of Disaster Assistance (ODA) Memorandum 20-17; ODA Memorandum 20-18; ODA Memorandum 20-19; ODA Memorandum 21-13; American Rescue Plan Act of 2021; Public Law 116-136 Coronavirus Aid, Relief, and Economic Security Act; OMB Circular A-123 Appendix C.
[3] Public Law 116-136 Coronavirus Aid, Relief, and Economic Security Act.

Use of Computer-processed Data

The Office of Inspector General (OIG) collaborated with the Treasury DNP Business Center. DNP provided OIG information on the EIDL and grant applications by DNP matches to Tax Identification Numbers, borrower names, borrower businesses, and/or principal information.

The following COVID-19 EIDL program applications were matched against DNP data sources:

- COVID-19 EIDL Universe included loans with disbursement and, if the application was dated after November 6, 2020, and the current stage status was funded, funding, obligated, obligating, or approved, the record was counted as a loan.
- Grants were evaluated if the grant disbursement application was dated after November 6, 2020, active at the grant disbursement date, and if there were information value data fields. These data fields allowed for the capture of information on applicants who received grant funds without receiving funds from an EIDL.

Based on guidance from OIG, DNP adjusted the analysis of the EIDL program to align with the eligibility provision established by the program. Filters were applied by DNP to limit the identification of applicants to:

- Records that matched to the Treasury Offset Program Debt Check and/or the Credit Alert Interactive Voice Response System databases. Matches to these data sources were limited to only records with nontax federal debts or state child support debts. Further filtering identified only those EIDL loan applicants who had a delinquent debt within 7 years[4]of the EIDL application date or EIDL grant applicants with delinquent debt at the time of the EIDL grant disbursement date. OIG further filtered state child support delinquencies down to those that were delinquent on the date of EIDL disbursement.
- Records that matched to the System for Award Management Exclusion Records database. Additional filtering identified only those records that were active in the data source at the time of the EIDL application date for loans or those that were active at the time of the grant's disbursement date.

[4] Most negative credit accounts, including delinquent payment, defaulted accounts, paid tax liens, and foreclosures, may stay on an individual credit report for up to 7 years.

- Records that matched to any of the death databases used by DNP (American InfoSource-Obituary, American InfoSource-Probate, Death Master File – Public, Department of Defense Death Data – Public, and/or Department of State Death Data – Public). Supplementary filters were applied to identify applicants that died within 1 year of the application date.

Prior Audit Coverage

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

Report Number	Report Title	Report Date
21-06	*Paycheck Protection Program Loan Recipients on the Department of Treasury's Do Not Pay List*	January 11, 2021
22-06	*COVID-19 EIDL Program Recipients on the Department of Treasury's Do Not Pay List*	November 30, 2021
PRAC-2023-02	*FRAUD ALERT: PRAC Identifies $5.4 Billion in Potentially Fraudulent Pandemic Loans Obtained Using Over 69,000 Questionable Social Security Numbers*	January 30, 2023

Appendix 3: Monetary Impact

Recommendation	Category	Amount
1	Questioned Costs-Ineligible Costs	$145,265,191
	Total	**$145,265,191**

Source: OIG analysis

The $145,265,191 shown above represents costs the Office of Inspector General calls into question, as the disbursements include payments the U.S. Small Business Administration (SBA) made to individuals delinquent in child support obligations or those who were listed in a Do Not Pay database and required further action to be taken by the agency prior to approval and disbursement. If these costs are determined to be ineligible, this would be a violation of federal statutes, regulations, and SBA standard operating procedures. In addition, this amount could represent a number of applicants who may have potentially committed perjury by providing false statements or fraudulent statements to the agency under 15 U.S.C. 645, 18 U.S.C. 1001, 18 U.S.C 1014, 18 U.S.C. 3571, 31 U.S.C. 3729, and 31 U.S.C. 3802 as well as the False Claims Act[1] and the Program Fraud Civil Remedies Act.[2] Penalties for false statements may result in criminal, civil, or administrative sanctions.

[1] 31 U.S.C. §§ 3729–3733.
[2] 31 U.S.C. 3801–3812.

Appendix 4: Agency Response

U.S. Small Business Administration

Response to Report

U.S. SMALL BUSINESS ADMINISTRATION
WASHINGTON, D.C. 20416

TO: Hannibal "Mike" Ware,
Inspector General
The Office of Inspector General (OIG)

FROM: Roger Garland
Director of Disaster Lending Operations Division, Office of Capital Access

ROGER GARLAND Digitally signed by ROGER GARLAND Date: 2024.05.17 07:54:37 -05'00'

SUBJECT: Management Response to OIG Draft Report "Disaster Loan Applicants on the U.S. Department of the Treasury's Do Not Pay List (Project 22801)"

DATE: May 16, 2024

Thank you for providing the Office of Capital Access (OCA) the opportunity to respond to OIG's Draft Report entitled, "Evaluation of COVID-19 Economic Injury Disaster Loan Applicants on the U.S. Department of the Treasury's Do Not Pay List (Project 22801)."

OIG Recommendation 1 – To address the internal controls identified in SBA's use of DNP matches for the COVID-19 EIDL program, we recommend the Administrator direct the Associate Administrators for the Office of Capital Access and Office of Disaster Recovery and Resilience:

Review each potential improper payment we identified and determine if the applicant can rectify the negative information; if not, the agency should work to recover the funds.

SBA Response:

SBA partially agrees. For the general child support population, SBA will review and address those loans and grants with information on the application or credit report that was not previously addressed. For the Do Not Pay population, SBA will review and address those loans and grants with an alert in the file that was not previously addressed. Where the disqualifying information cannot be resolved, SBA will enter a comment in the file and add an appropriate hold code that identifies the outstanding issue. For any loans, SBA will also recover through our standard collection processes.