U.S. SMALL BUSINESS ADMINISTRATION OFFICE OF INSPECTOR GENERAL

# SBA's Processes to Forecast and Request Appropriation Dollars for its Disaster Loans Program Account

**Evaluation Report**

**Report 25-24**

**September 25, 2025**

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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.

# Executive Summary

## SBA's Processes to Forecast and Request Appropriation Dollars for its Disaster Loans Program Account (Report 25-24)

### What OIG Reviewed

This report presents the results of our evaluation of the U.S. Small Business Administration's (SBA) processes to forecast and request appropriation dollars for its disaster loans program account.

From July to October 2024, several major hurricanes made landfall in the United States, leading up to SBA's announcement on October 15, 2024, that funds in its disaster loans program account had been exhausted. SBA could not approve and disburse new loans until Congress appropriated additional funds on December 21, 2024.

From fiscal year 2009 to 2024, SBA generally requested the same amount of funding from Congress to support the disaster loan program. This amount supported the program in a normal year with no major disasters. In a year when a major disaster occurred, the agency estimated whether there were sufficient funds to support the demand for disaster assistance. If there were insufficient funds, SBA initiated communication with Congress and the Office of Management and Budget to request supplemental funding.

### What OIG Found

We identified opportunities for SBA to improve its processes to forecast and request annual appropriations for the disaster loan program. Specifically, we found that SBA did not 1) adequately forecast funding needs for the disaster loan program in the annual budget request; 2) ensure that monthly reports submitted to Congress were clearly interpreted, always submitted timely, and in compliance with all the requirements of 15 U.S.C. § 636k(a); or 3) notify Congress, in writing, regarding the need for supplemental funding as soon as SBA anticipated a shortfall.

In other matters, we determined that SBA used funds appropriated to the disaster loans program account for intended purposes and that the reorganization of the disaster lending program did not contribute to the funding shortfall.

### What OIG Recommended

We recommended SBA ensure 1) historical factors are considered when developing the budget request, 2) monthly reports comply with 15 U.S.C. § 636k(a), 3) monthly reports are enhanced to clearly explain the information, and 4) Congress is notified, in writing, of the need for supplemental disaster loan program funds as soon as the agency anticipates a shortfall.

### Agency Response

SBA management agreed with all four recommendations. Management's planned actions to implement an improved disaster projection methodology using 15 years of historical data, ensure monthly reports comply with regulations and are enhanced to improve interpretation and readability, and establish a notification process to alert Congress of a potential funding lapse resolves all the recommendations.

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# Introduction

This report presents the results of our evaluation of the U.S. Small Business Administration's (SBA) processes to forecast and request appropriation dollars for its disaster loans program account.

## Background

SBA's disaster loan program is primarily funded by carryover amounts from the prior year,[1] disaster loan revenues,[2] and annual appropriations from Congress. Annually, SBA determines how much money it will need to request from Congress to fund the disaster loan program after forecasting the anticipated lending level and estimating carryover amounts and revenues. Since fiscal year (FY) 2009, the agency has consistently forecasted that it would lend $1.1 billion in disaster loans and has requested $176 million on average in annual appropriations each year from Congress.

As natural disasters occur and loans are made, SBA must estimate lending needs and compare those needs to the total amount of loans that can be supported by the remaining balance in the disaster loans program account. According to SBA officials, the agency's Office of Disaster Recovery and Resilience works with the Federal Emergency Management Agency to obtain estimated damage costs and other data on a disaster so that SBA's Office of Performance, Planning, and the Chief Financial Officer can estimate the disaster assistance funding needed.

According to SBA officials, on a daily basis, the agency's Office of Performance, Planning, and the Chief Financial Officer prepares an obligation tracking report for the disaster loan program and provides it to agency leadership to reflect loan utilization. These reports outline total program authority, amounts allotted, year-to-date obligations, and the remaining available authority.

On a monthly basis, SBA must submit a report to Congress by the fifth business day of each month, as required by 15 U.S.C. § 636k(a). These monthly reports must include detailed disaster loan activities such as the daily and weekly average lending volume, both in number of loans and dollars; the amount of funding spent over the month for loans, staff, and administrative costs;

[1] SBA's disaster loans program account is a "no year" account, meaning that funding does not lapse at the end of the FY but is carried over into the following FY.
[2] Disaster loan revenues include disaster loan payments, interest on the loans, and recoveries on defaulted loans.

the amount of funding available for loans and salaries and expenses; the percentage change from the prior month for all reported figures; and an estimate of how long available funding for loans and salaries and expenses will last.

If a shortfall in the disaster loans program account is anticipated, 15 U.S.C. § 636k(d) requires SBA to notify, in writing, the Senate Committee on Small Business and Entrepreneurship and the House Committee on Small Business of the need for supplemental funds for the disaster loan program. However, in recent years, when a shortfall was anticipated, the agency informally communicated with Congress and the Office of Management and Budget (OMB) via email and virtual meetings to request supplemental funding. According to SBA officials, formal written communication, although required by the statute, had not been necessary in the past, as Congress provided supplemental appropriations based on these informal communications.

From July to October 2024, several major hurricanes made landfall in the United States, depleting funds in the agency's disaster loans program account. On October 10, 2024, SBA sent written notification to the appropriate congressional committees requesting supplemental funding for the disaster loan program. Five days later, the agency announced that funds in its disaster loans program account had been exhausted. SBA could not approve and disburse new loans until Congress appropriated additional funding but encouraged the public to continue applying for loans, giving assurances that Congress would provide the needed funds. On October 16, 2024, several senators submitted a letter to SBA's Administrator expressing concerns about the agency's management of its disaster loans program account and its failure to provide the congressional authorizing committees information statutorily required by 15 U.S.C. § 636k(a). The letter stated that these concerns were heightened by SBA's lack of transparency, including the failure to provide an official OMB request and the requisite notifications to authorizing committees.

On December 21, 2024, the American Relief Act was passed, providing $2.25 billion to SBA to fund its disaster loans program account.[3] Based on the subsidy rate at that time, this amount would support approximately $7 billion in disaster assistance.

## Objective

Our objective was to evaluate SBA's processes to forecast and request appropriation dollars to its disaster loans program account.

[3] Pub. L. No. 118-158, American Relief Act, 2025, became law on December 21, 2024.

# Results

We identified opportunities for SBA to improve its processes to forecast and request annual appropriations for the disaster loan program. Specifically, we found that SBA officials did not 1) adequately forecast funding for this program in the annual budget request; 2) ensure monthly reports to Congress complied with all requirements of 15 U.S.C. § 636k(a), were submitted timely, and clearly explained how to interpret the data; and 3) notify Congress, in writing, regarding the need for supplemental funding as soon as they anticipated a shortfall in the disaster loan program account. Ultimately, there was a lapse in disaster funding, which resulted in SBA not being able to approve and disburse disaster loans to homeowners and businesses affected by disasters between October 15 and December 21, 2024.

These issues occurred because SBA did not adjust its forecasted lending level or annual budget request since 2009 despite the rising subsidy rate, increase in frequency and cost of major disasters, and increase in dollar amount of the annual disaster loan approvals. Also, according to SBA officials, they assumed the monthly reports were sufficient because they had not received feedback to indicate otherwise. Lastly, management stated they relied on informal communications with Congress that had been effective in prior years.

Based on congressional interest in the circumstances surrounding the funding shortfall, we increased the scope of evaluation and determined that SBA used funds appropriated to the disaster loans program account for intended purposes and that the reorganization of the disaster lending program did not contribute to the funding shortfall.

## Finding 1: SBA Did Not Adequately Forecast the Annual Budget Request for the Disaster Loan Program

OMB Circular A-11, "Preparation, Submission, and Execution of the Budget," provides guidance to federal agencies on budget preparation and submission. When preparing estimates, agencies should consider changes in spending trends, economic assumptions, and other actions or events. The guidance also states that agencies should make every effort to conduct their programs within the amounts appropriated for the current year and to postpone actions that require supplemental appropriations. Any requests for supplemental appropriations must explain why the request was not included in the regular estimates.

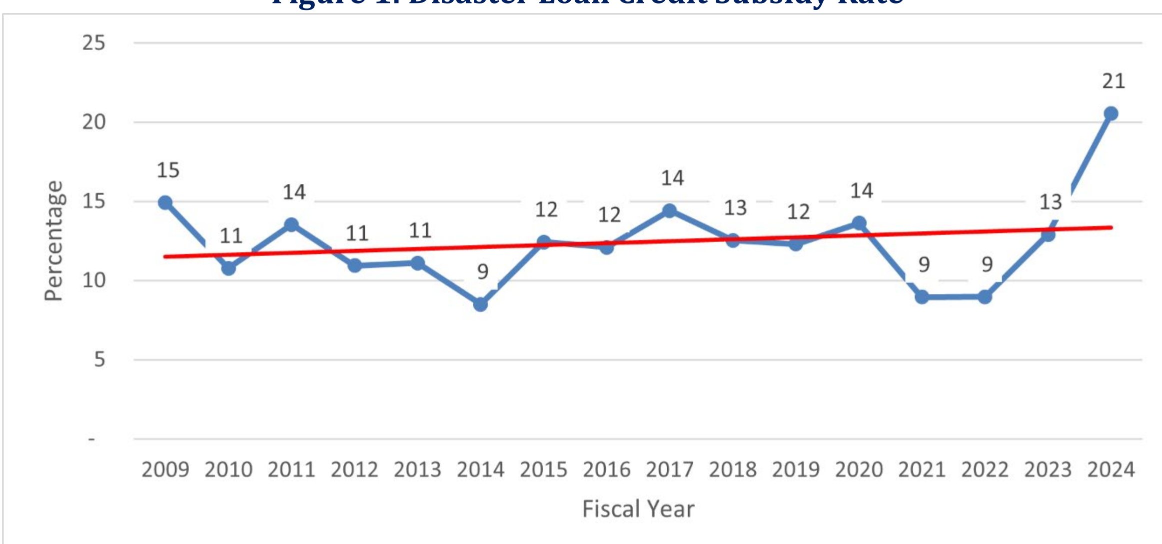
We found that SBA did not adequately forecast its funding needs for the disaster loan program in its annual budget request. Since 2009, the agency has consistently forecasted that it would lend

$1.1 billion in disaster loans based on a 10-year average. According to SBA, the agency has historically had sufficient carryover funds from the prior year to support $1.1 billion in forecasted lending. Therefore, SBA's annual request to Congress for appropriations for the disaster loan program has only included funding to support administrative expenses. This amount has generally been the same each year, even though the credit subsidy rate has gradually increased, major disasters have become more frequent and costly, and the total dollar amount of disaster assistance loan approvals has increased annually. As a result, SBA has had to request supplemental appropriations in 6 of the past 12 years.

## Credit Subsidy Rate

Since 2009, the disaster loan program credit subsidy rate has gradually increased (see red trendline on Figure 1).[4] This rate represents the cost of the disaster loan program and helps determine how many dollars in direct lending can be supported by available authority. The subsidy rate can rise due to higher default rates and lower recovery rates. An increasing positive subsidy rate not only means the disaster loan program is more costly, but it also requires a larger appropriation amount to support the same level of lending as it did in previous years with a lower subsidy rate.

**Figure 1: Disaster Loan Credit Subsidy Rate**



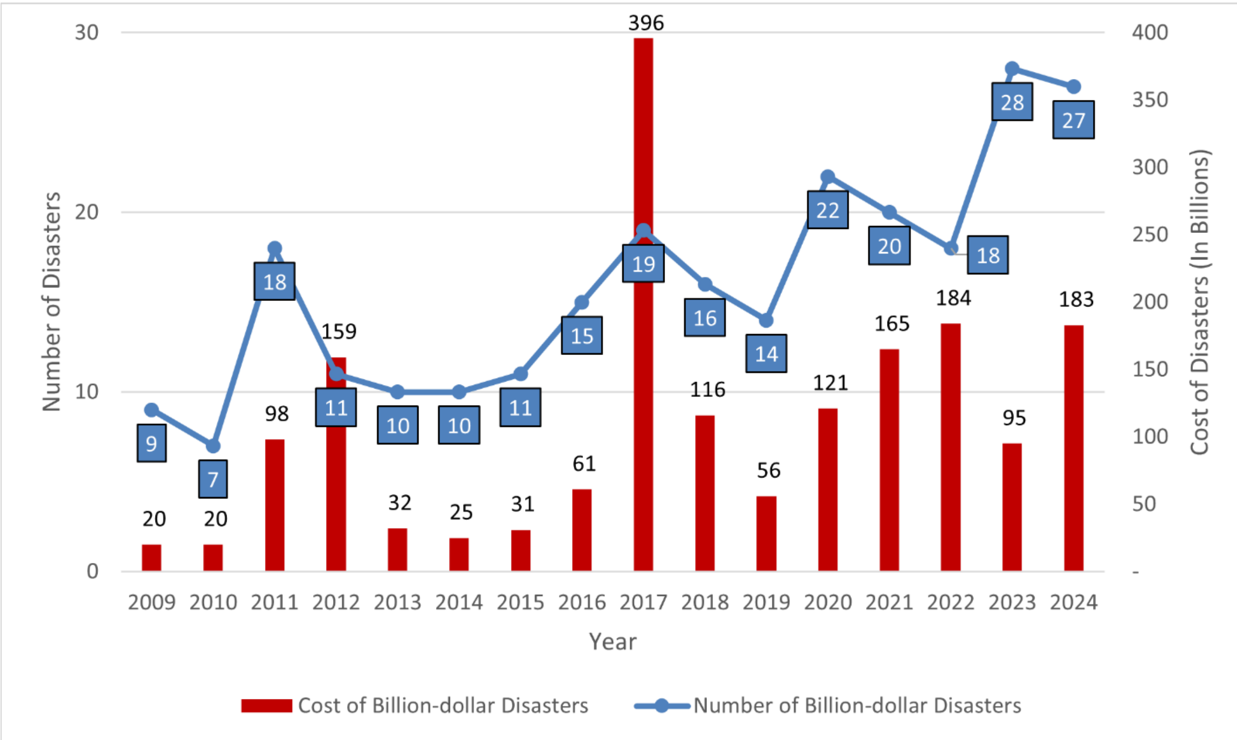

*Source:* SBA FY 2024 agency financial report and FYs 2011–2025 Congressional Budget Justification reports

[4] The subsidy rate equals the net present value of estimated cash flows from the government (e.g., loan disbursements, etc.) minus estimated cash flows to the government (e.g., loan payments, recoveries on defaulted loans, etc.) over the life of the loan, excluding administrative costs. Federal agencies generally update, or re-estimate, subsidy costs annually to reflect both actual loan performance and changes in expected future loan performance.

## Major Disasters Are More Frequent and Costly

Major disasters have become more frequent and costly since 2009. According to data from the National Centers for Environmental Information, the number and cost of billion-dollar disasters such as droughts, floods, tornadoes, hurricanes, and wildfires has generally increased over time (see Figure 2).

**Figure 2: Cost and Number of Billion-Dollar Disasters**

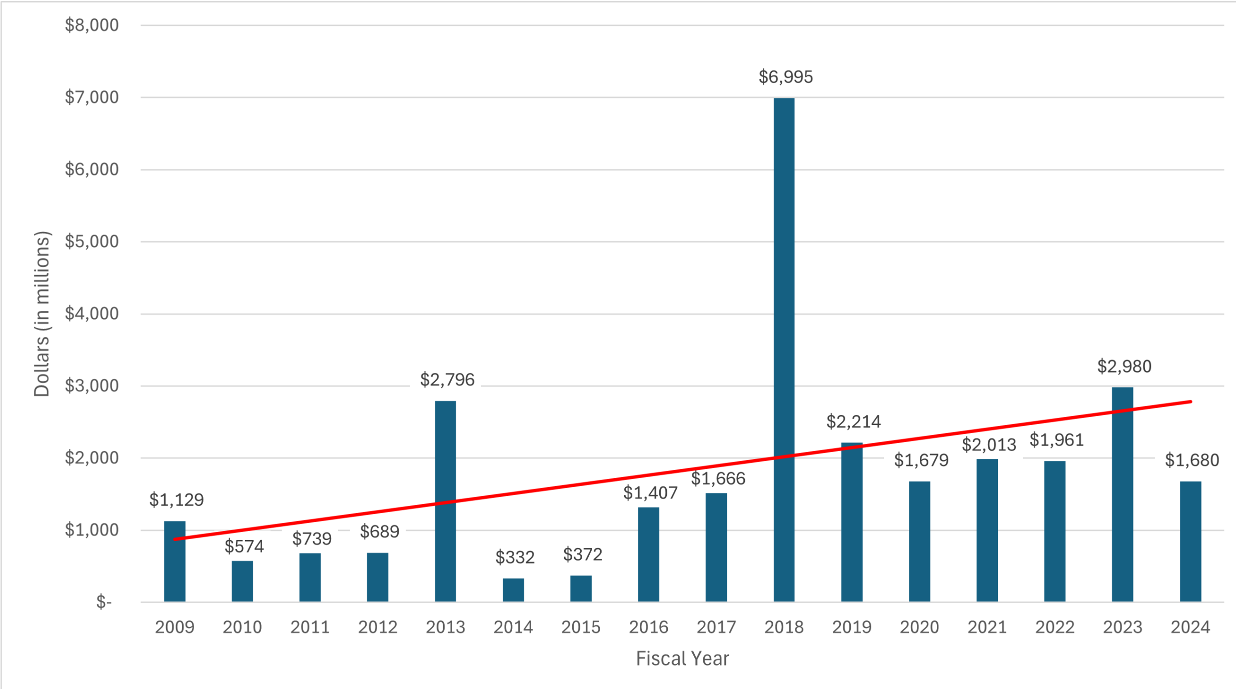



*Source:* National Centers for Environmental Information billion-dollar disaster database

## Disaster Assistance Loan Approvals Have Gradually Increased

Since 2009, the total dollar amount of disaster assistance loans approved has generally increased (see red trendline on Figure 3). A spike in approvals in 2013 resulted from the devastation caused by Hurricane Sandy, and a spike in 2018 resulted from Hurricanes Harvey, Irma, and Maria.

**Figure 3: Total Dollar Amount of Approved Disaster Loans**




*Source:* SBA's Congressional Budget Justification and Annual Performance Report for FYs 2009–2024

Despite the gradual increase in the subsidy rate, the rise in frequency and cost of major disasters, and the gradual increase in the total dollar amount of disaster loan approvals, SBA has consistently forecasted that the disaster loan program would lend $1.1 billion annually since 2009. According to the agency, this amount is a 10-year average based on normalized activity. However, we found that SBA has lent out more than $1.1 billion annually since FY 2016 (see Figure 3). SBA officials told us that major disasters are not taken into consideration during the budget formulation process because funding needs vary from year to year and are specific to the severity of the disasters, so it is difficult to know what will be needed in any given year when the budget is developed well in advance. As a result, the agency has relied on supplemental funding in the event of a major disaster, such as Hurricane Helene, and has requested supplemental funding five times since 2016 and in 6 of the past 12 years.

### Recommendation

We recommend the Administrator require the Chief Financial Officer for the Office of Performance, Planning, and the Chief Financial Officer to:

Recommendation 1: Ensure that historical factors such as changes in the subsidy rate, frequency of major disasters, and total dollar amount of loan approvals from prior years are taken into consideration when developing the annual budget request for the disaster loan program.

## Finding 2: Monthly Reports to Congress Did Not Comply With 15 U.S.C. § 636k(a)

15 U.S.C. § 636k(a) requires SBA to submit a monthly report on the activity of the disaster loan program to Congress no later than the fifth business day of each month. Each monthly report must include detailed data regarding average lending volume; the amount of funding spent and available for loans, staff, and administrative costs; and estimates of how long available funds will last based on the spending rate.

SBA's monthly reports to Congress for FYs 2023–2024 provided an overview of disaster loan program funding and reflected the authorized budget to run the program along with corresponding lending capacity. However, the reports we reviewed did not comply with all the requirements of 15 U.S.C. § 636k(a) and were not always submitted timely. SBA indicated it had not received feedback that the reports were noncompliant and subsequently assumed they were sufficient.

On October 16, 2024, several Senators issued a letter to SBA explaining that the monthly reports failed to include critical statutorily required components such as "an estimate of how long the available funding for such loans will last based on the spending rate" and "an estimate of how long the available funding for salaries and expenses will last based on the spending rate." The letter went on to explain that if the monthly reports had included this information, Congress would have had a clear picture of the disaster loans program account's spending rate and could have taken steps to ensure disaster victims received timely federal assistance.

We reviewed a sample of SBA's monthly reports from October 2022 to September 2024 and found they did not include the two components described in the Senators' letter. In addition, the reports did not always include:

- The amount of funding spent over the month for staff, along with the number of staff members;
- The amount of funding spent over the month for administrative costs; or
- The percent change from prior reporting periods for all the required cost elements.

Further, although not required, we noted the monthly reports we reviewed did not include a narrative explaining how to interpret the data nor did they include a statement about whether sufficient funds were available to support estimated demand. We believe including both elements would improve interpretation and readability of the reports.

Finally, we determined that 75 percent of the monthly reports were submitted timely; however, the remainder of the reports were submitted between 1 to 6 days late, or 2 days late on average.

Including all the required information in the monthly reports, submitting them timely, and clearly explaining the data may have prevented the delay in authorization of supplemental funds, thus providing disaster survivors with the financial assistance they needed to recover sooner.

## Recommendations

We recommend the Administrator require the Chief Financial Officer for the Office of Performance, Planning, and the Chief Financial Officer and the Associate Administrator for the Office of Disaster Recovery and Resilience to:

**Recommendation 2:** Ensure monthly disaster reports comply with all the requirements of 15 U.S.C. § 636k(a).

**Recommendation 3:** Enhance monthly disaster reports to include 1) information that indicates whether sufficient funds are available or if supplemental funds are needed and 2) a narrative with each data table that explains how to read and interpret the monthly disaster reports.

## Finding 3: Written Notification to Congress Regarding Need for Supplemental Funds Was Not Sent Timely

15 U.S.C. § 636k(d) requires federal agencies to notify, in writing, the Senate Committee on Small Business and Entrepreneurship and the House Committee on Small Business regarding the need for supplemental funds on the same date that the agency notifies any committee of the Senate or the House of Representatives. SBA informally communicated the agency's supplemental funding needs for the disaster loan program to staff members of Congress and OMB through email, telephone calls, and/or virtual meetings. However, the agency did not provide written notification to Congress until 5 days before disaster loan program funding was exhausted. According to agency officials, they initially communicated with Congress and OMB informally rather than formally because that approach had been effective in prior years. During this review, SBA acknowledged that formal notification could have been provided sooner.

SBA first identified the need for supplemental funding in July 2024 following Hurricane Beryl. By August 2024, the agency had informally expressed concern to staff members of Congress and OMB separately that the disaster loans program account would be depleted if supplemental appropriations were not received. SBA continued informal correspondence with staff members of Congress and OMB throughout August and September 2024; however, the continuing resolution that was passed on September 26, 2024, did not include supplemental funding for SBA's disaster loan program. In late September, Hurricane Helene made landfall in Florida, causing widespread destruction, further straining the balance in the disaster loans program account.

By October 2024, funds in SBA's disaster loans program account were so low that OMB requested that SBA send daily reports on the account balance. Additionally, the President sent a letter to Congress urging them to provide supplemental appropriations before the disaster loans program account was depleted. Shortly following the President's letter, SBA issued a press release echoing their plea for disaster funds. The agency sent written notification to the appropriate congressional committees on October 10, 2024. Five days later, SBA issued another press release in which they announced that funds in its disaster loans program account had been exhausted, and all new loan disbursements would be paused until Congress appropriated additional funds.

Throughout November 2024, SBA continued informal correspondence with OMB, intending to secure supplemental funding to support the disaster loan program. On December 21, 2024, Congress passed legislation providing $2.25 billion to SBA to fund its disaster loans program account which, based on the subsidy rate at that time, would support approximately $7 billion in disaster assistance. Had SBA sent the written notification earlier, the funding shortfall could have potentially been averted.

### Recommendation

We recommend the Administrator require the Associate Administrator for the Office of Congressional and Legislative Affairs coordinate with the Chief Financial Officer for the Office of Performance, Planning, and the Chief Financial Officer and the Associate Administrator for the Office of Disaster Recovery and Resilience to:

Recommendation 4: Ensure written notification of the need for supplemental funds for the disaster loan program is submitted to the appropriate congressional committees as soon as SBA anticipates a funding shortfall, in accordance with 15 U.S.C. § 636k(d).

# Other Matters

During the course of this evaluation, Congress introduced a bill that would have required the Office of Inspector General (OIG) to review the circumstances surrounding the funding shortfall. The draft bill was revised in March 2025, adding two new requirements to the OIG review. Although the bill did not pass, we proactively incorporated the following into our ongoing evaluation.

## SBA's Use of Appropriated Funds for Intended Purposes

According to 31 U.S.C. § 1301(a), agencies are required to use appropriations for their intended purposes unless the law says otherwise. Additionally, OMB Circular A-11 requires agencies to use the Disaster Emergency Fund Code to track spending in accounts that directly receive an appropriation designated as disaster relief, wildfire, or emergency requirements pursuant to section 251 of the Balanced Budget and Emergency Deficit Control Act of 1985. OMB assigns the Disaster Emergency Fund Code for each enacted disaster relief appropriation and provides it to SBA for use when tracking funds. Based on our analysis, we determined SBA used disaster-appropriated funds for their intended purposes, aligning with criteria.

We reviewed all transactions related to the disaster loans program account for FYs 2023–2025[5] and found that SBA used appropriated funds for intended purposes in accordance with 31 U.S.C. § 1301(a) and OMB Circular A-11. We also obtained and reconciled SBA's monthly consolidated report to Congress against the agency's general ledger data to ensure the accuracy and appropriateness of recorded transactions. Our analysis revealed that all transactions in the consolidated report were sourced properly from three general ledger accounts specifically used for disaster-related activities. We also verified that all obligations were recorded under the appropriation purpose code that was designated specifically for the disaster loans program account.

## Reorganization of the Disaster Lending Program

In FY 2022, the disaster lending program moved from the Office of Disaster Assistance to the Office of Capital Access, which assumed responsibility for all elements of disaster lending—to include managing policy, technology, and the Customer Service Center. Prior to the reorganization, SBA's Office of Performance, Planning, and the Chief Financial Officer had historically been responsible for developing the annual budget, tracking obligations, estimating funds needed for disaster assistance, and providing the accounting data for the monthly reporting of the disaster loans program account. After the reorganization, this office maintained these responsibilities; therefore, the reorganization did not contribute to the funding shortfall.

# Evaluation of Agency Response

SBA management provided formal written comments that are included in their entirety in Appendix 2. Management agreed with all four recommendations. Their planned actions satisfy the intent of the recommendations and are resolved. Recommendations 1 through 4 will be closed upon receipt of documentation supporting management's implementation of the planned actions.

[5] We reviewed all transactions from January 2023 through January 2025.

## Summary of Actions Necessary to Close the Recommendations

The following section summarizes the status of our recommendations and the actions necessary to close them.

### Recommendation 1

We recommend the Administrator require the Chief Financial Officer for the Office of Performance, Planning, and the Chief Financial Officer to ensure that historical factors such as changes in the subsidy rate, frequency of major disasters, and total dollar amount of loan approvals from prior years are taken into consideration when developing the annual budget request for the disaster loan program.

**Status:** Resolved

SBA management agreed with the recommendation, stating that an improved disaster projection methodology has already been implemented. The new methodology takes into account net obligations over the past 15 years, inflation, and spikes in lending.

This recommendation will be closed when management provides evidence that historical factors such as changes in the subsidy rate, frequency of major disasters, and total dollar amount of loan approvals from prior years are considered in the new disaster projection methodology.

### Recommendation 2

We recommend the Administrator require the Chief Financial Officer for the Office of Performance, Planning, and the Chief Financial Officer and the Associate Administrator for the Office of Disaster Recovery and Resilience to ensure monthly disaster reports comply with all the requirements of 15 U.S.C. § 636k(a).

**Status:** Resolved

SBA management agreed with the recommendation, stating that the monthly disaster reports have already been improved. These reports now include enhanced reporting on funding spent on staff and administrative costs as well as a percentage change from prior reporting periods.

This recommendation will be closed when management provides evidence of the improved monthly disaster reports and that the reports comply with all requirements of 15 U.S.C. § 636k(a).

### Recommendation 3

We recommend the Administrator require the Chief Financial Officer for the Office of Performance, Planning, and the Chief Financial Officer and the Associate Administrator for the Office of Disaster Recovery and Resilience to enhance monthly disaster reports to include 1) information that indicates whether sufficient funds are available or if supplemental funds are needed and 2) a narrative with each data table that explains how to read and interpret the monthly disaster reports.

**Status:** Resolved

SBA management agreed with the recommendation, stating that it has already been implemented. Management stated SBA's updated projection methodology provides a data-driven approach to the agency's forecast of when funds may be depleted based on known activity, utilizing 15 years of net lending approval activity, adjusted for inflation and economic assumptions. Management also stated that the report now includes an executive summary narrative and additional summary tables to improve interpretation and readability.

This recommendation will be closed when management provides evidence that the monthly report includes information indicating whether sufficient funds are available or if supplemental funding is needed and that the executive summary narrative and tables enhance interpretation and readability.

### Recommendation 4

We recommend the Administrator require the Associate Administrator for the Office of Congressional and Legislative Affairs coordinate with the Chief Financial Officer for the Office of Performance, Planning, and the Chief Financial Officer and the Associate Administrator for the Office of Disaster Recovery and Resilience to ensure written notification of the need for supplemental funds for the disaster loan program is submitted to the appropriate congressional committees as soon as SBA anticipates a funding shortfall, in accordance with 15 U.S.C. § 636k(d).

**Status:** Resolved

SBA management agreed with the recommendation, stating that the Office of Disaster Recovery and Resilience has drafted a process for funding threshold notifications that includes coordination of communication between the Office of Performance, Planning, and the Chief Financial Officer and agency leadership, as well as Office of Congressional and Legislative Affairs involvement, to ensure timely written notification to the appropriate congressional committees.

This recommendation will be closed when the agency provides evidence that the funding threshold notification process has been finalized, implemented, and includes clear procedures for internal coordination and timely congressional notification.

# Appendix 1: Scope and Methodology

This report presents the results of our evaluation of the U.S. Small Business Administration's (SBA) processes to forecast and request appropriation dollars for its disaster loans program account. Our scope focused on reviewing the agency's regulations, policies, procedures, and guidance pertaining to the process of forecasting and requesting appropriation dollars to its disaster loans program account covering fiscal years 2020–2025.

To answer our objective, we obtained and reviewed pertinent federal and SBA-specific regulations, policies, procedures, and guidance. We interviewed SBA headquarters and field personnel responsible for budgeting and subsidy rate estimations, obligation tracking, and the monthly reporting process with the Office of Management and Budget (OMB). We reviewed the agency's email correspondence with Congress and OMB related to the funding shortfall. In addition, we analyzed SBA's monthly reporting requirements and compliance with 15 U.S.C. § 636k(a). Lastly, we analyzed disaster appropriation data to ensure the appropriations were used for their intended purposes.

We performed this review in accordance with the Council of Inspectors General on Integrity and Efficiency's *Quality Standards for Inspection and Evaluation*. These standards require that 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 obtained copies of statutorily required monthly reports to Congress to ensure compliance with 15 U.S.C. § 636k(a). We also obtained a sample of daily obligation tracking reports to ensure that obligations were used for the intended purposes and were being tracked appropriately. We reconciled these monthly reports to the general ledger and ensured that the appropriation was used for disaster loans. 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 supported the findings, conclusions, and recommendations. We believe the data was sufficiently reliable to support the findings in this report.

## Assessment of Internal Controls

Internal controls comprise the plans, methods, policies, and procedures used to fulfill the mission, strategic plan, goals, and objectives of the entity. The controls include the systems designed to provide reasonable assurance of achieving effective and efficient operations, reliability of reporting for internal and external use, and compliance with provisions of applicable laws and regulations. Internal controls serve to prevent and detect errors, fraud, and noncompliance with provisions of laws and regulations.

We assessed SBA's policy on internal controls, applicable to the scope of this evaluation, to determine the internal controls used to comply with laws and regulations to the extent necessary to satisfy the objective. We obtained and reviewed information and data from an SBA management official in the Office of Capital Access regarding SBA's procedures for budgeting, estimating, and monitoring of funds to ensure they were being appropriately carried out and that information was communicated to Congress and OMB.

We reviewed the United States Government Accountability Office's (GAO) *Standards for Internal Control in the Federal Government*, GAO-14-704G, which provides guidance to federal managers on designing, implementing, and operating an effective internal control system.

The internal control deficiencies we found are discussed in the "Results" section of this report. However, because our review was limited to those internal control components and underlying principles that we found significant to the objective, all internal control deficiencies that may have existed at the time of this evaluation may not have been disclosed. See Table 1-1 for the key internal control components and principles significant to the objectives.

### Table 1-1: Internal Controls

| Internal Control Component | Internal Control Principle |
| --- | --- |
| Control environment | Management establishes an organizational structure, assigns responsibility, and delegates authority to achieve the entity's objective. |
| Control activities | Management should implement control activities through policies. |
| Monitoring | Management should establish activities to monitor the internal control system and evaluate the results. |
| Information and communication | Management should internally communicate the necessary quality information to achieve the entity's objectives and externally communicate the necessary quality information to achieve the entity's objectives. |

*Source:* Office of Inspector General analysis

## Prior Audit Coverage

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

| Report Number | Report Title | Report Date |
|---|---|---|
| GAO-16-41 | *Credit Reform: Current Method to Estimate Credit Subsidy Costs Is More Appropriate for Budget Estimates Than a Fair Value Approach* | January 29, 2016 |
| GAO-20-100SP | *Disaster Resilience Framework: Principles for Analyzing Federal Efforts to Facilitate and Promote Resilience to Natural Disasters* | October 23, 2019 |
| 25-05 | *Independent Auditors' Report on SBA's Fiscal Year 2024 Financial Statements* | November 15, 2024 |

# Appendix 2: Agency Response

U.S. Small Business Administration
Response to Draft Report

U.S. SMALL BUSINESS ADMINISTRATION
WASHINGTON, DC 20416

| | |
|---|---|
| Date: | September 15, 2025 |
| To: | Sheldon Shoemaker<br>Deputy Inspector General<br>U.S. Small Business Administration |
| From: | Nathan Davis<br>Chief Financial Officer & Chief Risk Officer<br>Office of Performance, Planning, and the Chief Financial Officer |
| Subject: | Response to OIG Draft Report – Evaluation of SBA's Processes to Forecast and Request Appropriation Dollars for its Disaster Loans Program Account (Project 25803) |

NATHAN DAVIS

Digitally signed by NATHAN DAVIS
Date: 2025.09.16 17:47:33 -04'00'

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 responses to the draft recommendations:

*To address the issues identified, OIG recommends the Administrator require the Chief Financial Officer for the Office of Performance, Planning, and Chief Financial Officer to:*

**Recommendation 1:**
Ensure that historical factors such as changes in the subsidy rate, frequency of major disasters, and total dollar amount of loan approvals from prior years are taken into consideration when developing the annual budget request for the disaster loan program.

**SBA Response:**
This recommendation has already been implemented. SBA has created an improved disaster projection methodology that incorporates the monthly average of net obligations over the prior 15 years, adjusted for inflation, factoring in spikes in lending to project a return to normal lending levels based on behavior of previous spikes. SBA will use estimated loan demand from this projection methodology assuming no major spikes in disaster demand when developing the annual budget request for the disaster loan program. SBA will continually update and improve the disaster projection model based on available data and information.

*To address the issues identified, OIG recommends the Administrator require the Chief Financial Officer for the Office of Performance, Planning, and Chief Financial Officer and the Associate Administrator for the Office of Disaster Recovery and Resilience to:*

**Recommendation 2:**
Ensure monthly disaster reports comply with all the requirements of 15 U.S.C. § 636k(a).

**SBA Response:**
This recommendation has already been implemented. SBA has improved the monthly disaster report to improve the reporting for monthly funding spent for staff and administrative costs, as well as a percent change from prior reporting periods.

**Recommendation 3:**
Enhance monthly disaster reports to include 1) information that indicates whether sufficient funds are available or if supplemental funds are needed and 2) a narrative with each data table that explains how to read and interpret the monthly disaster reports.

**SBA Response:**
This recommendation has already been implemented. SBA has created an improved disaster projection methodology, which accounts for historical spike and tail trends from prior disasters. The updated projection methodology provides a data-driven approach to SBA's forecast of when funds may be depleted based on known activity, utilizing 15 years of net lending approval activity, adjusted for inflation and the President's economic assumptions. The report also includes an executive summary narrative and additional summary tables to improve interpretation and readability.

*To address the issues identified, OIG recommends the Administrator require the Associate Administrator for the Office of Congressional and Legislative Affairs to coordinate with the Chief Financial Officer for the Office of Performance, Planning, and Chief Financial Officer and the Associate Administrator for the Office of Disaster Recovery and Resilience to:*

**Recommendation 4:**
Ensure written notification of the need for supplemental funds for the disaster loan program is submitted to the appropriate congressional committees as soon as SBA anticipates a funding shortfall, in accordance with 15 U.S.C. § 636k(d).

**SBA Response:**
SBA concurs with this recommendation. The ODR&R has drafted a process for funding threshold notifications, which includes coordination of communication between OPPCFO and agency leadership, as well as OCLA involvement for written notification timing for the appropriate Congressional committees.