OFFICE OF INSPECTOR GENERAL
U.S. SMALL BUSINESS ADMINISTRATION

DATE: January 21, 2026

TO: Kelly Loeffler
Administrator

FROM: William W. Kirk
Inspector General

SUBJECT: Independent Auditors' Report on SBA's Fiscal Year 2025 Financial Statements (Report 26-03)

I am pleased to present the attached independent auditors' report on the U.S. Small Business Administration's (SBA) financial statement for fiscal year (FY) 2025. The Chief Financial Officers Act of 1990, as amended, requires the Inspector General or an independent auditor, as determined by the Inspector General, to audit SBA's financial statements.

We contracted with the independent certified public accounting firm KPMG LLP to conduct an audit of SBA's consolidated balance sheet as of September 30, 2025 and the related notes. KPMG was not engaged to audit the consolidated statement of net cost, consolidated statement of changes in net position, and combined statement of budgetary resources. Our contract required KPMG to conduct the audit in accordance with *Government Auditing Standards* (GAS) and Office of Management and Budget Bulletin No. 24-02, Audit Requirements for Federal Financial Statements.

KPMG issued a disclaimer of opinion on the consolidated balance sheet as of September 30, 2025. The basis for the disclaimer was that because of control deficiencies identified, SBA was unable to provide adequate evidential matter in support of a significant number of transactions and account balances related to the Paycheck Protection Program and Economic Injury Disaster Loan programs. Additionally, management was unable to provide sufficient appropriate audit evidence to support the data used to develop assumptions used in the subsidy allowance estimate for SBA's direct loan and loan guaranty programs.

During the audit, KPMG identified four material weaknesses and one significant deficiency in internal control over financial reporting. We note that SBA made considerable progress addressing prior year audit findings, resulting in the successful remediation of two material weaknesses (controls over general information technology and controls over the evaluation of service organizations) and the downgrading of one material weakness (controls over monitoring

Restaurant Revitalization Fund and Shuttered Venue Operators Grant programs) to a significant deficiency. Appendices I and II of this report describe details of KPMG's conclusions about the material weaknesses and significant deficiency. KPMG also identified three instances of noncompliance with applicable laws or other matters, which are discussed in Appendix III of this report.

We reviewed KPMG's report and related documentation and inquired of its personnel. Our review, as differentiated from an audit of the financial statements in accordance with GAS, was not intended to enable us to express, and we do not express, opinions on 1) SBA's financial statements or internal control over financial reporting; 2) whether SBA's financial systems complied substantially with the Federal Financial Management Improvement Act of 1996 requirements; 3) or conclusions on compliance and other matters. KPMG is responsible for the attached auditors' report dated January 21, 2026 and the conclusions expressed. Our review disclosed no instances where KPMG did not comply in all material respects with GAS.

We appreciate the cooperation and assistance extended to KPMG and our office during the audit. Should you or your staff have any questions, please contact me or Andrea Deadwyler, Assistant Inspector General for Audits, at (202) 205-6586.

cc: Bill Briggs, Deputy Administrator, Office of the Administrator
Wesley Coopersmith, Chief of Staff, Office of the Administrator
Ben Grayson, Deputy Chief of Staff, Office of the Administrator
Robin Wright, Chief Operating Officer, Office of the Administrator
Nathan Davis, Chief Financial Officer and Chief Risk Officer, Office of Performance, Planning, and the Chief Financial Officer
Deborah Chen, Deputy Chief Financial Officer, Office of Performance, Planning, and the Chief Financial Officer
Thomas Kimsey, Associate Administrator, Office of Capital Access
Chris Stallings, Associate Administrator, Office of Disaster Recovery and Resilience
Wendell Davis, General Counsel, Office of General Counsel
Michael Simmons, Attorney Advisor, Office of General Counsel

Attachment

KPMG LLP
Suite 12000
1801 K Street, NW
Washington, DC 20006

Independent Auditors' Report

Inspector General
U.S. Small Business Administration:

Administrator
U.S. Small Business Administration:

Report on the Audit of the Consolidated Financial Statement

Disclaimer of Opinion

We were engaged to audit the consolidated balance sheet of the United States (U.S.) Small Business Administration (SBA) as of September 30, 2025, and the related notes to the consolidated balance sheet (the consolidated financial statement).

We do not express an opinion on the accompanying consolidated financial statement of the SBA. Because of the significance of the matter described in the Basis for Disclaimer of Opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the consolidated financial statement.

Basis for Disclaimer of Opinion

The SBA's pandemic relief programs include the Paycheck Protection Program, Economic Injury Disaster Loan program, Restaurant Revitalization Fund program, and Shuttered Venue Operators Grant program, which were authorized by the Coronavirus Aid, Relief, and Economic Security Act of 2020 and related legislations. These programs affect a substantial proportion of SBA's consolidated financial statement. As of the date of our audit report, management was still in the process of designing and implementing corrective actions to remediate control deficiencies identified in the prior and current years. These control deficiencies contributed to SBA's inability to provide relevant and reliable information to support a significant number of transactions and account balances related to these programs. Additionally, management was unable to provide sufficient appropriate audit evidence to support the data used to develop assumptions used in the subsidy allowance estimate for SBA's direct loan and loan guaranty programs. As a result of these matters, we were unable to determine whether any adjustments might have been necessary related to the Credit Program Receivables and Related Foreclosed Property, Net; Downward Reestimate Payable to Treasury; Loan Guarantee Liabilities; and the related notes.

Other Matters

Report on Certain Fiscal Year 2025 Information

We were not engaged to audit the consolidated statements of net cost and changes in net position, and combined statement of budgetary resources for the year ended September 30, 2025, and the related notes to these statements. Accordingly, we express no opinion on them.

Interactive Data

Management has elected to reference to information on websites or other forms of interactive data outside the Agency Financial Report to provide additional information for the users of its consolidated financial statement. Such information is not a required part of the consolidated financial statement or supplementary information required by the Federal Accounting Standards Advisory Board. The information on these websites or the other interactive data has not been subjected to any of our auditing procedures, and accordingly we do not express an opinion or provide any assurance on it.

Responsibilities of Management for the Consolidated Financial Statement

Management is responsible for the preparation and fair presentation of the consolidated financial statement in accordance with U.S. generally accepted accounting principles, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the consolidated financial statement that is free from material misstatement, whether due to fraud or error.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statement

Our responsibility is to conduct an audit of the SBA's consolidated financial statement in accordance with auditing standards generally accepted in the United States of America (GAAS), *Government Auditing Standards,* issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Bulletin No. 24-02, *Audit Requirements for Federal Financial Statements*, and to issue an auditors' report. However, because of the matter described in the Basis for Disclaimer of Opinion section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the consolidated financial statement.

We are required to be independent of the SBA and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit.

Required Supplementary Information

U.S. generally accepted accounting principles require that the information in the Management's Discussion and Analysis and Required Supplementary Information sections be presented to supplement the basic consolidated financial statement. Such information is the responsibility of management and, although not a part of the basic consolidated financial statement, is required by the Federal Accounting Standards Advisory Board who considers it to be an essential part of financial reporting for placing the basic consolidated financial statement in an appropriate operational, economic, or historical context. We were unable to apply certain limited procedures to the required supplementary information in accordance with GAAS because of the significance of the matter described in the Basis for Disclaimer of Opinion paragraph. We do not express an opinion or provide any assurance on the information.

Other Reporting Required by *Government Auditing Standards*

Report on Internal Control Over Financial Reporting

In connection with our engagement to audit the SBA's consolidated financial statement as of September 30, 2025, we considered the SBA's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on the consolidated financial statement, but not for the purpose of expressing an opinion on the effectiveness of the SBA's internal control. Accordingly, we do not express an opinion on the effectiveness of the SBA's internal control. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Appendices I and II, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in the accompanying Appendix I to be areas of material weaknesses.

SBA management did not report the material weakness, Controls over Subsidy Reestimate Need Improvement, in its Statement of Assurance, included in Management's Discussion and Analysis section of the accompanying Agency Financial Report.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Appendix II to be significant deficiencies.

Report on Compliance and Other Matters

In connection with our engagement to audit the SBA's consolidated financial statement as of September 30, 2025, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the consolidated financial statement. However, providing an opinion on compliance with those provisions was not an objective of our engagement, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 24-02, and which are described in the accompanying Appendix III.

We also performed tests of the SBA's compliance with certain provisions referred to in Section 803(a) of the *Federal Financial Management Improvement Act of 1996* (FFMIA). Providing an opinion on compliance with FFMIA was not an objective of our engagement, and accordingly, we do not express such an opinion. The results of our tests disclosed instances, described in the accompanying Appendix III as item C, in which the SBA's financial management systems did not substantially comply with the (1) Federal financial management systems requirements, and (2) applicable Federal accounting standards. The results of our tests disclosed no instances in which the SBA's financial management systems did not substantially comply with the United States Government Standard General Ledger at the transaction level.

Additionally, if the scope of our work had been sufficient to enable us to express an opinion on the consolidated financial statement, other instances of noncompliance or other matters may have been identified and reported herein.

SBA's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the SBA's response to the findings identified in our engagement and described in the accompanying Appendix IV. The SBA's response was not subjected to the other auditing procedures applied in the engagement to audit the consolidated financial statement and, accordingly, we express no opinion on the response.

Purpose of the Other Reporting Required by Government Auditing Standards

The purpose of the communication described in the Report on Internal Control Over Financial Reporting and the Report on Compliance and Other Matters sections is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the SBA's internal control or compliance. This communication is an integral part of an engagement to audit in accordance with *Government Auditing Standards* in considering the SBA's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Washington, DC
January 21, 2026

U.S. Small Business Administration

Material Weaknesses

The following deficiencies are considered to be areas of material weaknesses in internal controls over financial reporting.

1. **Controls over Coronavirus Disease 2019 (COVID-19) Economic Injury Disaster Loans (EIDLs) Need Improvement**
2. **Controls over Paycheck Protection Program (PPP) Loan Program Need Improvement**
3. **Controls over Subsidy Reestimate Need Improvement**
4. **Entity Level Controls Need Improvement**

Background

The COVID-19 EIDL direct loan and PPP guaranty loan programs were authorized and funded by the Coronavirus Aid, Relief, and Economic Security Act of 2020, and the Paycheck Protection Program and Health Care Enhancement Act. The referenced laws are collectively referred to as the CARES Act and related legislation. The CARES Act and related legislation were passed by Congress to provide emergency assistance in response to the extensive effects of the public health and economic crisis arising from the COVID-19 pandemic. The COVID-19 EIDL and PPP programs affect a substantial proportion of the consolidated financial statement.

The 7(a) Loan Guaranty Program, SBA's primary business loan program, provides loan guarantees to lenders that allow them to provide financial help for small businesses.

1. Controls over COVID-19 EIDLs Need Improvement

The COVID-19 EIDL transactions were approved in fiscal years 2020 through 2022. These loans have a 30-year term, and the originating payment start date was deferred by the SBA for up to 30 months after the loan disbursement. The payment deferral period ended for a significant number of COVID-19 EIDLs beginning in fiscal year 2023 and continued into fiscal year 2024. As COVID-19 EIDLs began repayment in fiscal years 2023 and 2024, a substantial number became delinquent, and many were identified by management as potentially fraudulent. Consequently, management charged off many of these delinquent and potentially fraudulent COVID-19 EIDLs. In fiscal year 2025, management implemented a funds recovery accounting policy for COVID-19 EIDLs and concluded that all COVID-19 EIDLs previously charged off on the basis of a prior charge-off policy should be reinstated and recorded as Credit Program Receivables in accordance with SFFAS 2. As a result of the updated funds recovery accounting policy, SBA reinstated a large volume of COVID-19 EIDLs as Credit Program Receivables. Management reinstated these loans based on the anticipation of further collectability.

Management did not design and implement adequate monitoring controls over the COVID-19 EIDL portfolio to ensure reliable financial reporting as of the end of the fiscal year. Management's analysis did not support the completeness and accuracy of the COVID-19 EIDL population of loans and related data elements as of the balance sheet date. Management did not sufficiently design and implement a review control to identify a complete population of loans with eligibility concerns that are critical in assessing the completeness and accuracy of the COVID-19 EIDL Credit Program Receivable balances. In addition, the monitoring controls for reviewing the loan status of COVID-19 EIDLs were not adequately designed to detect instances where the recorded loan status was not supported by the underlying accounting records or loan life cycle events.

Management did not apply consistent accounting treatment of COVID-19 EIDLs with fraud-related hold codes where there is no anticipated further collectability. As a result, a sub-population of loans with these fraud-related hold codes were not excluded from the Credit Program Receivable balance based on management's fiscal year 2025 funds recovery accounting policy.

Further, management's review controls over their reinstatement process did not provide sufficient evidence to support the completeness and accuracy of the COVID-19 EIDL population as of the balance sheet date. For example, a sub-population of charged-off loans that management intended to reinstate had not been reinstated as of fiscal year-end and therefore were not reflected in the Credit Program Receivable balance. In addition, management reinstated certain loans which were not eligible for reinstatement.

These deficiencies were caused by challenges, such as complexity and considerable effort, in retroactively generating the necessary point-in-time historical population data from the current system used for the portfolio analysis as of the end of the fiscal year. Additionally, management's review controls were not adequately designed and implemented to identify a complete and accurate population of COVID-19 EIDLs with potential eligibility concerns. Further, the reinstatement controls implemented by management were not implemented effectively to complete all eligible loan reinstatements before fiscal year-end. Finally, management's information systems were not designed to properly update the loan status of COVID-19 EIDLs to ensure the loan status was correct and supported by the underlying transactions.

The following criteria were considered with respect to the matters described in the preceding paragraphs:

- GAO's Green Book, Principle 3, Establish Structure, Responsibility, and Authority; Principle 6, Define Objectives and Risk Tolerances; Principle 7, Identify, Analyze, and Respond to Risks; Principle 9, Identify, Analyze, and Respond to Change; Principle 10, Design Control Activities; Principle 11, Design Activities for the Information System; Principle 12, Implement Control Activities; and Principle 16, Perform Monitoring Activities

- OMB Circular No. A-123, Management's Responsibility for Enterprise Risk Management and Internal Control

The deficiencies described above may result in a material misstatement of the Credit Program Receivables and Related Foreclosed Property, Net and Downward Reestimate Payable to Treasury line items, and related elements in the consolidated financial statement.

<u>Recommendations – Controls over COVID-19 EIDLs Need Improvement</u>

We recommend the Administrator coordinate with the Associate Administrator for the Office of Capital Access to:

1. Establish and document a process to generate, save, and securely retain complete data extracts of loan populations and relevant data elements (e.g., loan status, balances) as of the date that management's analyses are performed (such as the fiscal year-end). This process will ensure relevant data is maintained by management to support their analyses for financial reporting purposes.

2. Implement a comprehensive, risk-based, and proactive process that regularly assesses the loan population for potential fraud or ID theft concerns (e.g. periodic systematic reviews, data analytics, or other proactive monitoring controls). **(2024, recommendation 1)**

3. Apply consistent accounting treatment of non-performing loans with open agency hold codes.

4. Consistently implement financial reporting controls to ensure the Credit Program Receivable balance is completely and accurately stated throughout the fiscal year. If new policies are implemented, conduct an analysis to assess the financial reporting implications. **(2024, recommendation 2)**

5. Review controls over information technology program changes within the applicable systems of record for loan accounting so that they are designed, implemented and operating effectively, to ensure changes are appropriate and function as intended, and the information systems reflect the underlying accounting transactions. **(2024, recommendations 3 & 4)**

2. Controls over PPP Loan Program Need Improvement

The PPP program terms, authorized by the CARES Act and related legislation, permitted for the forgiveness of PPP loan guarantees if the borrower met the forgiveness criteria. To request forgiveness, borrowers submit the forgiveness application to the lenders for approval. The lenders will subsequently notify SBA of their forgiveness decision and submit the request to SBA.

Management's post-payment review control was not sufficiently designed and implemented to determine the appropriate status and financial reporting impact of PPP loans forgiven as of September 30, 2025. Specifically, management indicated that post-payment reviews were conducted on only two percent of the total population of forgiven PPP loans. Additionally, management's process and related control activities for recovering funds of PPP loans with eligibility concerns that were identified and confirmed after forgiveness were not fully documented or implemented. While management established a funds recovery accounting policy, the implementation of related control activities was ongoing as of fiscal year-end.

These deficiencies were caused by the volume of forgiveness payments and management's ability to remediate other deficiencies, which prevented SBA from completing all corrective actions. Consequently, the risk assessment process did not adequately evaluate or address the risks associated with post-payment review and funds recovery for PPP loans.

The following criteria were considered with respect to the matter described in the preceding paragraphs:

- GAO's Green Book, Principle 3, Establish Structure, Responsibility, and Authority; Principle 6, Define Objectives and Risk Tolerances; Principle 7, Identify, Analyze, and Respond to Risks; and Principle 10, Design Control Activities

- OMB Circular No. A-123, Management's Responsibility for Enterprise Risk Management and Internal Control

The deficiencies described above may result in a material misstatement to the Credit Program Receivables and Related Foreclosed Property, Net, and Downward Reestimate Payable to Treasury line items, and other related elements in the consolidated financial statement.

Recommendations – Controls over PPP Loan Program Need Improvement

We recommend the Administrator coordinate with the Associate Administrator for the Office of Capital Access to:

6. Establish regular monitoring and reporting control activities to track progress of post payment reviews, to ensure timely and effective decision making related to implementation of funds recovery policies and procedures. **(2024, recommendation 7)**

7. Strengthen the risk assessment process and conduct a risk-based, comprehensive analysis of the entire population of forgiven PPP loans to identify whether additional reviews may be needed in determining the complete and accurate population for funds recovery. **(2024, recommendation 8)**

3. Controls over Subsidy Reestimate Need Improvement

Statement of Federal Financial Accounting Standards Number 2, *Accounting for Direct Loans and Loan Guarantees*, requires that direct loans and loan guarantees obligated after September 30, 1991, be recorded on a present value basis consistent with the intent of the Federal Credit Reform Act of 1990. As such, SBA developed an estimation methodology to reestimate annually the future net cash inflows and outflows for the COVID-19 EIDLs and PPP loan portfolios as of the end of the fiscal year.

Management's review controls were not adequately designed and implemented over the data inputs used in the PPP and 7(a) Loan Guaranty subsidy reestimate models. Specifically, management did not provide sufficient documentation to evidence adequate review controls to validate the reliability of loan data used in key assumptions for the cash flow PPP model to develop the subsidy cost estimates. Further, management did not provide sufficient appropriate audit evidence to support the reliability for all key data elements used in the 7(a) reestimate model.

In addition, management did not design and implement adequate review controls over the data inputs used for COVID-19 EIDLs subsidy reestimate. The reviews were in process as of the end of the fiscal year and not appropriately designed to identify a complete and accurate COVID-19 EIDLs population of outstanding loans disbursed to eligible recipients.

These deficiencies were caused by management's inability to coordinate and obtain the supporting documentation necessary to provide sufficient appropriate audit evidence to support the relevant data elements. Additionally, the control environment was insufficient with respect to the design and implementation of controls over the review of the PPP and COVID-19 EIDL portfolios. This review control was not sufficiently precise to ensure that the data inputs used for the reestimate models were complete and accurate.

The following criteria were considered with respect to the matter described in the preceding paragraphs:

- GAO's Green Book, Principle 3, Establish Structure, Responsibility, and Authority; Principle 10, Design Control Activities; Principle 13, Use Quality Information; and Principle 14, Communicate Internally

- OMB Circular No. A-123, Management's Responsibility for Enterprise Risk Management and Internal Control

The deficiencies described above may result in a material misstatement to the subsidy reestimate impacting the Liability for Loan Guarantees, the Allowance for Direct Loan Receivables, and the Downward Reestimate Payable to Treasury and the related elements in the consolidated financial statement.

<u>Recommendations – Controls over Subsidy Reestimate Need Improvement</u>

We recommend the Administrator coordinate with the Chief Financial Officer to:

8. Identify and implement a method to improve SBA's ability to demonstrate evidence of adequate support and controls over relevant data elements in a timely manner.

9. Continue implementing review controls in collaboration with relevant program offices for the PPP and COVID-19 EIDL portfolios to accumulate relevant, complete and accurate data on which to base the reestimate. **(2024, recommendation 23)**

4. Entity Level Controls Need Improvement

Management faced challenges in maintaining an adequate entity level controls system and enterprise risk management infrastructure and did not design or implement effective controls necessary to achieve its intended objective of reliable and accurate financial reporting. The significance of the internal control matters indicated weaknesses across several entity level control categories. The following conditions were identified.

A. Control Environment

Management did not establish an effective control environment. The following deficiencies were identified:

- Management did not establish an agency-wide oversight body to govern the internal control system during the fiscal year.
- Management did not establish a formal internal control plan to support the entity's financial reporting objectives. In addition, there was no formal planning and accountability for the design and testing of controls.
- Management did not effectively identify and remediate gaps in personnel roles and responsibilities within the agency's organizational structure, particularly regarding the delegation of authority and assignment of roles within certain program offices.

B. Risk Assessment

Management did not perform effective risk assessment processes. The following deficiencies were identified:

- Management did not establish a coordinated agency-wide risk assessment framework and a comprehensive evaluation of financial reporting. In addition, management did not perform an analysis of program and agency changes to address evolving risks specific to the fiscal year.
- Management did not implement adequate risk assessment processes to effectively identify, analyze, and respond to relevant financial and reporting compliance risks for fiscal year 2025. For example, management did not sufficiently evaluate the risks related to the large-scale reinstatement of certain pandemic program transactions or consider the potential impact on the completeness of related portfolio balances in the consolidated financial statement. Additionally, management did not adequately respond to the increased risk of noncompliance with applicable laws arising from the significant volume of loans in delinquency status during fiscal year 2025.

C. Control Activities

Management did not adequately design and implement effective control activities. The following deficiencies were identified:

- Management did not develop or implement agency-wide internal control testing plans during the fiscal year to support the entity's financial reporting and compliance objectives, respond to relevant risks, or to achieve an effective internal control system.
- Management did not adequately design or implement controls within the relevant program offices to operate at a sufficient level of precision to achieve the reporting objective of preparing financial statements free from material misstatement. For instance, the COVID-19 EIDLs and PPP loan review processes were not designed to ensure that the reviews conducted were precise enough to confirm that the related balances were free of material misstatement.

D. Information & Communication

Management did not adequately design and implement effective information and communication control processes. Specifically, management did not establish an agency-wide oversight body during the fiscal year to govern the internal control system. As a result, quality information on internal controls, policies, and procedures was incomplete, insufficient, unavailable, and impeded effective communication across all levels of authority and lines of responsibility to achieve internal control objectives.

E. Monitoring

Management did not design and implement effective monitoring processes. The following deficiencies were identified:

- Management did not establish formal internal control testing plans at the agency-wide level, resulting in a lack of effective monitoring activities to evaluate the effectiveness of internal controls across the agency.

- While certain deficiencies identified in the prior year were remediated, management did not fully design and implement corrective action plans to effectively remediate prior year findings in the current fiscal year.

These deficiencies were caused by operational challenges that impeded the agency's ability to support effective entity level controls throughout the fiscal year. A transition plan was under development at the end of the fiscal year to respond to resource constraints in order to properly prioritize and execute the agency's enterprise risk management process, including the establishment of an agency-wide oversight body, development of internal control testing plans, and risk assessment frameworks.

The following criteria were considered with respect to the matters described in the preceding paragraphs:

- GAO's Green Book, Principle 2, Exercise Oversight Responsibility; Principle 4, Demonstrate Commitment to Competence; Principle 6, Define Objectives and Risk Tolerances; Principle 7, Identify, Analyze, and Respond to Risks; Principle 9, Identify, Analyze, and Respond to Change; Principle 10, Design Control Activities; Principle 12, Implement Control Activities; Principle 13, Use Quality Information; Principle 14, Communicate Internally; Principle 16, Perform Monitoring Activities; and Principle 17, Evaluate Issues and Remediate Deficiencies

- OMB Circular No. A-123, Management's Responsibility for Enterprise Risk Management and Internal Control

As a result of the deficiencies described above, we noted that without the proper level of entity level controls in place and operating effectively, there is an increased risk that a material misstatement in the consolidated financial statement, and noncompliance with the relevant laws and regulations would neither be prevented nor detected and corrected in a timely manner.

<u>Recommendations – Entity Level Controls Need Improvement</u>

We recommend that the Administrator coordinate with the Chief Financial Officer to:

10. Finalize and implement the transition plan to respond to resource constraints, which includes establishing the proper delegation of authority for personnel roles and responsibilities, ensuring the agency can properly design and effectively operate entity level controls throughout the fiscal year.

11. Establish an agency-wide oversight body to provide governance, guidance, information and communication over internal control systems and risk management activities.

12. Design, implement, and document comprehensive internal control testing plans and regularly monitor and evaluate the effectiveness of internal controls. **(2024, recommendation 32)**

13. Coordinate with key stakeholders to develop robust risk assessment frameworks to identify, analyze, and respond to emerging or evolving risks across the agency. **(2024, recommendation 31)**

U.S. Small Business Administration

Significant Deficiencies

Monitoring of Restaurant Revitalization Fund and Shuttered Venue Operators Grant Programs Need Improvement

A. Monitoring of RRF Awards

The period to use RRF awards for eligible purposes expired in fiscal year 2023. SBA relies on award recipients to submit Post Award Reports to disclose the amount of the award used on eligible purposes prior to expiration. If any amount of the award was not used for eligible purposes before expiration, the unused funds must be returned to SBA. In fiscal year 2025, SBA implemented a process for funds recovery for RRF awards with eligibility concerns.

Management did not sufficiently design and implement monitoring controls to evaluate the accuracy and completeness of accounts receivable balances impacted by their recovery of funds efforts. Management reviewed a sample of RRF awards and completed testing at the end of the fiscal year. However, management did not perform a detailed analysis and extrapolation of results. Further, management did not assess whether additional testing was needed to support the balances recorded at fiscal year-end.

These deficiencies were caused by management's risk assessment process not incorporating a final evaluation of sample results to determine whether the sampling risk was appropriate and supported their adjustments to accounts receivable related to the recovery of funds for RRF awards.

The following criteria were considered with respect to the matters described in the preceding paragraphs:

- GAO's Green Book, Principle 10, Design Control Activities; and Principle 16, Perform Monitoring Activities

- OMB Circular No. A-123, Management's Responsibility for Enterprise Risk Management and Internal Control

The deficiencies described above may result in a misstatement to the Other than Intragovernmental Accounts Receivable, Net, line item and the related elements in the consolidated financial statement.

<u>Recommendations – Monitoring of RRF Awards</u>

We recommend the Administrator coordinate with the Associate Administrator for the Office of Capital Access to:

14. Design and implement key monitoring control procedures earlier in the fiscal year to allow adequate time for thorough execution, review, and analysis before year-end. **(2024, recommendation 15)**

15. Conduct a risk-based, comprehensive analysis of the RRF sample review results to identify whether additional reviews may be needed in determining the complete and accurate population for funds recovery. **(2024, recommendation 16)**

B. Monitoring of SVOG Awards

The period to use SVOG funds for eligible purposes expired in fiscal year 2023. The SBA relies on award recipients to submit an Expense Report and Standard Form (SF) 425, Federal Financial Report, to disclose the amount of the award used for eligible purposes prior to expiration. If any amount of the award was not used for eligible purposes before expiration, the unused funds must be returned to SBA. In fiscal year 2025, SBA implemented a process for funds recovery for SVOG awards with eligibility concerns.

Management's monitoring controls over SVOG awards to ensure compliance with the CARES Act and related legislation, as well as accurate financial reporting at fiscal year-end were not fully implemented. Specifically, as of September 30, 2025, certain awards lacked a submitted Expense Report or SF-425. Management also selected samples of SVOG awards to assess the accuracy of report submissions and recipient eligibility. However, sample reviews were not completed by the end of the fiscal year. Furthermore, management's funds recovery process was not fully implemented for SVOG awards with identified eligibility concerns to support the balances recorded at year-end.

These deficiencies were caused by the design and implementation of the funds recovery procedures occurring close to fiscal year-end, resulting in insufficient time to thoroughly execute sample reviews.

The following criteria were considered with respect to the matters described in the preceding paragraphs:

- Federal Accounting Standards Advisory Board (FASAB) Statement of Federal Financial Accounting Standards 1 (SFFAS 1): Accounting for Selected Assets and Liabilities

- GAO's Green Book, Principle 10, Design Control Activities; and Principle 13, Use Quality Information

The deficiencies described above may result in a misstatement to the Other than Intragovernmental Accounts Receivable, Net, line item and the related elements in the consolidated financial statement.

Recommendations – Monitoring of SVOG Awards

We recommend the Administrator coordinate with the Associate Administrator for the Office of Disaster, Recovery, and Resilience to:

16. Complete the outstanding sample reviews to identify the complete population of recipients that may not have been eligible to receive awards or that may have spent awards on ineligible expenses in accordance with the program's terms. This will ensure the data provided to the Office of Performance, Planning, and the Chief Financial Officer (OPPCFO) is complete, accurate and reported in a timely manner for year-end financial reporting. **(2024, recommendations 18 & 19)**

U.S. Small Business Administration

Compliance and Other Matters

A. Debt Collection Improvement Act of 1996, as amended (DCIA)

Certain provisions of the DCIA require agencies to notify and refer debts that are delinquent by 120 days or more, for purposes of administrative offset and centralized collection, to the U.S. Department of Treasury (Treasury).

Management did not refer delinquent loans to the Treasury for collection within the required timeframe. Management identified and communicated that approximately 481,258 COVID-EIDLs and 81,782 PPP loans were noncompliant with DCIA requirements for the fiscal year ended September 30, 2025.

In addition, management did not design and implement effective controls to identify and refer delinquent loans that meet the criteria for referral to Treasury to ensure compliance with DCIA requirements.

The conditions identified were caused by inadequate design and implementation of risk assessment and monitoring processes that enable management to identify, analyze, and respond to the relevant risks of noncompliance and to ensure delinquent loans were identified and referred to Treasury within the required timeframe. Also, the deficiencies were caused by inadequate system configuration in place to refer delinquent loans to Treasury within the appropriate timeframe.

The following criteria were considered with respect to the matter described in the preceding paragraphs:

- DCIA
- GAO's Green Book, Principle 9, Identify, Analyze, and Respond to Change; Principle 10, Design Control Activities; and Principle 16, Performing Monitoring Activities.

As a result of delays and absence of referrals of delinquent borrowers and guarantors to Treasury, SBA did not comply with DCIA requirements.

<u>Recommendations – DCIA</u>

We recommend the Administrator coordinate with the Associate Administrator for the Office of Capital Access to:

17. Reevaluate delinquency policies and procedures, such as system controls and configurations, to ensure borrowers are notified timely of delinquency, and if applicable, subsequently referred within the required timeframe. **(2024, recommendation 52)**
18. Update risk assessment and monitoring controls to address and mitigate noncompliance risks related to DCIA. **(2024, recommendation 51)**
19. Document the review and assessment of current and prospective processes and policies to ensure they address compliance risks. **(2024, recommendation 50)**

B. Federal Managers' Financial Integrity Act of 1982 (FMFIA)

Management did not perform an internal control assessment as required under FMFIA and did not comply with FMFIA and the related OMB Circular No. A-123 requirements. Specifically, management did not:

- Document a comprehensive evaluation of internal control over financial reporting regarding current programs while giving consideration to relevant risks during the fiscal year.

- Design or establish a formal internal control program, including the design and implementation of risk assessment processes and testing across SBA programs and functions.

- Ensure their own assurance process was sufficient to identify material weaknesses and significant deficiencies that existed during the fiscal year in addition to those identified by external auditors.

This noncompliance was caused by operational challenges that impeded the agency's ability to support effective entity level controls and FMFIA compliance throughout the fiscal year. A transition plan was under development at the end of the fiscal year to properly prioritize and execute the agency's enterprise risk management process, which led to insufficient oversight and validation in management's assurance process.

The following criteria were considered with respect to the matter described in the preceding paragraphs:

- Section 2 of FMFIA

- OMB Circular No. A-123, Management's Responsibility for Enterprise Risk Management and Internal Control

Management did not comply with FMFIA and the related OMB Circular No. A-123 requirements, which may lead to not identifying the appropriate risks and key controls, and not detecting internal control or compliance deficiencies. The risk of not detecting and correcting control deficiencies could result in misstatements to the consolidated financial statement.

<u>Recommendations – FMFIA</u>

We recommend the Administrator coordinate with the Chief Financial Officer to:

20. Strengthen controls, such as entity level controls, manual controls, general information technology controls, and system application controls by developing standardized procedures for assessing and reporting on internal controls across all offices within SBA. **(2024, recommendation 53)**

21. Collaborate with appropriate program office management to assess internal control testing results and revise corrective action plans to remediate identified control deficiencies. **(2024, recommendation 54)**

22. Update existing policies and implement effective monitoring controls that incorporate independent validations of program offices' Statement of Assurance (SOA) process. Ensure that SOAs from all program offices are thoroughly documented and independently reviewed for completeness and accuracy, providing a reliable basis for the Administrator's SOA. **(2024, recommendation 55)**

C. Federal Financial Management Improvement Act of 1996 (FFMIA)

Management did not establish and maintain financial management systems that substantially comply with the following FFMIA requirements:

- Federal Financial Management Systems Requirements. As discussed in Appendix I – Material Weaknesses, control deficiencies over direct and guaranty loan transactions do not enable reliable and accurate financial reporting, do not ensure compliance objectives are met.

- Federal Accounting Standards. The deficiencies identified and reported in Appendix I – Material Weaknesses, provide an indication that SBA's financial systems were substantially noncompliant with applicable federal accounting standards. For example, management did not apply consistent accounting treatment over the COVID-19 EIDL and PPP loan programs.

Management did not substantially meet FFMIA requirements because of the reasons discussed in Appendix I – Material Weaknesses and due to an inadequate agency-wide control environment to implement the provisions of the CARES Act and related legislation with sufficiently designed and implemented controls.

The following criteria were considered with respect to the matter described in the preceding paragraphs:

- Section 803(a) of FFMIA

- GAO's Green Book, Section 2, Establishing an Effective Internal Control System

- Appendix D to OMB Circular No. A-123, Compliance with the Federal Financial Management Improvement Act of 1996

Management did not substantially comply with FFMIA, increasing the risk that transactions are incorrectly recorded to the general ledger, impacting the completeness, existence, and accuracy of the balances in the consolidated financial statement.

Recommendations – FFMIA

We recommend the Administrator coordinate with the Chief Financial Officer to:

23. Address the control deficiencies over transactions arising from the implementation of the CARES Act and related legislation by working with the Office of Capital Access and the Office of Disaster Recovery and Resilience to implement the recommendations in Appendix I – Material Weaknesses. **(2024, recommendation 56)**

CFO Response to Audit Report on FY 2025 Financial Statements

DATE: January 21, 2026

TO: William Kirk, Inspector General

FROM: Nathan Davis, Chief Financial Officer and Chief Risk Officer

SUBJECT: FY 2025 Financial Statement Audit

The Small Business Administration (SBA) has reviewed the Independent Auditors' Report issued by KPMG, which includes a disclaimer of opinion on the Agency's FY 2025 Consolidated Balance Sheet. The independent audit of the Agency's financial statements and related processes is a core component of SBA's financial management program, and management takes the results of this audit seriously.

The FY 2025 Agency Financial Report (AFR) reflects meaningful improvements resulting from sustained leadership focus, cross-functional collaboration and disciplined execution of corrective action plans. During the fiscal year, material weaknesses related to Controls over Service Organizations and Controls over General Information Technology were fully remediated. In addition, significant deficiencies related to Controls over Payments for Debt Relief and Controls over Reporting of Contingencies were also fully remediated. Further, the material weakness related to Controls over Monitoring of Restaurant Revitalization Fund and Shuttered Venues Operators Grant Programs was downgraded to a significant deficiency. These outcomes demonstrate tangible progress in strengthening SBA's financial management and internal control environment.

The auditors identified material weaknesses related to the internal controls over four areas: COVID-19 Economic Injury Disaster Loans (EIDL), Paycheck Protection Program (PPP) Loan Program, Subsidy Reestimate, and Entity Level Controls. Management agrees that certain conditions identified in the audit report and associated with these material weaknesses were the result of the auditors' inability to obtain sufficient and appropriate audit evidence. However, management does not fully concur with several underlying characterizations and contributing factors that are presented within the audit report for the reported material weaknesses related to internal controls over COVID-19 EIDL and Subsidy Re-estimate. In particular,

- Management disagrees with the characterization that the COVID-19 EIDL population analysis was inadequate as of the balance sheet date (September 30, 2025). Management assessed the population and concluded that it was complete and appropriate for financial reporting purposes. Management acknowledges, however, that certain data attributes supporting this analysis were not available in the form requested by KPMG at the time of their audit procedures (December 2025), due to the inability to reproduce the population at a prior point in time. This limitation reflects challenges associated with retrospective audit evidence requirements rather than deficiencies in management's assessment as of the reporting date. (Material Weakness 1)

Additionally, management disagrees with the auditors' conclusions regarding certain review controls. SBA does not believe that additional reviews of the population for potential fraud or identity theft would alter management's assessment of the completeness of the population for financial reporting purposes. (Material Weakness 1, Recommendation 1)

Management agrees that a material weakness exists related to controls over COVID-19 EIDLs because of inconsistent accounting treatment of the COVID EIDL population and the need for improvements in the controls over the reinstatement process implemented in the fourth quarter of FY 2025. (Material Weakness 1)

- Management does not believe that there is a clear or likely indicator that SBA does not have adequate controls over the data inputs used in the 7(a) Loan Guaranty subsidy reestimate model. The conditions noted by the auditor in the reported subsidy reestimate material weakness were primarily due to the timing of when the audit procedure was initiated and performed; the complexity involved with obtaining documentation from third parties, which increases the amount of time necessary to obtain supporting documents; and the fact that this was the first time this audit procedure was performed, which led to a "learning curve" for both the auditor and SBA as to the best approach for testing and obtaining documentation for audit evidence. Although SBA does not agree that the conditions reported are likely to result in a material misstatement, SBA is committed to identifying and implementing a method that improves SBA's ability to demonstrate evidence of adequate support and controls over the over the data elements in a timely manner. (Material Weakness 3)

  Additionally, management disagrees with the inclusion of PPP and COVID-19 EIDL within the reported material weakness related to controls over the subsidy reestimate. The underlying conditions and impacts associated with PPP and COVID-19 EIDL are already reflected within Material Weaknesses 1 and 2. Because the root causes and corrective actions overlap, inclusion within the subsidy reestimate material weakness is duplicative and may be misleading. Additionally, as indicated above, management disagrees with the auditor regarding COVID-19 EIDL review controls. SBA does not believe additional reviews of the population would alter its assessment of completeness of the population. (Material Weakness 3, Recommendation 9)

- Management does not agree that SBA is not in substantial compliance with the FFMIA. SBA's core financial management systems are substantially compliant with Federal financial management systems requirements, applicable Federal accounting standards and

USSGL at the transaction level. The deficiencies the auditor cited as causing FFMIA non-compliance were due to factors external to the core financial management systems, rather than a limitation in the system's design or ability to prepare financial statements, disclosures and related information. For example, SBA's assessment is that the material weaknesses cited by the auditor are related to the COVID-19 EIDL and PPP programs are the result of material uncertainty regarding completeness of populations and potential funds recovery policy decisions. As such, management does not believe this constitutes substantial FFMIA noncompliance. (Compliance C, Recommendation 23)

Management respects the independent role of the auditors and values their perspectives, and we remain committed to constructive engagement to resolve these matters. At the same time, management believes it is important to distinguish between limitations associated with large-scale COVID-19 pandemic-era programs, which were executed under emergency conditions, and the effectiveness of SBA's current control environment governing ongoing operations.

Notwithstanding these differences, management recognizes the seriousness of the conditions contributing to the disclaimer of opinion. SBA remains focused on sustaining the improvements achieved in FY 2025 and building upon them in the year ahead. Management will continue to evaluate auditor recommendations and, where appropriate, refine our processes and controls to address identified areas of concern.

We appreciate the efforts of the Office of the Inspector General and KPMG, and we remain committed to continued progress in strengthening SBA's financial management and oversight capabilities.

Appendix V

Auditors' Response to Management's Response

We acknowledge SBA management's response to our Independent Auditors' Report, presented in Attachment IV, and commend their commitment to financial management and the accountability for and transparency of their programs. SBA management agreed with two of the areas of material weakness included in our report, *Controls over Paycheck Protection Program (PPP) Loan Program Need Improvement* and *Entity Level Controls Need Improvement*. However, management did not agree in part with the other two areas of material weaknesses included in our report, *Controls over Coronavirus Disease 2019 (COVID-19) Economic Injury Disaster Loans (EIDLs) Need Improvement* and *Controls over Subsidy Reestimate Need Improvement.* Additionally, management did not agree with our finding over the agency's substantial noncompliance with *Federal Financial Management Improvement Act of 1996 (FFMIA).*

We have reviewed management's responses and have determined that all aspects of the material weaknesses in internal control over financial reporting and substantial noncompliance with FFMIA remain appropriate. We provide the following additional information related to the *Controls over Coronavirus Disease 2019 (COVID-19) Economic Injury Disaster Loans (EIDLs) Need Improvement*, *Controls over Subsidy Reestimate Need Improvement,* and our findings related to substantial noncompliance with the *Federal Financial Management Improvement Act of 1996 (FFMIA).*

In the area of COVID-19 EIDL:

- Management indicated that they assessed the COVID-19 EIDL portfolio and determined it was complete and accurate. However, the data supporting management's analysis and conclusion did not substantiate management's analysis performed. We identified examples where loans were included in the COVID-19 EIDL population and the Credit Program Receivable balance at September 30, 2025, however these loans were recorded with a zero balance in management's analysis. As a result, the data utilized in management's analysis did not support management's conclusion regarding the completeness and accuracy of the COVID-19 EIDL population. Further, management indicated that their inability to provide supporting evidence over the COVID-19 EIDL population was due to an audit evidence requirement. However, OMB Circular A-123, *Management's Responsibility for Internal Control*, requires management to establish and maintain effective internal controls to ensure reliable financial reporting. As part of this responsibility, management must maintain sufficient documentation to support its financial transactions and account balances.

- Management indicated that they believe additional review would not alter their assessment of the completeness of the COVID-19 EIDL population. However, management's review control is not designed to remove COVID-19 EIDLs with similar eligibility concerns from the portfolio in a consistent manner. We identified COVID-19 EIDLs with similar eligibility characteristics that were both included in the Credit Program Receivable balance as of September 30, 2025, and written off to be excluded from this balance, which resulted in inconsistent accounting treatment. As a result, management did not design and implement adequate monitoring controls and review processes to support the completeness and accuracy of the COVID-19 EIDL portfolio and related financial data as of year-end.

In the area of the Subsidy Reestimate:

- Management disagrees with our finding that SBA did not have adequate controls over the data inputs. However, management did not provide the necessary supporting documentation for the integral data related to borrower characteristics and the underlying loans used in the 7(a) Loan Guaranty subsidy reestimate model. Management attributed the material weakness in the 7(a) Loan Guaranty reestimate to the nature and timing of the audit procedures and complexity involved in obtaining supporting documentation from third parties. However, it is management's responsibility to maintain, support, and report the information for the loan guaranty reestimate. The material weakness resulted from management's ineffective coordination with third parties to obtain the necessary supporting documentation for the relevant data elements. As a result, the loan guaranty reestimate material weakness existed as of September 30, 2025.

- Management indicated that elements of material weakness entitled *Controls over Subsidy Reestimate Need Improvement* are already covered by material weaknesses entitled *Controls Over COVID-19 EIDLs Need Improvement* and *Controls Over PPP Loan Program Need Improvement*. This is not accurate, as the material weakness entitled *Controls Over Subsidy Reestimate Need Improvement* specifically pertains to the controls over the data inputs used in the subsidy reestimate models, while the material weaknesses entitled *Controls Over COVID-19 EIDLs Need Improvement* and *Controls Over PPP Loan Program Need Improvement* address separate findings relating to the controls over the COVID-19 EIDL portfolio and controls over the post-payment review of forgiven PPP loans, respectively.

In the area of FFMIA:

- Management indicated that they believe SBA's financial management systems are in substantial compliance with Federal financial management systems requirements and Federal accounting standards. FFMIA defines Federal financial management systems as software, hardware, processes, procedures, and controls necessary to support financial management. In our evaluation of management's compliance with FFMIA and based on the Basis for Disclaimer of Opinion and the material weaknesses identified, we determined that management was unable to demonstrate substantial compliance with Federal financial management systems requirements. Additionally, management was unable to consistently, completely, and accurately record and account for balances and transactions in accordance with generally accepted accounting principles, resulting in substantial noncompliance with Federal accounting standards.