

U.S. SMALL BUSINESS ADMINISTRATION

OFFICE OF INSPECTOR GENERAL

SBA's Desktop Loss Verification Process



Verification Inspection

Report 26-05

February 24, 2026



Make a Difference

To report fraud, waste, or mismanagement, contact the U.S. Small Business Administration's Office of Inspector General Hotline at <https://www.sba.gov/oig/hotline>. You can also write to the U.S. Small Business Administration, Office of Inspector General, 409 Third Street, SW (5th Floor), Washington, DC 20416. In accordance with the Inspector General Act of 1978, codified as amended at 5 U.S. Code §§ 407(b) and 420(b)(2)(B), confidentiality of a complainant's personally identifying information is mandatory, absent express consent by the complainant authorizing the release of such information.

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.

Background

The U.S. Small Business Administration's (SBA) direct disaster assistance loans are the primary form of federal assistance for repairing and rebuilding nonfarm, private sector losses following declared disasters. SBA provides long-term financial assistance to businesses of all sizes, nonprofits, homeowners, and renters following a declared disaster. SBA provides low-interest loans for up to \$500,000 to repair or replace a homeowner's primary residence to its pre-disaster condition and up to \$100,000 to repair or replace a homeowner's or renter's personal property.

Office of Inspector General (OIG) [Report 19-23](#), *Audit of SBA's Desktop Loss Verification Process*, found that SBA's process helped the agency meet its goals for processing disaster loan applications related to Hurricanes Harvey, Irma, and Maria in a timely manner. However, we found internal controls needed to be strengthened to minimize the risk of fraud and to ensure the integrity of the loss verification process.

Specifically, SBA did not consistently validate the cause and extent of damage, as well as repair and replacement costs, before disbursing loan funds. SBA relied on Federal Emergency Management Agency (FEMA) reports that lacked crucial information necessary for SBA employees to confirm the damages and losses reported in loan applications. The loan files we reviewed did not contain sufficient documentation to support why SBA made its decisions to make those loans. Since SBA didn't validate the cause and extent of damages, which is a determining factor in making a disaster assistance loan, there was no assurance that the loans were only provided to applicants affected by Hurricanes Harvey, Irma, or Maria. Based on these findings, OIG made four recommendations to improve the disaster loan verification process.

We initiated this verification inspection to follow up on the four recommendations from Report 19-23 and determine whether SBA's corrective actions were still operating as intended.

Summary of Results

SBA took corrective actions in response to our prior audit and implemented a process to ensure all disaster assistance loans were verified before disbursing funds. However, the corrective actions the agency made in response to our prior audit no longer exist because SBA changed its loan processing management system and developed new processes. In 2019, SBA utilized the Disaster Credit Management System to manage loan processing. In 2023, 4 years after our initial audit, SBA switched disaster assistance loan processing to the Uniform Lending Platform (ULP). During this review, we found the same issues we identified in our prior audit because SBA did

not continue the processes implemented in response to OIG recommendations when transitioning to its new loan processing platform.

Under SBA’s current procedures¹ associated with the new ULP system, SBA may disburse a disaster assistance loan without an on-site inspection to verify the cause and extent of damages from a disaster. Specifically, loss verifiers may review the loss assessment, documents submitted by the applicant, and third-party data, and adjust the applicant’s reported losses at their discretion. SBA is not required to conduct an on-site inspection to evaluate the extent of damage to the applicant’s property or to conduct quality control audits of loss assessments. Because SBA changed its loan processing management system and developed new processes and procedures, a more comprehensive follow-up audit is warranted to evaluate internal controls. As a result, we will not reopen the recommendations in this verification inspection but will incorporate our findings into a future audit of SBA’s disaster assistance loan loss verification process. SBA elected not to provide a formal response to this report.

Report 19-23: Audit of SBA’s Desktop Loss Verification Process

The following information details the original findings, recommendations, and SBA’s corrective actions for Recommendations 1 through 4.

Recommendation 1

OIG Finding	OIG Recommendation	SBA Corrective Action(s)
Home loan applications approved after June 1, 2018 were disbursed before the post desktop reviews were conducted. This was because the requests for post desktop reviews were generated automatically by the system, and their timing did not align with SBA’s requirement for post desktop reviews to be conducted prior to loan funds being disbursed.	Update Disaster Credit Management System to coincide with the SBA policies and procedures that require post desktop reviews to be conducted after loan approval and prior to disbursements.	OIG closed this recommendation on September 30, 2020 because SBA implemented procedures* requiring employees to review the disaster losses reported on applications prior to the preparation of loan documents and funds being disbursed.

* SBA, 20-41, “Property Details Document and Change to Loss Verification’s Desktop and Post Desktop Reviews SOP 50 30 9 § 4.1, 7.20 A 1, 9.4 A” (September 28, 2020).

¹ SBA Office of Capital Access, “OCA SOP Numbered Memo #24-31, Revision of Loss Verification,” (July 26, 2024).

Inspection Result

SBA made corrective actions in response to our prior audit and implemented a process to require on-site inspections to verify damages claimed by applicants before funds were disbursed, but the agency has since changed its processes. In 2023, SBA eliminated the previously established requirement for all on-site inspections, negating the internal controls we recommended in 2019 to safeguard taxpayer funds. As a result, we cannot evaluate the prior corrective actions and procedures for effectiveness because they no longer exist.

Recommendation 2

OIG Finding	OIG Recommendation	SBA Corrective Action(s)
SBA disbursed 36,448 of 46,322, or 79 percent, of loan funds, totaling \$585,737,678, before conducting post desktop reviews, thus without validating the cause, extent, and estimated cost of damages.	Establish controls to ensure post desktop reviews are conducted for all approved loans \$25,000 or less prior to any disbursements of funds, as required.	OIG closed this recommendation on September 30, 2020 because SBA implemented procedures to conduct on-site inspections of disaster damage claimed by applicants prior to funds being disbursed for all loans approved for \$25,000 or less.

Inspection Result

SBA made corrective actions in response to our prior audit and implemented a process to require on-site inspections to verify damages claimed by applicants before funds were disbursed, but the agency has since changed its processes. In 2023, SBA eliminated the previously established requirement for all on-site inspections, negating the internal controls we recommended in 2019 to safeguard taxpayer funds. As a result, we cannot evaluate the prior corrective actions and procedures for effectiveness because they no longer exist.

Recommendation 3

OIG Finding	OIG Recommendation	SBA Corrective Action(s)
SBA officials did not ensure that the FEMA on-site inspection reports were an appropriate tool to substitute for SBA conducting its own on-site inspections for the post desktop reviews.	Ensure that tools or methods used to substitute SBA on-site inspections for post desktop reviews contain appropriate and sufficient information needed to validate the damages.	OIG closed this recommendation on September 30, 2020 because SBA implemented procedures requiring verification of the damages and losses by SBA loss verifiers. In circumstances where areas are inaccessible and inspections are not deemed feasible within a reasonable timeframe, the Associate Administrator may approve an alternative method of damage verification.

Inspection Result

SBA made corrective actions in response to our prior audit and implemented a process to require on-site inspections to verify damages claimed by applicants before funds were disbursed, but the agency has since changed its processes. In 2023, SBA eliminated the previously established requirement for all on-site inspections, negating the internal controls we recommended in 2019 to safeguard taxpayer funds. As a result, we cannot evaluate the prior corrective actions and procedures for effectiveness because they no longer exist.

Recommendation 4

OIG Finding	OIG Recommendation	SBA Corrective Action(s)
SBA did not maintain sufficient documentation for 59,318 approved loans to support how the loss verifier validated the cause and extent of damage reported in the initial desktop verification.	Implement controls to require loss verifiers to provide sufficient documentation to support their post desktop review conclusions regarding the validity of the initial desktop verification and their assessment of the extent and cost of damages and losses to restore the property to its pre-disaster condition.	OIG closed this recommendation on October 1, 2020 because SBA released Memo 20-35.* The training materials Module 6, Post Desktop Reviews, include updated instructions for loss verifiers on how to complete post desktop reviews, generate comparison inspections, and document conclusions.

* SBA, 20-35, "2020 Loss Verification Training Materials" (September 4, 2020).

Inspection Result

SBA currently uses an automated process for verifying an applicant's losses from the disaster in ULP. If discrepancies arise during this automated review, SBA loss verifiers conduct a manual review of the application.

We reviewed the files for 28 SBA disaster assistance loans manually approved in fiscal year 2025 and found 12 were missing photographs of the claimed damage. Only 1 of the 28 files contained contractor estimates for cost of repair or replacement, insurance reports, or repair receipts. The loss verifiers' comments in the files were often minimal in supporting their conclusions from the documentation submitted.

Currently, specific guidance does not exist outlining what documentation SBA must obtain to verify damage caused by a declared disaster in support of the loss verifiers' manual review conclusions. As a result, we have determined that the corrective actions in place are not functioning as intended and no longer meet the intent of Recommendation 4.

Scope and Methodology

The scope of this verification inspection included a review of all four recommendations made in SBA OIG Report 19-23, *Audit of SBA's Desktop Loss Verification Process*. These recommendations were previously closed based on evidence SBA provided to OIG implementing corrective actions, which addressed issues identified in the audit. For this verification inspection, we reviewed SBA management's documentation and justification of the corrective actions taken to close the four recommendations. Our objective was to follow up on recommendations from Report 19-23 and determine whether SBA's corrective actions were still operating as intended. To answer our objective, we reviewed relevant legislation, SBA Standard Operating Procedures for the desktop loss verification process, its Loss Verifier's Manual for Damage Verification, and guidance for the lending platform procedures. We interviewed SBA management responsible for managing the Damage Verification Center and Processing Disbursement Center and some of their staff. We reviewed 28 disaster loans approved in fiscal year 2025 that underwent a manual review to assess whether the loss verifier provided adequate documentation to support their conclusions.

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