



**U.S. SMALL BUSINESS ADMINISTRATION  
OFFICE OF INSPECTOR GENERAL  
WASHINGTON, D.C. 20416**

**DATE:** May 12, 2021

**TO:** Isabella Casillas Guzman  
Administrator

**FROM:** Hannibal "Mike" Ware   
Inspector General

**SUBJECT:** Independent Auditors' Report on SBA's Compliance with Payment Integrity Information Act (Report 21-16)

We contracted with the independent certified public accounting firm KPMG LLP (KPMG) to conduct a performance audit, as required by the Payment Integrity Information Act of 2019. The objectives of the engagement were to review the payment integrity section of the Small Business Administration's (SBA's) Fiscal Year 2020 Agency Financial Report to determine whether the agency was in compliance with the Act. KPMG also evaluated the agency's accuracy and completeness of reporting and performance in preventing and reducing improper payments.

The attached independent auditors' report presents KPMG's findings on the agency's improper payment reporting required under the Act. KPMG reported that SBA is compliant with four of the six reporting requirements in the Act. However, SBA is not compliant with the Act because the Disaster Direct Loan Program reported an improper payments rate that exceeded the 10 percent threshold for compliance and did not demonstrate improvements as evidenced by not meeting its planned FY 2020 improper payments target reduction.

In addition, KPMG found the agency needs to improve the completeness and accuracy of improper payment reporting. The agency also needs to improve controls to prevent and reduce improper payments.

We reviewed a copy of KPMG's report and related documentation. Our review was not intended to enable us to express—and we do not express—an opinion on SBA's FY 2020 improper payment reporting or KPMG's conclusions about the effectiveness of internal controls.

However, our review did not find any instances in which KPMG did not comply, in all material respects, with the U.S. Government Accountability Office's Government Auditing Standards as issued by the Comptroller General of the United States.

KPMG conducted the engagement in accordance with consulting services standards established by the American Institute of Certified Public Accountants, the standards applicable to government performance audits, and the Council of the Inspectors General on Integrity and Efficiency Guidance for Payment Integrity Information Act Compliance Reviews.

We have also provided a draft of KPMG's report to SBA's Acting Chief Financial Officer and

the Associate Administrators for Disaster Assistance and Capital Access, who concurred with its findings and recommendations and agreed to implement the recommendations. We included agency comments in Attachment I of this report.

We appreciate the cooperation and assistance of SBA and KPMG. Should you or your staff have any questions, please contact me at (202) 205-6586 or Jeffrey R. Brindle, Director of the Information Technology, Financial Management and Operations Group at (202) 205-7490.

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Attachment



## Performance Audit of the U.S. Small Business Administration's Fiscal Year 2020 Compliance with the Payment Integrity Information Act of 2019 (PIIA)

Prepared for: U.S. Small Business Administration, Office of Inspector General

Date: May 11, 2021

KPMG LLP  
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Administrator  
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This report presents the results of our work conducted to address the performance audit objectives related to the U.S. Small Business Administration's (SBA's) compliance with the requirements contained in the Payment Integrity Information Act of 2019 (PIIA), section 3351(2). We performed our work between January 11, 2021 and May 11, 2021, and our results are as of May 11, 2021.

We conducted this performance audit in accordance with the standards applicable to performance audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

In addition to *Government Auditing Standards*, we conducted this performance audit in accordance with Consulting Services Standards established by the American Institute of Certified Public Accountants (AICPA). This performance audit did not constitute an audit of financial statements or an attestation level report as defined under generally accepted government auditing standards and the AICPA standards for attestation engagements.

The audit objectives of our work were to<sup>1</sup>:

1. Review the payment integrity section of the fiscal year (FY) 2020 agency financial report (AFR) and accompanying materials to determine whether SBA is in compliance with PIIA reporting requirements;
2. Evaluate the accuracy and completeness of SBA's reporting; and
3. Evaluate SBA's performance to prevent and reduce improper payments.

Based on the results of our performance audit procedures, we have met our audit objectives.

For objective 1, we determined that SBA did not meet the minimum reporting requirements to be compliant with PIIA. Specifically, the Disaster Direct Loan Program disbursements was not compliant with PIIA because (1) the estimated 11.98 percent for the improper payments rate exceeded the 10 percent rate necessary to be compliant with PIIA and (2) they did not demonstrate improvement by not meeting the 5.67 percent reduction target for FY 2020 (see Table 1).

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<sup>1</sup> The Council of the Inspectors General on Integrity and Efficiency Guidance for Payment Integrity Information Act Compliance Reviews (dated November 2020) provides guidance regarding the fieldwork and reporting related to these performance audit objectives.



**Table 1. Summary of SBA’s PIIA Compliance**

<b>Program or Activity</b>	<b>Published Improper Payments Information within the Posted AFR</b>	<b>Performed Risk Assessment</b>	<b>Published Improper Payment Estimates</b>	<b>Published Programmatic Corrective Action Plans</b>	<b>Published and Developed a Plan to Meet the Reduction Targets and Demonstrated Improvements</b>	<b>Reported Improper Payment Rate of Less Than 10 Percent</b>
<b>Section 7(a) Loan Guaranty Purchases</b>	Compliant	Compliant	Compliant	Compliant	Compliant	Compliant
<b>Section 7(a) Loan Guaranty Approvals</b>	Compliant	Compliant	Compliant	Compliant	Compliant	Compliant
<b>Section 504 CDC Loan Guaranty Approvals</b>	Compliant	Compliant	Compliant	Compliant	Compliant	Compliant
<b>Disaster Direct Loan Disbursements</b>	Compliant	Compliant	Compliant	Compliant	<b>Not Compliant</b>	<b>Not Compliant</b>
<b>Supplemental Disaster Relief Administrative Funds - Payroll</b>	Compliant	Compliant	Compliant	Not Applicable	Compliant	Compliant
<b>Supplemental Disaster Relief Administrative Funds - Travel</b>	Compliant	Compliant	Compliant	Not Applicable	Compliant	Compliant

For objective 2, with respect to the accuracy and completeness of SBA’s reporting, we determined SBA developed and published the gross improper payment rate estimates for each program and activity (program) using appropriate sampling and estimation plans given program characteristics. However, we identified areas of improvement. Specifically, the populations of outlays and disclosures for 7(a) loan guaranty purchases, 7(a) loan guaranty approvals, 504 CDC loan guaranty approvals, and Disaster Direct Loan Program disbursements included as part of SBA’s reporting were not accurate and complete. Section IV contains details of our findings, identified internal control deficiencies, and related recommendations.

For objective 3, with respect to SBA’s performance to prevent and reduce improper payments, we determined that from FY 2019 to FY 2020, SBA had a reduction in the improper payment estimate for all programs except for 7(a) loan guaranty purchases, 504 CDC loan guaranty approvals, and the Disaster Direct Loan Program disbursements. Section IV contains details of our findings, identified internal control deficiencies, and related recommendations.

KPMG cautions that projecting the results of our performance audit, as noted above, to future periods is subject to the risks that controls may become inadequate because of changes in conditions or because compliance with controls may deteriorate.

SBA’s response to the findings identified in our performance audit is presented in Attachment I. SBA’s response was not subjected to the auditing procedures applied in this performance audit and, accordingly, we are unable to determine if management’s response provides a reasonable basis for our findings and conclusions based on our audit objectives.



This report is intended solely for the use of the U.S. Small Business Administration and Inspector General, Comptroller General, the Office of Management and Budget, and relevant congressional committees; and is not intended to be and should not be relied upon by anyone other than these specified parties.

Very truly yours,

*KPMG LLP*

May 11, 2021

## I. BACKGROUND

The *Improper Payments Elimination and Recovery Act of 2010* (IPERA) (Public Law 111-204) amended the *Improper Payments Information Act of 2002* and required agencies to identify and review all programs and activities (programs) they administer that may be susceptible to significant improper payments based on guidance provided by the Office of Management and Budget (OMB). For programs with estimated improper payments, each agency was required to prepare a report on actions it has taken or plans to take to recover improper payments and prevent future improper payments. In addition, section 3 of IPERA required Inspectors General to review each agency's improper payment reporting and issue an annual report.

On March 2, 2020, the *Payment Integrity Information Act of 2019* (PIIA) (Public Law 116-117) repealed IPERA (and other laws) but set forth similar improper payment reporting requirements, including an annual compliance report by Inspectors General.

PIIA requires an annual compliance report by agency Inspectors General and defines what constitutes compliance with the requirements. An agency has met the PIIA compliance requirements if they:

- published improper payments information within an agency financial report (AFR) or performance and accountability report (PAR) for the fiscal year ended September 30, 2020, and posted that report and any accompanying materials required by the OMB on the agency website;
- conducted a program specific risk assessment for each program or activity that conforms with section 3352(a) of PIIA (if required);
- published improper payment estimates for all programs and activities identified as susceptible to significant improper payments under its risk assessment under section 3352(a) of PIIA (if required);
- published programmatic corrective action plans under section 3352(d) of PIIA in the AFR or PAR or the accompanying materials (if required);
- published reduction targets under section 3352(d) of PIIA, developed a plan to meet the reduction targets, and demonstrated improvements for each program assessed to be at risk and estimated for improper payments (if required and applicable); and
- reported a gross improper payment rate of less than 10 percent for each program and activity for which an improper payment estimate was published under section 3352(c) of PIIA.

If an agency does not meet one or more of the six requirements above, then it is not compliant under PIIA.

On June 26, 2018 OMB issued Memorandum M-18-20, Appendix C to OMB Circular No. A-123, *Requirements for Payment Integrity Improvement* (OMB Memorandum M-18-20), as updated implementation guidance to federal agencies. OMB Memorandum M-18-20 requires agencies to report improper payment estimates, root causes of the improper payments, corrective actions taken, and the recapture of improper payments identified. Agencies must provide reasonable assurance that controls are in place and working. OMB Memorandum M-18-20 further provides that agency Inspectors General should review their agency's annual AFR and accompanying materials to assess the following:

- the accuracy and completeness of agency reporting

- agency's performance in reducing and recapturing improper payments
- whether agency corrective action plans are focused on the true root cause, are actually reducing improper payments, and are implemented effectively
- agency efforts to prevent and reduce improper payments

OMB revised Appendix C to OMB Circular No. A-123 (March 2021). Unless otherwise noted in the revised guidance, the requirements found in the guidance are effective starting in FY 2021. Therefore, we performed our FY 2020 annual compliance review using a combination of the requirements in Appendix C to OMB Circular No. A-123 (OMB Memorandum M-18-20), OMB Circular No. A-136, *Financial Reporting Requirements* (August 2020), OMB Annual Data Call Instructions, OMB Payment Integrity Question and Answer Platform, and the *Council of the Inspectors General on Integrity and Efficiency Guidance for Payment Integrity Information Act Compliance Reviews* (November 2020).

## II. OBJECTIVES, SCOPE, AND METHODOLOGY

### Objectives

We conducted this audit to:

1. Evaluate whether SBA is in compliance with the reporting requirements contained in section 3351(2) of PIIA and OMB Memorandum M-18-20;
2. Evaluate the accuracy and completeness of SBA's reporting; and
3. Evaluate SBA's performance in preventing and reducing improper payments.

### Scope and Methodology

The scope of our performance audit was SBA's FY 2020 improper payments and reporting data as presented in the payment integrity section of the FY 2020 AFR and any accompanying materials. SBA's improper payment reporting in the FY 2020 AFR and accompanying materials was not impacted by the enactment of the *Coronavirus Aid, Relief, and Economic Security Act of 2020* and related legislation as the latest 12-month reporting period for the programs presented ended on March 31, 2020.

During our planning and testing phases, and to achieve our objectives, we interviewed staff from SBA's Offices of Internal Control, Capital Access, and Disaster Assistance that performed the improper payment reviews, collected and inspected auditee-provided documentation and evidence, and participated in process and control walkthroughs with SBA staff responsible for the programs identified as susceptible to significant improper payments. As part of these procedures, we performed the following:

- obtained an understanding of SBA's improper payments reporting process and relevant controls through inquiries with management;
- reviewed SBA's policies and procedures over the improper payments reporting process;
- reviewed management's risk assessment for agency programs identified as susceptible to significant improper payments;

- reviewed for significant changes in legislation or increases in funding levels for each program or activity;
- reviewed and evaluated the statistically determined improper payments estimates for each program deemed susceptible to improper payments in consultation with a statistician;
- reviewed and evaluated the population of outlays for each program for completeness and accuracy;
- reviewed and evaluated SBA's payment integrity section in the AFR and accompanying materials for completeness and accuracy;
- evaluated the corrective actions published and determined whether they focus on the true root cause, and are implemented;
- evaluated the root cause category classifications and determined whether SBA accurately classified the true root causes of improper payments, and
- obtained OMB waivers/exemptions for improper payments reporting (if applicable).

In carrying out this methodology, we obtained sufficient, appropriate evidence to provide a reasonable basis for our conclusions related to our audit objectives.

### III. RESULTS AND CONCLUSIONS

For objective 1, based on our audit procedures performed, we determined SBA was not compliant with all six PIIA reporting requirements. See below for additional details of our results.

Requirement 1 – Determine if SBA published improper payments information within the AFR for the fiscal year ended September 30, 2020 and posted that report and any accompanying materials required by OMB on the Agency website.

- Compliant. SBA published its FY 2020 AFR on December 18, 2020 and posted the AFR on the agency's website at [www.sba.gov](http://www.sba.gov). The AFR included a payment integrity section and OMB's required sections including the Fraud Reduction Report.

Requirement 2 – Determine if SBA conducted a program specific risk assessment for each program or activity that conforms with section 3352(a) of PIIA.

- Compliant. In accordance with OMB Memorandum M-18-20, SBA conducts a qualitative or quantitative risk assessment at least once every three years for all programs that exceed \$10 million in disbursements or losses in a fiscal year in order to identify programs susceptible to significant improper payments. If a program or activity experiences a significant change in legislation and/or a significant increase in its funding level, SBA will perform an assessment even if it is less than three years since the last assessment.

SBA conducted risk assessments for all programs, including payments made to employees, for susceptibility to improper payments in FY 2020. SBA did not identify any significant changes in legislation or increases in funding level for any program or activity during the reporting period of FY 2020 (as of March 31, 2020). SBA did note that the Additional Supplemental Appropriations for Disaster Relief Requirements Act of 2017 deemed all programs receiving funds to be susceptible to significant improper payments

for purposes of section 3352(a) of PIIA. As such, SBA assessed supplemental disaster relief administrative funds – payroll and supplemental disaster relief administrative funds – travel as susceptible for improper payments. In addition, SBA continued to identify 7(a) loan guaranty purchases, 7(a) loan guaranty approvals, 504 CDC loan guaranty approvals, and the Disaster Direct Loan Program disbursements as susceptible to improper payments.

Requirement 3 – Determine if SBA published improper payment estimates for all programs identified as susceptible to significant improper payments under its risk assessment under section 3352(a) of PIIA (if required).

- Compliant. SBA published gross improper payment estimates for all six programs identified as susceptible to significant improper payments. Each program utilized a statistical estimation approach that applied a 95 percent confidence level, and at least a plus or minus 3 percent margin of error. See below for each program’s estimated improper payment rate and gross improper payments.

<b>Program or Activity</b>	<b>Improper Payment Rate</b>	<b>Gross Improper Payment (in millions)</b>
7(a) Loan Guaranty Purchases	5.51%	\$69.82
7(a) Loan Guaranty Approvals	2.06%	\$323.23
504 CDC Loan Guaranty Approvals	3.81%	\$216.53
Disaster Direct Loan Disbursements	11.98%	\$94.75
Supplemental Disaster Relief Administrative Funds – Payroll	0.00%	\$0.00
Supplemental Disaster Relief Administrative Funds – Travel	0.13%	\$0.04

Requirement 4 – Determine if SBA published programmatic corrective action plans under section 3352(d) of PIIA in the AFR or accompanying materials (if required).

- Compliant. SBA reported corrective actions for 7(a) loan guaranty purchases, 7(a) loan guaranty approvals, 504 CDC loan guaranty approvals, and the Disaster Direct Loan Program disbursements. In accordance with OMB Memorandum M-18-20, the supplemental disaster relief administrative funds – payroll, and supplemental disaster relief administrative funds – travel were not required to report corrective action plans in the AFR because their gross annual improper payments (i.e., the total amount of overpayments and underpayments) did not exceed both 1.5 percent of reported outlays and \$10,000,000 of all payments made during the fiscal year reported. See below for a summary of the reported root cause categories and whether corrective actions were published for each program.

<b>Program or Activity</b>	<b>Reported Root Cause Categories</b>	<b>Corrective Action Published</b>
7(a) Loan Guaranty Purchases	Administrative or Process Error Made	Yes
7(a) Loan Guaranty Approvals	Failure to Verify: Financial Data	Yes
504 CDC Loan Guaranty Approvals	Failure to Verify: Financial Data	Yes
Disaster Direct Loan Disbursements	Failure to Verify: Financial Data	Yes
	Administrative or Process Error Made	
Supplemental Disaster Relief Administrative Funds - Payroll	Administrative or Process Error Made	Not Required
Supplemental Disaster Relief Administrative Funds - Travel	Administrative or Process Error Made	Not Required

While SBA met the compliance requirement, the root cause category classification was not appropriately classified based on the true root cause of the improper payments noted from the sample results for 7(a) loan guaranty approvals and 504 CDC loan guaranty approvals. As a result, we identified an internal control deficiency over SBA’s improper payment reporting and proposed related recommendations. Section IV contains details of our findings, identified internal control deficiencies, and related recommendations.

While we noted that the reported root cause category for 7(a) loan guaranty approvals and 504 CDC loan guaranty approvals was inaccurate, the corrective actions published for these programs was for the correct root cause category – Failure to Verify: Other Eligibility Data. In addition, the corrective action plans focused on the true root cause and were implemented.

Requirement 5 – Determine if SBA published reduction targets under section 3352(d) of PIIA, developed a plan to meet the reduction targets, and demonstrated improvements for each program assessed to be at risk and estimated for improper payments.

- Not Compliant. SBA published a reduction target for FY 2021 for each program. See below for each program’s reduction target published in the FY 2019 AFR, the FY 2020 improper payments rate, and the FY 2021 reduction target published in the FY 2020 AFR. In addition, SBA developed and published corrective action plans to meet the reduction targets.

For evaluating the requirement of whether each program demonstrated improvements, we used the guidance provided by OMB within the Council of the Inspectors General on Integrity and Efficiency *Guidance for Payment Integrity Information Act Compliance Reviews* (November 2020). In accordance with this guidance, we evaluated whether SBA met the established reduction targets published in the FY 2019 AFR. SBA met the established reduction targets published in the FY 2019 AFR for all programs except the Disaster Direct Loan Program disbursements as noted earlier.

<b>Program or Activity</b>	<b>FY 2020 Reduction Target Published in the FY 2019 AFR</b>	<b>FY 2020 Improper Payment Rate</b>	<b>FY 2021 Reduction Target Published in the FY 2020 AFR</b>
7(a) Loan Guaranty Purchases	3.52%	5.51%	5.41%
7(a) Loan Guaranty Approvals	2.05%	2.06%	1.96%
504 CDC Loan Guaranty Approvals	2.04%	3.81%	3.71%
Disaster Direct Loan Disbursements	5.67%	11.98%	9.99%
Supplemental Disaster Relief Administrative Funds – Payroll	1.00%	0.00%	1.00%
Supplemental Disaster Relief Administrative Funds – Travel	2.77%	0.13%	1.00%

For the 7(a) guaranty purchases, 7(a) guaranty approvals, and 504 CDC loan guaranty approvals programs, the FY 2020 improper payment rate point estimate shown above was greater than the target reduction rates published in the FY 2019 AFR. However, in accordance with OMB Memorandum M-18-20, if a program has a sampling plan that meets or exceeds the 95 percent confidence level, plus or minus 3 percent margin of error guidance, then the program should be considered as having met its reduction target if the lower bound for its confidence interval is equal to or less than the reduction target. The 7(a) loan guaranty purchases, 7(a) loan guaranty approvals, and 504 CDC loan guaranty approvals programs were considered to have met the reduction targets as the lower bound of their confidence intervals under their sampling methodologies which meet the 95 percent confidence level, plus or minus 3 percent margin of error guidance, were lower than the reduction targets.

As noted earlier, the Disaster Direct Loan Program disbursements did not meet the reduction target as the lower bound of its confidence interval under the sampling methodology, which did meet the 95 percent confidence level, plus or minus 3 percent margin of error guidance, was greater than the reduction target.

Requirement 6 – Determine if SBA reported a gross improper payment rate of less than 10 percent for each program and activity for which an improper payment estimate was published under section 3352(c) of PIIA.

- Not Compliant. SBA reported an improper payment rate of less than 10 percent for all of the programs except the Disaster Direct Loan Program disbursements. The improper payments rate for this program was 11.98 percent.

For objective 2, with respect to the accuracy and completeness of SBA’s reporting, we determined SBA developed and published gross improper payment rate estimates for each program using appropriate sampling and estimation plans given program characteristics. In accordance with OMB Memorandum M-18-20, each program’s sampling plan was determined to be in the statistically valid and rigorous category as the sampling plans were based on unbiased, randomized sampling and produced improper payment point estimates at the 95 percent confidence level within at least a plus or minus 3 percent margin of error.

However, certain populations of outlays and disclosures included as part of SBA’s reporting were not accurate and complete. Specifically, we noted the population of outlays for the 7(a)

loan guaranty purchases, 7(a) loan guaranty approvals, 504 CDC loan guaranty approvals, and the Disaster Direct Loan Program disbursements, were not complete and reconciled to the general ledger. As a result, we identified certain internal control deficiencies over SBA's improper payment reporting and proposed related recommendations. Section IV contains details of our findings, identified internal control deficiencies, and related recommendations.

For objective 3, with respect to SBA's performance to prevent and reduce improper payments, we determined that from FY 2019 to FY 2020, SBA had a reduction in the improper payment estimate for all programs except for the 7(a) loan guaranty purchases, 504 CDC loan guaranty approvals, and the Disaster Direct Loan Program disbursements. SBA determined the root causes of the improper payments and formalized and implemented corrective action plans that includes internal training for purchase processors, reviewers, and approvers and external training for lenders. Section IV contains details of our findings, identified internal control deficiencies, and related recommendations.

## IV. FINDINGS

### Objective 2 – Accuracy and Completeness of SBA's Reporting

#### Improvements Needed Over the Completeness and Accuracy of Reporting

While SBA met the compliance requirement related to publishing improper payment estimates for all programs identified as susceptible to significant improper payments, we noted that additional improvements were needed to ensure the information in the payment integrity section of the AFR and accompanying materials is complete and accurate.

Specifically, for some programs, we noted the following conditions related to the accuracy and completeness of improper payment reporting:

- There were insufficient and inaccurate disclosures within the payment integrity section and accompanying materials. The root causes and amounts presented within certain tables were not accurate.
- The population of outlays reported in the payment integrity section and subjected to sampling, were not reconciled to the general ledger and were not complete. Consequently, certain transactions that should have been included in the population and subjected to review were omitted.

Refer to Section IV.A and IV.B for details on the identified internal control deficiencies, and related recommendations.

The Government Accountability Office (GAO) *Standards for Internal Control in the Federal Government*, section OV1.01 states that "Internal control is a process effected by an entity's oversight body, management, and other personnel that provides reasonable assurance that the objectives of an entity will be achieved. These objectives and related risks can be broadly classified into one or more of the following three categories:

- Operations – Effectiveness and efficiency of operations
- Reporting – Reliability of reporting for internal and external use
- Compliance – Compliance with applicable laws and regulations"

Section OV1.06 states that “Management is responsible for an effective internal control system. As part of this responsibility, management sets the entity’s objectives, implements controls, and evaluates the internal control system.”

Section 10.02: “Management designs control activities in response to the entity’s objectives and risks to achieve an effective internal control system. Control activities are the policies, procedures, techniques, and mechanisms that enforce management’s directives to achieve the entity’s objectives and address related risks.”

Section 10.03: “Management clearly documents internal control and all transactions and other significant events in a manner that allows the documentation to be readily available for examination. The documentation may appear in management directives, administrative policies, or operating manuals, in either paper or electronic form. Documentation and records are properly managed and maintained.”

The conditions noted above were caused by the lack of an adequate quality control review process over the payment integrity section and accompanying materials. In addition, SBA program offices did not have internal controls implemented requiring the timely reconciliation of the population of outlays to the general ledger. The lack of an adequate review process resulted in the payment integrity section and accompanying materials not completely and accurately disclosing relevant information regarding SBA’s FY 2020 improper payment reviews. By not reconciling the population of outlays to the general ledger, this results in an incomplete sample which may result in an inaccurate improper payment estimate. This could potentially result in increases to the improper payment rates and noncompliance with PIIA.

<b>Objective 3 – Prevent and Reduce Improper Payments</b>
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**Improvements Needed Over Controls to Prevent and Reduce Improper Payments**

SBA did not meet the compliance requirements related to demonstrating improvements and reporting a gross improper payment rate of less than 10 percent for the Disaster Direct Loan Program disbursements. In addition, the improper payment estimate increased from FY 2019 to FY 2020 for the 7(a) loan guaranty purchases, 504 CDC loan guaranty approvals, and the Disaster Direct Loan Program disbursements. Therefore, we noted that additional improvements were needed to prevent and reduce improper payments.

Specifically, we noted the following conditions related to SBA’s efforts in preventing and reducing improper payments:

- The improper payment rates increased in certain programs from FY 2019 to FY 2020.
- The Disaster Direct Loan Program disbursements had a gross improper payment rate exceeding the statutory compliance threshold of 10%.

Payment Integrity Information Act of 2019, Sec. 3351, states: “(2) Compliance ... (E) publishes improper payments reduction targets established under section 3352(d) that the executive agency may have in the accompanying materials to the annual financial statement for each program and activity assessed to be at risk and has demonstrated improvements and developed a plan to meet the reduction targets; and (F) has reported an improper payment rate of less than 10 percent for each program and activity for which an estimate was published under section 3352(c).”

The conditions noted above were caused by the lack of effective preventative controls implemented to reduce improper payments. This results in the Disaster Direct Loan Program disbursements being not compliant with PIIA. In addition, not implementing effective preventative controls could potentially result in increases to the improper payment rates and further noncompliance with PIIA.

**A. DEFICIENCIES IN INTERNAL CONTROL**

In planning and performing our audit of SBA’s FY 2020 compliance with PIIA reporting, we considered internal controls that were relevant to our audit objectives by obtaining an understanding of those controls and assessing control risk for the purposes of achieving our objectives.

The objective of our audit was not to provide assurance on internal controls; therefore, we did not express an opinion on internal controls as a whole. Our consideration of SBA’s internal controls relevant to our audit objectives would not necessarily disclose all deficiencies that might be significant within the context of the audit objectives.

As a result of our assessment over internal controls relevant to the audit objectives and our compliance test work, we identified the following deficiencies in internal control:

Program or Activity	Control Deficiencies
7(a) Loan Guaranty Purchases  7(a) Loan Guaranty Approvals  504 CDC Loan Guaranty Approvals	1. There was not an adequate review process in place over the population of outlays reported in table 1 of the payment integrity section and subjected to sampling as it excluded certain transactions processed after the effective date and was incomplete.
7(a) Loan Guaranty Purchases  7(a) Loan Guaranty Approvals  504 CDC Loan Guaranty Approvals  Disaster Direct Loan Disbursements	2. The population of outlays reported in table 1 of the payment integrity section and subjected to sampling, were not reconciled timely to the general ledger and are not complete.
7(a) Loan Guaranty Approvals  504 CDC Loan Guaranty Approvals	3. There was not an adequate review process in place over the population of outlays as it excluded loan approval increases occurring after the month in which the initial approval occurred and reinstatements of previously cancelled loans and was incomplete.

Program or Activity	Control Deficiencies
	4. There was not an adequate review process in place to ensure the root causes of improper payment rates presented in table 2 of the payment integrity section and in the accompanying materials were accurate.
7(a) Loan Guaranty Purchases  504 CDC Loan Guaranty Approvals  Disaster Direct Loan Disbursements	5. There were not effective controls implemented to prevent and reduce improper payments.
504 CDC Loan Guaranty Approvals  Disaster Direct Loan Disbursements	6. The review process in place did not ensure that the total improper payment amounts reported in table 1 and table 2 of the payment integrity section are consistent.
Supplemental Disaster Relief Administrative Funds – Payroll  Supplemental Disaster Relief Administrative Funds – Travel	7. The review process in place did not ensure sufficient disclosure was provided regarding the specific disaster events that were included within the population of outlays subjected to sampling and presented in the payment integrity section.  8. There was not sufficient documentation available for the sampling and estimation methodology used to develop the improper payment rate estimates presented.
Supplemental Disaster Relief Administrative Funds – Payroll	9. There was not documentation readily available to support the recalculation of certain benefits.
7(a) Guaranty Loan Purchases	10. There was not an adequate review process in place as the amount of improper payments recaptured in table 3 of the payment integrity section and accompanying materials was not accurate.
Disaster Direct Loan Disbursements	11. There was not an adequate review process in place as the calculation of the estimated improper payment rate, by root cause, was not consistent with the sample design because it disregards the stratification and different extrapolation impact of the sampled items based on their stratum and size.  12. There was not sufficient documentation supporting the stratification of the population by disaster size, including how the criteria for stratification was determined and whether it was consistently applied.  13. There were not effective controls implemented to prevent and reduce improper payments as the gross improper payment rate exceeded the statutory compliance threshold of 10%.
All Programs	14. There was not an adequate process in place to ensure the risk assessment considered all SBA programs.

<b>Program or Activity</b>	<b>Control Deficiencies</b>
	<p data-bbox="537 268 1349 331">15. There was not sufficient documentation available to evidence the review and approval of the risk assessment.</p> <p data-bbox="537 373 1349 466">16. The review process in place did not ensure there was sufficient disclosure regarding the enactment of the PIIA legislation in the payment integrity section.</p>

## B. RECOMMENDATIONS

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

1. Continue to update SBA Standard Operating Procedure (SOP) 20 32 1, *Estimating and Reporting Improper Payments*, using the framework in GAO's *Standards for Internal Control in the Federal Government* (Green Book) to design and implement robust internal and quality control processes to ensure complete and accurate reporting of annual improper payment results, formalized risk assessment process to ensure all programs are considered, the maintenance of sample documentation, and to ensure the sampling methodology documentation is consistent and updated annually with the population, sample results, and information in the payment integrity section of the AFR and accompanying materials.
2. Provide training to responsible staff in the Offices of Internal Control, Capital Access and Disaster Assistance regarding updates to SBA SOP 20 32 1.
3. Ensure that staff in the Office of Internal Control oversee and provide adequate quality control reviews over improper payment disclosures submitted by SBA program offices.
4. Continue to provide training to program office staff, as needed, on the timely and complete reconciliation of the population of transactions used for estimating improper payments to the general ledger.

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

5. Implement additional preventative and monitoring controls to determine the eligibility of borrowers prior to approval.
6. Ensure there is adequate training of staff at the Guaranty Purchase Centers.
7. Collaborate with the Chief Financial Officer to ensure a timely and complete reconciliation is performed on the population subject to sampling for improper payment reviews.

We recommend the Administrator coordinate with the Associate Administrator of the Office of Disaster Assistance to:

8. Formally document and implement additional preventative and monitoring controls to determine the eligibility of borrowers prior to approval and disbursement.
9. Ensure there is adequate training of staff at the Processing and Disbursement Center.
10. Collaborate with the Chief Financial Officer to ensure a timely and complete reconciliation is performed on the population subject to sampling for improper payment reviews.
11. Coordinate with the Office of Disaster Assistance's statistician to ensure the estimated improper payment amounts are calculated consistently and the sampling methodology adequately describes the criteria for stratification.

## V. Attachment I - MANAGEMENT'S RESPONSE TO REPORT



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

**DATE:** May 6, 2021

**TO:** Hannibal M. Ware, Inspector General

**FROM:** Jason Bossie, Acting Associate Administrator for Performance, Planning, and Chief Financial Officer, OPPCFO  
James Rivera, Associate Administrator for Disaster Assistance, ODA  
John Miller, Deputy Associate Administrator, OCA

Digitally signed by JOHN MILLER  
Date: 2021.05.06  
08:31:39 -0400

Digitally signed by JAMES RIVERA  
Date: 2021.05.05  
16:58:40 -0400

**SUBJECT:** Response to Audit: Performance Audit of the U.S. Small Business Administration's Fiscal Year 2020 Compliance with the Payment Integrity Information Act of 2019 (PIIA)

The Small Business Administration (SBA) appreciates the opportunity to review and respond to the draft Performance Audit of the U.S. Small Business Administration's Fiscal Year 2020 Compliance with the Payment Integrity Information Act of 2019 (PIIA).

SBA is committed to reducing the dollar amount of improper payments, ensuring program integrity, and continuing to implement effective risk management procedures in accordance with improper payment legislation<sup>1</sup>, as well as guidance prescribed in Office of Management and Budget Memorandum M-21-19, Appendix C to Circular A-123, *Requirements for Payment Integrity Improvement*.

SBA concurs with the Recommendations made in this audit report and is providing the following comments in response to those recommendations.

**Recommendation 1.** Continue to update SBA Standard Operating Procedure (SOP) 20 32 1, *Estimating and Reporting Improper Payments*, using the framework in GAO's *Standards for Internal Control in the Federal Government* (Green Book) to design and implement robust internal and quality control processes to ensure complete and accurate reporting of annual improper payment results, formalized risk assessment process to ensure all programs are considered, the maintenance of sample documentation, and to ensure the sampling methodology documentation is consistent and updated annually with the population, sample results, and information in the payment integrity information of the AFR and accompanying materials.

**Agency Response.** SBA will continue to update SOP 20 32 1, *Estimating and Reporting Improper Payments*, using the framework in GAO's Green Book to design and implement

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<sup>1</sup> Payment Integrity Information Act (2019)

internal and quality control processes to ensure complete and accurate reporting of annual improper payment results, formalized the risk assessment process to ensure all programs are considered, draft a documentation retention policy to ensure proper maintenance of sample documentation, and ensure sampling methodology documentation is consistent and updated annually with the population, sample results, and information in the payment integrity information section of the Agency Financial Report (AFR) and accompanying materials.

**Recommendation 2.** Provide training to responsible staff in Offices of Internal Control, Capital Access and Disaster Assistance regarding updates to SBA SOP 20 32 1.

**Agency Response.** SBA will continue to provide training to responsible staff in Office of Capital Access (OCA) and Office of Disaster Assistance (ODA), and ensure conformance of training materials with updates from SBA SOP 20 32 1.

**Recommendation 3.** Ensure that staff in the Office of Internal Control oversee and provide adequate quality control reviews over disclosures submitted by SBA program offices.

**Agency Response.** SBA will continue to ensure the Internal Controls Division (ICD), previously named Office of Internal Controls (OIC), staff oversee and provide adequate quality control reviews over disclosures submitted by SBA program offices.

**Recommendation 4.** Continue to provide training to program office staff, as needed, on the timely and complete reconciliation of the population of transactions used for estimating improper payments to the general ledger.

**Agency Response.** SBA will continue to coordinate with program office staff and provide training, as needed, on the timely and complete reconciliation of the population of transactions used for estimating improper payments to the general ledger.

**Recommendation 5.** Implement additional preventative and monitoring controls to determine the eligibility of borrowers prior to approval.

**Agency Response.** SBA will implement additional preventative and monitoring controls to determine the eligibility of borrowers prior to approval. In those instances where approval is delegated to the Lender, SBA will provide guidance to Lenders regarding eligibility of borrowers.

**Recommendation 6.** Ensure there is adequate training of staff at the Guaranty Purchase Centers.

**Agency Response.** SBA will ensure that staff at the National Guaranty Purchase Center, the Little Rock Loan Servicing Center and the Fresno Loan Servicing Centers are adequately trained in order to avoid improper payments in the guaranty purchasing process.

**Recommendation 7.** Collaborate with the Chief Financial Officer to ensure a timely and complete reconciliation is performed on the population subject to sampling for improper payment reviews.

**Agency Response.** SBA will collaborate with the Office of the Chief Financial Officer to ensure timely and complete reconciliations are performed on the population subject to sampling for improper payment reviews.

**Recommendation 8.** Formally document and implement additional preventative and monitoring controls to determine the eligibility of borrowers prior to approval and disbursement.

**Agency Response.** SBA will formally document and implement additional preventative and monitoring controls to determine the eligibility of borrowers prior to a loan approval and disbursement.

**Recommendation 9.** Ensure there is adequate training of staff at the Processing and Disbursement Center.

**Agency Response.** SBA will make sure there is adequate training of staff at the Processing and Disbursement Center.

**Recommendation 10.** Collaborate with the Chief Financial Officer to ensure a timely and complete reconciliation is performed on the population subject to sampling for improper payment reviews.

**Agency Response.** SBA will collaborate with the Chief Financial Officer to ensure a timely and complete reconciliation is performed on the population subject to sampling for improper payment reviews.

**Recommendation 11.** Coordinate with the Office of Disaster Assistance's statistician to ensure the estimated improper payment amounts are calculated consistently and the sampling methodology adequately describes the criteria for stratification.

**Agency Response.** SBA will coordinate with the Office of Disaster Assistance's statistician to ensure the estimated improper payment amounts are calculated consistently and the sampling methodology adequately describes the criteria for stratification.

We appreciate your efforts and those of your colleagues in the Office of the Inspector General, as well as those of the independent auditor. The independent audit process continues to provide us with new insights and valuable recommendations that improve SBA's overall compliance with improper payment legislation.