



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

DATE: May 17, 2022

TO: Isabella Casillas Guzman
Administrator

FROM: Hannibal "Mike" Ware 
Inspector General

SUBJECT: Independent Auditors' Report on SBA's Fiscal Year 2021 Compliance with the Payment Integrity Information Act of 2019 (Report 22-12)

This independent auditors' report on the U.S. Small Business Administration's (SBA) improper payment reporting is required by the Payment Integrity Information Act of 2019. We contracted with the independent certified public accounting firm KPMG LLP to conduct a performance audit of SBA's Fiscal Year 2021 compliance with the Act.

The auditor was engaged to review the payment integrity section of the *SBA Agency Financial Report Fiscal Year 2021 (AFR)* and accompanying materials to determine whether the agency complied with the reporting requirements under the Act. KPMG also evaluated the agency's accuracy and appropriateness of the improper payment rate estimates and performance in reducing and preventing improper payments.

KPMG was engaged to conduct the audit in accordance with consulting services standards established by the American Institute of Certified Public Accountants. The audit also complied with 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*.

In the report, KPMG auditors found the agency was compliant with 5 of the 10 reporting requirements under the Act and Office of Management and Budget (OMB) guidance.

However, SBA is not compliant with the Act because

- the agency did not conduct or update the improper payment risk assessment for each program with annual outlays greater than \$10 million;
- three of four reported areas did not publish an improper payment and unknown payment reduction target in the AFR or accompanying materials;
- the Disaster Direct Loan Program did not publish corrective action plans in the AFR or accompanying materials, demonstrate improvement to payment integrity or develop a plan to meet the improper payment and unknown payment reduction target, and
- the Disaster Direct Loan Program reported a gross improper payments and unknown payments rate exceeding 10 percent, which is the higher than the statutory amount.

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

We reviewed KPMG's report and related documentation and inquired of its representatives. Our review, as differentiated from an audit in accordance with the *Government Auditing Standards*, was not intended to enable us to express, and we do not express, opinions on SBA's compliance with the Act or internal control over improper payment reporting. KPMG is responsible for the attached auditors' report dated May 16, 2022, and the conclusions expressed.

Our oversight protocols include evaluation of major work products, attendance at critical meetings, review of significant findings, and examination of related evidential matter. Our review disclosed no instances where KPMG did not comply in all material respects with GAO's Auditing Standards.

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 the Act, as well as guidance prescribed in the OMB Memorandum M-21-19, Appendix C, Requirements for Payment Integrity Improvement, to Circular A-123, Management's Responsibility for Internal Controls.

SBA concurs with the six recommendations made in this audit report and has provided comments in response to those recommendations. The agency's response is included in Appendix I of this report. We provided a draft of KPMG's report to SBA's Chief Financial Officer, the Associate Administrator for the Office of Capital Access, and the Associate Administrator for the Office of Disaster Assistance.

We appreciate the cooperation and assistance of SBA and KPMG 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.

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Attachment



Performance Audit of the U.S. Small Business Administration's Fiscal Year 2021 Compliance with the Payment Integrity Information Act of 2019

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

Date: May 16, 2022

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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 December 14, 2021 and May 16, 2022, and our results are as of May 16, 2022.

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. This performance audit did not constitute an audit of SBA's financial statements or an attestation level report as defined under generally accepted government auditing standards and AICPA standards for attestation engagements.

The Council of the Inspectors General on Integrity and Efficiency Guidance for Payment Integrity Information Act Compliance Reviews (dated October 26, 2021) provides guidance regarding the fieldwork and reporting related to these performance audit objectives (October 26, 2021). The objectives of our audit were to:

1. Review the payment integrity section of the SBA's fiscal year (FY) 2021 Agency Financial Report (AFR) and accompanying materials to determine whether SBA was in compliance with PIIA reporting requirements;
2. Evaluate the accuracy and appropriateness of SBA's improper payment and unknown payment rate estimates, and sampling and estimation plans; 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 was not compliant with PIIA because they did not publish corrective action plans in the AFR or accompanying materials, demonstrate improvement to payment integrity, develop a plan to meet the improper payment and unknown payment reduction target, and reported a gross improper payments and unknown payments rate that exceeded 10 percent. In addition, the 7(a) loan guaranty purchases, 7(a) loan guaranty approvals, and 504 CDC loan guaranty approvals was not compliant with PIIA because they did not publish an improper payment and unknown payment reduction target in the AFR or accompanying materials (see Table 1).

Also, SBA was not compliant with PIIA as they did not conduct or update the improper payment risk assessment for each program with annual outlays greater than \$10 million.



Table 1. Summary of SBA’s PIIA Compliance

Program or Activity	1a) Published Payment Integrity Information within the AFR	1b) Posted the AFR and Accompanying Materials on the Agency Website	2a) Conducted Risk Assessment	2b) Adequately Concluded from Risk Assessment	3) Published Improper Payment Estimates	4) Published Corrective Action Plans	5a) Published Reduction Target	5b) Demonstrated Improvements to Payment Integrity	5c) Developed a Plan to Meet the Reduction Target	6) Reported Improper Payment and Unknown Payment Estimate of Less Than 10 Percent
Section 7(a) Loan Guaranty Purchases	Compliant	Compliant	Not Applicable	Not Applicable	Compliant	Compliant	Not Compliant	Compliant	Compliant	Compliant
Section 7(a) Loan Guaranty Approvals	Compliant	Compliant	Not Applicable	Not Applicable	Compliant	Compliant	Not Compliant	Compliant	Compliant	Compliant
Section 504 CDC Loan Guaranty Approvals	Compliant	Compliant	Not Applicable	Not Applicable	Compliant	Compliant	Not Compliant	Compliant	Compliant	Compliant
Disaster Direct Loan Program	Compliant	Compliant	Not Applicable	Not Applicable	Compliant	Not Compliant	Compliant	Not Compliant	Not Compliant	Not Compliant

For compliance requirements 2a and 2b, these requirements were not applicable in FY 2021 as SBA last conducted a risk assessment for the reported programs and activities for susceptibility to improper payments in FY 2020 in accordance with the requirement.

For objective 2, in accordance with Office of Management and Budget (OMB) Memorandum M-21-19, Transmittal of Appendix C to OMB Circular No. A-123, Requirements for Payment Integrity Improvement (OMB Memorandum M-21-19), we determined SBA’s improper payment and unknown payment rate estimates and sampling and estimation plans were accurate and appropriate given program characteristics for each reported program and activity except for Disaster Direct Loan Program. In addition, we identified areas of improvement. Section IV contains details of our findings, identified internal control deficiencies, and related recommendations.

For objective 3, in accordance with OMB Memorandum M-21-19, we determined that between FY 2020 and FY 2021, SBA had a reduction in the improper payment estimate for all programs except for the Disaster Direct Loan Program. For the Disaster Direct Loan Program, SBA also did not meet the FY 2021 reduction target or formalize and report corrective action plans to address the root causes of improper payments. 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 Appendix 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 16, 2022

I. BACKGROUND

The Improper Payments Elimination and Recovery Act of 2010 (IPERA, P.L. 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.

The Payment Integrity Information Act of 2019 (PIIA, P.L. 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, 2021, and posted that report and any accompanying materials required by OMB on the agency website;
- conducted a program specific risk assessment for each program that conforms with section 3352(a) of PIIA (if required);
- 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);
- 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 March 5, 2021 OMB issued Memorandum M-21-19, Transmittal of Appendix C to OMB Circular No. A-123, Requirements for Payment Integrity Improvement (OMB Memorandum M-21-19), as updated implementation guidance to federal agencies. OMB Memorandum M-21-19 requires agencies to identify susceptible programs with an improper payment risk assessment, report improper payment estimates, identify root causes of the improper payments, develop, implement, and monitor corrective actions, and recapture improper payments identified. OMB Memorandum M-21-19 further provides that agency Inspectors General should review their agency's annual AFR and accompanying materials to assess the following:

- whether the agency has met the compliance requirements under PIIA

- accuracy and appropriateness of the improper payment and unknown payment estimates and the sampling and estimation plans
- agency efforts to prevent and reduce improper payments

Therefore, we performed our FY 2021 annual compliance review using a combination of the requirements in OMB Memorandum M-21-19, OMB Circular No. A-136, Financial Reporting Requirements (August 10, 2021), 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.

II. OBJECTIVES, SCOPE, AND METHODOLOGY

Objectives

We conducted this audit to:

- Determine whether SBA was in compliance with the reporting requirements in section 3351(2) of PIIA;
- Evaluate the accuracy and appropriateness of SBA's improper payment and unknown payment rate estimates, and sampling and estimation plans; and
- Evaluate SBA's performance to prevent and reduce improper payments.

Scope and Methodology

The scope of our performance audit was SBA's FY 2021 improper payments and reporting data in the payment integrity section of the agency's FY 2021 AFR and any accompanying materials.

During our planning and testing phases, and to achieve our objectives, we interviewed staff from SBA's Offices of the Chief Financial Officer, Capital Access, and Disaster Assistance that performed the improper payment reviews, collected and inspected SBA 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. More specifically, we:

- 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;
- reviewed and evaluated the statistically determined improper payment and unknown payment 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 each of the PIIA reporting requirements. See below for additional details of our results.

Requirement 1a – Determine if SBA published payment integrity information within the AFR for the fiscal year ended September 30, 2021.

- Compliant. SBA published payment integrity information in its FY 2021 AFR.

Requirement 1b – Determine if SBA posted AFR and any accompanying materials required by OMB on the Agency website.

- Compliant. SBA posted the AFR on the agency's website at www.sba.gov. The accompanying materials to the AFR are the payment integrity information published on paymentaccuracy.gov. SBA included a link to paymentaccuracy.gov within the payment integrity section of its FY 2021 AFR.

Requirement 2a – Determine if SBA conducted a program specific risk assessment for each program with annual outlays greater than \$10 million at least once in the last three years.

- Not Compliant. SBA conducted risk assessments for all programs, including payments made to employees, for susceptibility to improper payments in FY 2020 as of the reporting period (as of March 31, 2020). Subsequently, the Coronavirus Aid, Relief, and Economic Security Act of 2020 and related legislation, significantly changed existing programs and established new programs. However, SBA did not perform updated risk assessments for the affected programs with annual outlays greater than \$10 million.

Requirement 2b – Determine if SBA adequately concluded whether the program is likely to make improper payments and unknown payments above or below the statutory threshold.

- Not Applicable. SBA did not conduct updated risk assessments in FY 2021.

Requirement 3 – Determine if SBA published improper payment and unknown payment estimates for all programs identified as susceptible to significant improper payments and unknown payments in the accompanying materials to the AFR.

- Compliant. SBA published gross improper payment estimates for the four programs identified as susceptible to significant improper payments. See below for each program's estimated improper payment rate and gross improper payments.

Program or Activity	Improper Payment and Unknown Payment Rate	Gross Improper Payment and Unknown Payment (in millions)
7(a) Loan Guaranty Purchases	3.35%	\$19.01
7(a) Loan Guaranty Approvals	2.03%	\$352.61
504 CDC Loan Guaranty Approvals	3.56%	\$226.56
Disaster Direct Loan Program	13.37%	\$72.84

Requirement 4 – Determine if SBA published corrective action plans for each program for which an estimate above the statutory threshold was published in the accompanying materials to the AFR.

- Not Compliant. SBA did not report corrective actions for the Disaster Direct Loan Program. See below for a summary of the reported root cause categories and whether corrective actions were published for each program.

Program or Activity	Reported Root Cause Categories in the Accompanying Materials	Corrective Action Published
7(a) Loan Guaranty Purchases	Failure to Access Data/Information	Yes
7(a) Loan Guaranty Approvals	Statutory Requirements of Program were not Met	Yes
504 CDC Loan Guaranty Approvals	Statutory Requirements of Program were not Met	Yes
	Unable to Determine whether Proper or Improper	
Disaster Direct Loan Program	Failure to Access Data/Information	No
	Inability to Access the Data/Information	

In addition, the root cause category classification reported in the accompanying materials to the AFR was not appropriately classified based on the true root cause of the improper payments noted from the sample results for 7(a) loan guaranty purchases and the Disaster Direct Loan programs. 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 purchases was inaccurate, the corrective actions published for this program were for the correct root cause categories – Data/Information Needed Does Not Exist, Statutory Requirements of Program were not Met, and Failure to Access Data/Information. In addition, the corrective action plans focused on the true root cause and were implemented.

Requirement 5a – Determine if SBA published improper payment and unknown payment reduction targets for each program for which an estimate above the statutory threshold was published in the accompanying materials to the AFR.

- Not Compliant. SBA did not publish a reduction target for FY 2022 for the 7(a) loan guaranty purchases, 7(a) loan guaranty approvals, and 504 CDC loan guaranty approvals programs. See below for each program’s reduction target published in the accompanying materials to the FY 2021 AFR.

Program or Activity	FY 2022 Reduction Target Published in the FY 2021 Accompanying Materials to the AFR
7(a) Loan Guaranty Purchases	Reduction target not published
7(a) Loan Guaranty Approvals	Reduction target not published
504 CDC Loan Guaranty Approvals	Reduction target not published
Disaster Direct Loan Program	13.37%

While a reduction target was published for the Disaster Direct Loan Program, the rate published was equal to the FY 2021 improper payment and unknown payment rate estimate without an explanation for such a target. 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.

Requirement 5b – Determine if SBA demonstrated improvements to payment integrity or reached a tolerable improper payment and unknown payment rate.

- Not Compliant. SBA did not demonstrate improvements to payment integrity for the Disaster Direct Loan Program. We evaluated whether the FY 2021 improper payment and unknown payment rate estimate improved from FY 2020. The FY 2021 improper payment and unknown payment rate estimate improved for all programs except the Disaster Direct Loan Program as noted earlier. See below for each program’s FY 2020 improper payments rate and the FY 2021 improper payment and unknown payment rate estimate. In addition, SBA developed and published corrective action plans to meet the reduction targets.

Program or Activity	FY 2020 Improper Payment Rate	FY 2021 Improper Payment and Unknown Payment Rate
7(a) Loan Guaranty Purchases	5.51%	3.35%
7(a) Loan Guaranty Approvals	2.06%	2.03%
504 CDC Loan Guaranty Approvals	3.81%	3.56%
Disaster Direct Loan Program	11.98%	13.37%

Requirement 5c – Determine if SBA developed a plan to meet the improper payment and unknown payment reduction target.

- Not Compliant. SBA did not develop a plan to meet the improper payment and unknown payment reduction target for the Disaster Direct Loan Program. We noted that while reduction targets were not published for the 7(a) loan guaranty purchases, 7(a) loan guaranty approvals, and 504 CDC loan guaranty approvals, SBA did develop improper payment and unknown payment reduction targets for FY 2022 and a plan to meet the established reduction targets.

Requirement 6 – Determine if SBA reported an improper payment and unknown payment rate estimate of less than 10 percent for each program for which an improper payment estimate was published in the accompanying materials to the AFR.

- Not Compliant. SBA reported an improper payment and unknown payment rate estimate of less than 10 percent for all of the programs except the Disaster Direct Loan Program. The gross improper payments rate for this program was 13.37 percent.

For objective 2, with respect to the accuracy and appropriateness of SBA’s improper payment and unknown payment rate estimates and sampling and estimation plans, in accordance with OMB Memorandum M-21-19, we determined SBA’s improper payment and unknown payment rate estimates and sampling and estimation plans were accurate and appropriate given program characteristics for each reported program except the Disaster Direct Loan Program. SBA’s reported improper payment and unknown payment rate estimates were developed using appropriate sampling and estimation plans given program characteristics. In accordance with OMB Memorandum M-21-19, each program’s sampling and estimation plans were determined to be statistically valid.

However, certain populations of outlays and disclosures included as part of SBA’s reporting were not accurate and complete. 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, were not complete and reconciled to the general ledger. In addition, the population of outlays sampled for the Disaster Direct Loan Program was significantly incomplete such that the sampling and estimation plan employed may not produce an improper payment and unknown payment rate estimate that is representative of the program’s annual improper payments and unknown payments. 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, in accordance with OMB Memorandum M-21-19, we determined that from FY 2020 to FY 2021, SBA had a reduction in the improper payment estimate for all programs except for the Disaster Direct Loan Program. For the Disaster Direct Loan Program, SBA also did not meet the FY 2021 reduction target or formalize and report corrective action plans to address the root causes of improper payments. Section IV contains details of our findings, identified internal control deficiencies, and related recommendations.

IV. FINDINGS

Objective 1 – Compliance with PIIA Reporting Requirements
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See Section III RESULTS AND CONCLUSIONS (above)

Objective 2 – Accuracy of Improper Payment Estimates

Improvements Needed Over the Accuracy of Improper Payment and Unknown Payment Estimates

While SBA met the compliance requirement related to publishing improper payment and unknown payment estimates for all programs identified as susceptible to significant improper payments, we noted that additional improvements were needed to ensure the estimates developed and the sampling and estimation plans were accurate.

Specifically, for some programs, we noted the following conditions related to the accuracy and appropriateness of the improper payment and unknown payment rate estimates and the sampling and estimation plans:

- The population of outlays reported in the AFR and the accompanying materials and subjected to sampling, were not reconciled to the general ledger and were not complete. Consequently, certain transactions were omitted that should have been included in the population and subjected to review.
- There was insufficient documentation to support the sampling methodology and results for the Disaster Direct Loan Program.

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

The Government Accountability Office's (GAO's) 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: "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 adequate controls over the sampling methodology documentation and timely reconciliation of the population of outlays to the general ledger. Not reconciling the population of outlays to the general ledger results in an incomplete sample which may result in an inaccurate and unreliable improper payment estimate. This could potentially result in increases to the improper payment rates and noncompliance with PIIA.

Objective 3 – Prevent and Reduce Improper Payments

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 and unknown payment rate estimate of less than 10 percent for the Disaster Direct Loan Program. In addition, the improper payment and unknown payment rate estimate increased between FY 2020 and FY 2021 for the Disaster Direct Loan Program. Therefore, we noted that additional improvements were needed to prevent and reduce improper payments.

Sec. 3351 of PIIA, states: “(2) Compliance ... (D) publishes programmatic corrective action plans prepared under section 3352(d) that the executive agency may have in the accompanying materials to the annual financial statement; (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. As a result, the Disaster Direct Loan Program was not compliant with PIIA. In addition, not implementing effective preventative controls could potentially result in increases to the improper payment rates.

A. DEFICIENCIES IN INTERNAL CONTROL

In planning and performing our audit of SBA's FY 2021 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 three 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	1. There was not an adequate review process in place over the population of outlays reported in AFR and accompanying materials and subjected to sampling. The populations excluded certain transactions processed after the effective date and were not complete.

Program or Activity	Control Deficiencies
504 CDC Loan Guaranty Approvals	
7(a) Loan Guaranty Purchases 7(a) Loan Guaranty Approvals 504 CDC Loan Guaranty Approvals Disaster Direct Loan Program	2. The population of outlays reported in the AFR and accompanying materials and subjected to sampling, were not timely reconciled to the general ledger and were 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 reported in the AFR and accompanying materials and subjected to sampling. The outlays excluded loan approval increases occurring after the month in which the initial approval occurred and reinstatements of previously cancelled loans and was incomplete.
7(a) Loan Guaranty Purchases 7(a) Loan Guaranty Approvals 504 CDC Loan Guaranty Approvals	4. The review process in place did not ensure that FY 2022 improper payment and unknown payment reduction targets were published in the AFR or accompanying materials.
7(a) Loan Guaranty Purchases Disaster Direct Loan Program	5. There was not an adequate review process in place to ensure the root causes of improper payment rates reported in the AFR and accompanying materials were accurate.

Program or Activity	Control Deficiencies
Disaster Direct Loan Program	<p>6. The review process in place did not ensure that an explanation was reported for establishing a FY 2022 reduction target equal to the FY 2021 improper payment and unknown payment rate estimate.</p> <p>7. Corrective action plans were not adequately implemented to address the root causes of the improper payments identified and to achieve the reduction target.</p> <p>8. There were not effective controls implemented to prevent and reduce improper payments as the gross improper payment and unknown payment rate exceeded the statutory compliance threshold of 10%.</p> <p>9. There were not effective controls implemented to prevent and reduce improper payments as the gross improper payment and unknown payment rate increased from FY 2020 to FY 2021.</p> <p>10. 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.</p> <p>11. There was not sufficient documentation to support the sampling and estimation methodology plan that was used to develop the improper payment and unknown payment rate estimates.</p> <p>12. There was not an adequate review process in place over the population of outlays reported in the AFR and accompanying materials and subjected to sampling. The reported outlays excluded loan disbursements occurring after the quarter in which the initial disbursement occurred, and the population was not complete or accurate.</p>
Various Programs with Annual Outlays Greater than \$10 million	<p>13. There was not an adequate process in place to ensure that sufficient risk assessment procedures were performed, and documentation maintained for programs affected or established by significant legislative or funding changes.</p>

B. RECOMMENDATIONS

For all programs reported by SBA in the payment integrity section of the AFR and accompanying materials and the related findings within each objective, we recommend financial and program management to:

1. Enhance existing procedures 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 processes to ensure all programs are considered, 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 involved in the payment integrity reporting process regarding the updates to existing procedures.
3. Ensure that there is adequate quality control reviews over improper payment disclosures in the AFR and the accompanying materials.
4. Continue to provide training and collaborate with program office staff, as needed, to ensure the timely and complete reconciliation of the population of transactions used for estimating improper payments to the general ledger is performed.

For the Disaster Direct Loan Program related findings within each objective, we recommend financial and program management to:

5. Formally document and implement additional preventative and monitoring controls to determine the eligibility of borrowers prior to approval and disbursement of loans.
6. Ensure that the sampling and estimation methodology plan and results are updated and adequately describe the criteria for stratification of the population by disaster size, including how it was determined and whether it was consistently applied.

V. APPENDIX I: MANAGEMENT'S RESPONSE TO REPORT



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

DATE: May 9, 2022

TO: Hannibal M. Ware, Inspector General

FROM: Katherine Aaby, Associate Administrator for Performance, Planning, and Chief Financial Officer, OPPCFO *Katherine Aaby*
Jihoon Kim, Director, Office of Financial Program Operations, OCA **JI KIM**

SUBJECT: Response to Audit: Performance Audit of the U.S. Small Business Administration's Fiscal Year 2021 Compliance with the Payment Integrity Information Act of 2019

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Date: 2022.05.10 17:58:38
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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 2021 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 legislation¹, 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. Enhance existing procedures 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 processes to ensure all programs are considered, 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.

Agency Response. OPPCFO will continue to enhance existing procedures, as needed, to implement a robust internal and quality control process to ensure complete and accurate reporting of annual improper payment results, formalize the risk assessment process to ensure all programs are considered, and ensure information in the Payment Integrity section of the AFR and accompanying materials are consistent and updated annually. ICD is currently creating a

¹ Payment Integrity Information Act (2019)

risk assessment matrix to identify the programs that require a risk assessment. Additionally, to ensure information in the Payment Integrity section of the AFR and accompanying materials are consistent and updated annually, ICD is developing a spreadsheet template to send to program offices to ensure all data to be reported to OMB is captured and reviewed prior to submission.

Recommendation 2. Provide training to responsible staff involved in the payment integrity reporting process regarding the updates to existing procedures.

Agency Response. OPPCFO will provide training, as applicable, to program offices regarding the updated to existing procedures.

Recommendation 3. Ensure that there is adequate quality control reviews over improper payment disclosures in the AFR and the accompanying materials.

Agency Response. ICD will continue to monitor and review improper payment disclosures in the AFR and accompanying materials for accuracy. To ensure information in the Payment Integrity section of the AFR and accompanying materials are consistent and updated annually, ICD will develop a spreadsheet template to send to program offices to ensure all data to be reported to OMB is captured and reviewed prior to submission. This will ensure all required data elements are reported and reporting is consistent.

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

Agency Response. ICD will continue working with program offices to ensure reconciliation of program disbursements are completed in a timely manner.

Recommendation 5. Formally document and implement additional preventative and monitoring controls to determine the eligibility of borrowers prior to approval and disbursement of loans.

Agency Response. OCA management will document and implement preventative controls related to eligibility of borrowers prior to approval and/or disbursement of loans.

Recommendation 6. Ensure that the sampling and estimation methodology plan and results are updated and adequately describe the criteria for stratification of the population by disaster size, including how it was determined and whether it was consistently applied.

Agency Response. SBA management contracted with a statistician in January 2022. OCA management will ensure that the sampling and estimation mythology plan and results are updated and that the plan adequately describes the criteria for stratification of the population, including how it was determined and whether it was consistently applied.