

SBA'S AWARD AND PAYMENT PRACTICES IN THE SHUTTERED VENUE OPERATORS GRANT PROGRAM

REPORT NUMBER 22-15 | JULY 5, 2022





EXECUTIVE SUMMARY

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What OIG Reviewed

We inspected the U.S. Small Business Administration's (SBA) award and payment practices used to administer the Shuttered Venue Operators Grant (SVOG) program.

On December 27, 2020, the Economic Aid to Hard-Hit Small Business, Nonprofits, and Venues Act authorized SBA to administer the SVOG program. SBA had \$16.25 billion available to award to eligible venues that experienced economic hardship from the COVID-19 pandemic. As of September 20, 2021, SBA awarded 11,974 grants totaling \$9.7 billion.

Our objectives were to determine if SBA 1) disbursed awards in accordance with SVOG program policy, and 2) ensured a recipient's approved budget accurately summarized the financial plan for the award amount in accordance with federal guidelines.

We reviewed applicable public laws, federal grant regulations, policies and procedures. We reviewed SBA's Oversight and Audit Plan for the program and interviewed program officials. We selected 10 awards totaling \$33.2 million to use as a sample to test SBA's disbursement and budget approval practices.

What OIG Found

Even after determining multiple disbursements would better protect grant funds from fraud or misuse, SBA switched to a riskier single advance payment for all grantees. This payment method may have hastened award disbursement, but the agency removed internal controls that would have better protected taxpayer funds. Multiple disbursements enable program officials to verify that grant recipients used award funds for allowable activities before disbursing additional funds. As a result, SBA is unable to monitor the grantee's use of the proceeds until the end of the award when closing out the grant.

None of the 10 awards reviewed had the proper documentation signed by an authorized government official. Only authorized officials can commit the government to awarding federal funds. The authorizing agency signature on the notice of

award demonstrates that the proper procedure has been followed and the obligation has been officially recorded. This is a critical control that serves as a safeguard to protect funds from unauthorized use. Without the proper official documentation, all 10 awards we reviewed, totaling \$33.2 million, are unauthorized commitments.

Program officials did not ensure it had adequate support for the grant amounts in 3 of the 10 awards we reviewed. SBA awarded these three recipients \$2.6 million above amounts that were requested. The higher grant award amounts did not correspond to their budgets, nor was there supporting documentation to show why SBA awarded the higher amounts.

In addition, SBA did not consistently ensure the recipient's budget accurately summarized the financial plan for the award amount. Awards made to 1,849 recipients, totaling \$1.49 billion, did not have a budget that reconciled to the award amount. It is essential that SBA approve budgets that match the award amount to hold grant recipients accountable for meeting program requirements.

OIG Recommendations

We made six recommendations for SBA management to ensure SBA properly safeguards program funds and improves disbursement and award procedures while administering the SVOG program.

Agency Response

SBA management agreed or partially agreed with four recommendations and disagreed with two. Management's planned actions resolve all six recommendations. SBA plans to use risk assessments for future disaster grant program award disbursements. SBA also implemented procedures to make award amounts match budgets. SBA managers stated they maintained digital evidence to document that government officials approved the SVOG awards and had reviewed the three awards that received an overpayment. Finally, SBA plans to assess whether management should continue to waive prior approval for budget line item changes.



Office of Inspector General

U.S. Small Business Administration

DATE: July 5, 2022

TO: Isabella Casillas Guzman
Administrator

FROM: Hannibal "Mike" Ware 
Inspector General

SUBJECT: SBA's Award and Payment Practices in the Shuttered Venue Operators Grant Program

This report presents the results of our inspection of *SBA's Award and Payment Practices in the Shuttered Venue Operators Grant Program*. We considered management's comments on the draft of this report when preparing the final report. We also reviewed additional documentation that SBA management provided to respond to the draft report.

We made six recommendations to ensure disbursement and award procedures are improved to safeguard SVOG and future disaster funds. SBA management agreed or partially agreed with four recommendations and disagreed with two recommendations. Management's planned or implemented actions resolve all six recommendations.

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact Christina Sweet, Director of Business Development Program Group, or Andrea Deadwyler, Assistant Inspector General for Audits, at (202) 205-6586.

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Introduction

The Economic Aid to Hard-Hit Small Businesses, Nonprofits, and Venues Act was signed into law on December 27, 2020. It included \$15 billion in grants to operators of shuttered venues to be administered by the U.S. Small Business Administration (SBA) Office of Disaster Assistance. Eligible shuttered venues are live venue operators or promoters, theatrical producers, live performing arts organization operators, relevant museum operators, including zoos and aquariums (who meet specific criteria), motion picture theater operators, and talent representatives. To be eligible, these entities had to have been fully operational on February 29, 2020.¹

The Economic Aid Act states that an eligible person or entity may use amounts received from the SVOG for payroll, rent and utility payments, scheduled mortgage and other covered debt payments, worker protection expenditures, and payments to independent contractors, as well as other ordinary business expenses. These other expenses could include maintenance, administrative, taxes, operating leases, insurance, and advertisement costs. However, grant expenditures should not primarily consist of advertisement and production costs, with exceptions as noted in the law.

For an eligible entity that was in operation on January 1, 2019, the grant amount cannot exceed \$10 million or 45 percent of the 2019 gross earned revenue, whichever is less. For an eligible entity that began operation after January 1, 2019, the grant amount cannot exceed \$10 million or six times the average monthly gross earned revenue for every full month during 2019, whichever is less. The Economic Aid Act set aside \$2 billion of SVOG funds for small businesses with less than 50 employees.

On March 11, 2021, the American Rescue Plan Act of 2021 was enacted and provided an additional \$1.25 billion in grants,² increasing the available SVOG funding to \$16.25 billion. As of March 7, 2022, SBA awarded 12,881 grants totaling \$10.9 billion and 9,219 in supplemental grants totaling \$3.23 billion, leaving a remaining balance of \$2.12 billion.

Objective

Our objectives were to determine whether SBA disbursed awards in accordance with SVOG program policy and ensured recipients' approved budgets accurately summarized the financial plan for the award amount in accordance with 2 CFR § 200.308.

¹ Public Law 116-260, Section 324 (December 27, 2020).

² Public Law 117-2, Title V, Section 5005 (2021).

Finding: SBA Award and Payment Practices Increased Risk and Vulnerabilities in SVOG Program

SBA launched the SVOG program, unprecedented in its scope and purpose, to provide economic relief and stimulus in response to a national economic crisis. The Economic Aid Act specifically required SBA to increase oversight of eligible entities receiving SVOG, which included requesting from grantees additional documentation and reviewing spending activities. The Economic Aid Act also required SBA to submit an Oversight and Audit Plan that included SBA's policies and procedures that it would use to govern the program.

However, SBA made changes to its Oversight and Audit Plan while awarding the initial grants to disburse all grant awards as single advanced payments regardless of the risk assessed for the recipient. This change eliminated the requirement for moderate and high-risk grant recipients to report on how they used the award funds before SBA disbursed additional funds. This change weakened SBA's ability to oversee the program and ensure the grant recipients used funds appropriately during the grant performance period.

In addition to the Economic Aid Act requiring SBA establish an Oversight and Audit Plan, an Office of Management and Budget (OMB) memorandum required SVOG program officials to follow federal grant regulations in 2 CFR 200.³ They were also expected to implement applicable federal guidance and establish SBA policies to effectively manage and oversee the grant program. When applied, these federal guidelines ensure that grants funds are properly safeguarded, accounted for, and used for their intended purpose. However, we found SBA did not follow fundamental grant management controls intended to protect taxpayer funds.

We found these internal control weaknesses need to be addressed to safeguard taxpayers' funds in the SVOG program:

- Single disbursement. SBA officials changed all disbursements to single payments regardless of their risk classification.
- Award notices. SVOG notices of award were issued without government authorized approval signatures.
- Award amounts. SBA made some awards without sufficient documentation supporting the award amounts.
- Budget revisions. SBA allowed grantees to make budget changes without the agency's prior approval.
- Budget approval. SBA inconsistently approved grantee budgets that did not reconcile to grant awards.

Although federal regulations offer certain flexibilities in adjusting award conditions, agencies must consider the applicant's history of compliance with the terms and conditions of a federal award alongside other factors when determining appropriate award.⁴ SVOG is a new program with a large number of first-time federal grant recipients, which could

³ OMB M-21-20, Promoting Public Trust in the Federal Government through Effective Implementation of the American Rescue Plan Act and Stewardship of the Taxpayer Resources, p. 2 (2021).

⁴ 2 CFR § 200.208(b) - Special conditions.

involve higher risk. For these reasons, the program requires a reliable risk framework, consistent application of federal regulations, and robust monitoring controls for effective oversight.

Single Disbursement

On February 10, 2021, SBA submitted its Shuttered Venue Oversight and Audit Plan, as required by the Economic Aid Act, to the House Committee on Small Business and Senate Committee on Small Business and Entrepreneurship. SBA defined the risk level of grantees as low, moderate, or high depending on venue type and grant award amount. The plan specified that recipients having a moderate or high risk would have award funds distributed in two or more disbursements.

The plan also included monitoring activities to mitigate risks associated with the disbursement of funds. For instance, after the first disbursement the recipient was required to provide relevant documentation to further verify revenue loss and the use of funds from the first disbursement. SBA planned to review the submitted documents before disbursing additional funds.

Four months later, on June 10, 2021, SBA changed its original plan of risk-based fund disbursement to a single disbursement for all grantees, whether they were deemed low, moderate, or high risk. SBA's decision to advance the full award for all grant recipients in a single payment limits its ability to detect misuse of SVOG funds. Multiple disbursements would have allowed SBA to detect potential misuse before disbursing additional funds to recipients considered to present a high or moderate risk to the program. The use of multiple disbursements allows for interim financial reporting on the use of funds before disbursement of the next installment. SBA had planned to base the next payment on the reliability of documents supporting the interim financial reports. This process, if SBA had adhered to it, would have given SVOG officials the opportunity to advise moderate and high-risk grant recipients on allowable costs and acceptable federal financial reporting before disbursing the full amount of the award.

SBA communicated this change to OMB and White House officials, but did not communicate it to the public until a month after implementation. SBA did not formally notify members of Congress of these changes until December 2021, when it submitted the revised Oversight and Audit Plan. Also, in SBA's revised Oversight and Audit Plan, management did not address how funds would be disbursed, which is a critical component in properly administering this new program and safeguarding taxpayer funds.

Award Notices

Federal standards for internal controls requires managers to institute controls that appropriately safeguarded assets.⁵ OMB guidance to federal managers further specifies that they design a system of controls to reasonably prevent, detect, and correct unauthorized acquisition, use, or disposition of an asset.⁶ According to SBA's federal

⁵ U.S. Government Accountability Office, GAO-14-304G, Standards for Internal Control in the Federal Government, p. 5 (2014).

⁶ OMB Circular No. A-123, Management's Responsibility for Enterprise Risk Management and Internal Control, p. 22 (2016).

assistance directive, only warranted grant officers can commit the agency to enter into a federal assistance agreement, such as a grant, obligating federal funds. All 10 of the notices of award we reviewed were signed by the grant recipient, but none were signed by a warranted grant officer or any agency official. Therefore, there is insufficient evidence that an authorized government official reviewed and certified a crucial grant document.

In addition, OMB Circular A-11, section 20.5(f) states that discretionary grants will be obligated after the amounts are determined administratively and recorded at the time the grant award is signed. The obligation must conform to applicable provisions of the law, and the agency must be able to support the amounts reported by the required documentary evidence.⁷ The absence of a signature accompanying the award date⁸ results in the supporting documentation being insufficient to determine whether SBA made payment on grants in advance of a legally binding award for such purpose. Without a signature from an authorized government official, these awards do not meet SBA's policies for incurring an obligation. This means the \$33.2 million awarded to the 10 recipients we reviewed are unauthorized commitments and improper payments. Program officials told us they had initially planned to have two officials signing the awards. However, upon implementation, officials determined they did not have enough resources and issued awards without the signatures. Because program officials did not ensure authorized officials signed the notices of award before disbursing funds, there is no assurance that all 11,974 awards, totaling \$9.7 billion, awarded as of September 20, 2021 were authorized commitments.

In April 2021, we alerted SBA management that approving and awarding federal funds is an inherently governmental function. We also informed management that SBA's policy required that warranted grant officers commit the agency to enter the federal assistance agreement that obligates federal funds. Despite this, SBA did not ensure it adequately documented that an authorized government officials made the final determination to award the grant.⁹

Award Amounts

The Economic Aid Act established a formula for SBA to use to calculate the award amount for the SVOG recipients. The Act prescribed that the grant amount for an eligible entity in operation on January 1, 2019 cannot exceed \$10 million or 45 percent of the 2019 gross earned revenue, whichever is less. The Act prescribed that the grant amount for an eligible entity in operation on January 1, 2019 shall be \$10 million or 45 percent of the 2019 gross earned revenue, whichever is less.

SBA did not ensure the award amounts were appropriately calculated for 3 out of 10 awards we reviewed. For one of the awards, program officials miscalculated the award amount because they included unallowable revenue. The notice of award provided \$6.4 million, of which the recipient agreed to accept only \$4.9 million. Program officials disbursed the full \$4.9 million but never updated the notice of award, which incorrectly reflected \$6.4 million. After disbursing the \$4.9 million, program officials determined the

⁷ 31 USC 1501.

⁸ 2 CFR 200.1 Definition for award date.

⁹ SBA OIG Report 21-13, *Serious Concerns About SBA's Control Environment and the Tracking of Performance Results in the Shuttered Venue Operators Grant Program* (April 7, 2021).

recipient was only eligible for \$3 million. Despite this, program officials did not take action to recover the \$1.9 million in overpayment as of the conclusion of our inspection. Federal regulations require agency officials to recover overpayments to recipients¹⁰ (See Appendix II for monetary impact).

For two awards we reviewed, program officials determined the applicants should have received larger amounts than requested on their approved budgets, so they awarded the larger amounts to these applicants. Program officials did not include any supporting documentation to justify increasing the amounts. Specifically:

- A talent representative was awarded \$551,000 with a budget that supported only \$55,000, resulting in a \$496,000 overpayment.
- A theatrical producer was awarded \$3.1 million with a budget that supported needing only \$2.9 million, resulting in a \$200,000 overpayment.

We question this overpayment of \$683,000 not included in the applicants' original approved budgets (see Appendix II for monetary impact).

Budget Revisions

Federal regulations established that budgets represent the financial plan for the award approved by the awarding agency during the federal award process or in subsequent changes to the federal award.¹¹ Generally, recipients must report changes from budget or project scope or objective and request prior approval from federal awarding agencies for any such changes. SBA officials used the option of waiving the pre-approval requirement for changes between line items within the budget. While it was within their discretion to waive this requirement, this decision is concerning because of the removal of interim financial reporting in this high-risk environment.

SBA planned to restrict the grant recipient's use of funds even further by announcing that grant recipients had to request prior approval for transfers between line items within the budget. This is a common restriction SBA uses for grant recipients in its other grant programs, such as for Women's Business Centers, Veterans Business Outreach Centers, and the State Trade Expansion Program. However, on July 22, 2021, SBA announced it would not restrict the transfers between line items within a budget for SVOG recipients.¹²

While it was within their authority to waive this requirement,¹³ SBA did not have other procedures in place to monitor how grant recipients used the funds during the period of performance. Additionally, SBA told us they decided to allow all grant recipients to submit a new budget immediately before submitting their final financial report describing how they used the award funds. Therefore, grant recipients could simply submit a budget to match how they already spent the SVOG award. This raises concerns because of the high-risk environment and lack of internal controls we observed in the program. Most notably,

¹⁰ 2 CFR § 200.345 and 2 CFR § 200.53.

¹¹ 2 CFR § 200.1 Definitions.

¹² SBA Shuttered Venue Operators Grants Frequently Asked Questions #167 (2021).

¹³ 2 CFR § 200.308 (f).

we identified instances in which the approved budget was inaccurate and did not reconcile with the grant award amount.

Most SVOG recipients are likely first-time federal awardees¹⁴. As such, these grant recipients may lack the experience to know if they are in full compliance with government requirements. If SBA required awardees to adhere to their approved budgets, that could lower the risk of recipients misusing funds. But this would only be effective if the grantee's approved budget equals its award amount, which did not happen in about 15 percent of the 11,974 grants SBA awarded as of September 20, 2021.

There is also a potential for grant recipients to unknowingly run into issues during grant close out. Requiring pre-approval for budget changes could prevent recipients from using funds for unallowable expenses and having to return the grant funds during the grant close-out process. If unallowable expenses were detected during the performance through a budget change request, the grant recipients would have the opportunity to use the funds for other allowable expenses.

Further complicating this issue is that the terms and conditions in the notice of awards for these mostly first-time grant recipients did not clearly promote how grant funds should be spent and what was expected from grantees as beneficiaries of taxpayer funds. In the notice of award and accompanying terms and conditions, SBA cited the Economic Aid Act, federal grant regulations, suspension and debarment regulations, and a handful of checklist items that the grant recipient must follow.

This is potentially problematic because the Economic Aid Act states that an eligible recipient "may" use grant funds for a list of certain categories of expenses and expressly excludes a few others. In SBA's notice of funding opportunity, it stated that the recipient "must only" use the award funds for the cost categories prescribed in the Economic Aid Act.¹⁵ SBA expounded on the types of allowable costs that were ambiguous in the law in its Frequently Asked Questions guidance. However, without a reference to SBA's guidance in the notice of award, either expressly or by reference, SBA may not be able to enforce policy implementing the Economic Aid Act as described in the Frequently Asked Questions and notice of funding opportunity.

Budget Approvals

Approved budgets represent the financial plan for grant awards in the federal award process. As such, it is fundamental that the applicant's approved budget reconciles with the grant award. However, in our review of SVOG grant awards, we found that SBA disbursed \$1.49 billion to 1,849 SVOG recipients, 15 percent of the total, without ensuring the budgets matched the grant awards (see Table 1). SBA's federal assistance policy directive states that a detailed budget and program description improves the likelihood of successful post-award monitoring and project completion. Federal regulations further state the approved budget for the award should summarize the financial aspects of the project as

¹⁴ Only about 3 percent of the 11,974 recipients awarded an SVOG as of September 20, 2021 had any recent activity on [USAspending.gov](https://www.usaspending.gov). [USAspending.gov](https://www.usaspending.gov) is the official open data source of federal spending information.

¹⁵ Applications for New Awards; Shuttered Venue Operators Grants, 86 FR 16270, 16270-16272 (March 26, 2021).

approved during the federal award process.¹⁶ The approved budgets are included on the notices of award. This is vital to SBA’s ability to properly monitor the use of funds.

Table 1. Grant Awards that Did Not Match Approved Budgets, as of September 20, 2021

SVOG Grant Awards	Number of Awards	Approximate Amount (dollars)
Grant Awards Greater Than Approved Budgets	744	\$575,999,705
Grant Awards Less Than Approved Budgets	1,105	911,339,963
Grant Awards equal to approved Budgets	10,125	8,233,891,105
Total Grant Awards	11,974	\$9,721,230,773

Source: OIG generated based on Office of Disaster Assistance’s database containing SVOG applications.

SBA needs to consistently ensure that recipients declare that they are going to use award funds for allowable expenditures. Grants awarded beyond what is requested or needed could lead to misuse or abuse of taxpayer funds. Awarding grantees more than they have budgeted could also prevent other eligible and deserving venues from receiving needed assistance.

Grant Awards Greater Than Approved Budgets

SBA issued at least 744 grant awards, totaling \$576 million, that were greater than the corresponding approved budgets. In some cases, the full grant award amount was disbursed without an updated budget being provided. SBA did not plan to remedy this issue before awarding the grant and in some instances before disbursing payment. For example:

- A motion picture theater operator grant recipient received \$6.4 million but provided an updated budget that supported \$5 million.
- A theatrical producer grant recipient received \$3.1 million but requested and provided a budget with support for \$2.9 million.
- A live performing arts organization operator grant recipient received \$10 million but provided a budget with support for \$8.5 million.

For all of these examples, the grant file did not include a revised budget that supported how the recipients planned to spend the additional amount. If the award amount exceeds the budget amount proposed by grantee, then there is no justification for how the grantee will spend the excess funds or whether the funds are even needed. Funds that were awarded exceeding the recipient’s need could have been put to better use had SBA awarded the funds to other recipients to use for allowable operating expenses.

¹⁶ 2 CFR § 200.308(a).

Grant Awards Less Than Approved Budgets

SBA issued at least 1,105 grant awards, totaling \$911 million, in which the award amount was less than the corresponding approved budgets.

For example, a live performing arts organization operator grant recipient received \$3.6 million but provided a budget for \$9.3 million. SBA determined the submitted grant application amount in their budget included unallowable income and the award amount should be \$3.6 million. The agency did not then request a revised budget from the grant recipient which would allow the agency to monitor the usage of grant funds.

It is important that SBA receives and approves revised budgets and updates notices of award to incorporate changes into the agreements. This will allow SBA to hold grantees accountable for allowable expenses. SBA's Post Application Guidance, dated July 28, 2021, required applicants with award amounts higher than the proposed budget to submit a revised budget reconciling to the higher grant award within 14 days of notification. However, the guidance did not address reconciliation where grant awards were less than proposed budget submissions.

SBA did not reach out to the grant recipient to receive an updated budget prior to grant award. In speaking with SBA officials, they were not initially aware of this issue, but they did not consider this a departure from their policy. The need for sufficient documentation, including an appropriate budget, is a basic grant administration requirement that ensures grant fund accountability.

Recommendations

To establish more effective financial oversight controls for the SVOG program, we recommend that the Administrator direct the Associate Administrator for the Office of Disaster Assistance to:

1. Establish procedures to use a risk-based approach for disbursing award funds for future disaster grant programs.
2. Ensure all SVOG program notices of award are signed by an authorized government official and remedy awards that were not entered into by an authorized government official.
3. Recover the \$1.9 million of overpayments to a grant recipient in accordance with 2 CFR § 200.345-346.
4. Remedy or recover the \$683,000 of awards that were made without adequate support for the award amount.
5. Require the reconciliation of the grant recipient's budget to the final award amount prior to awarding a grant, including ensuring receipt of revised budgets, when changes are needed, prior to disbursing grant awards. Furthermore, discontinue the disbursement of grant awards prior to the receipt of a revised budget.
6. Reassess SBA's flexibility in allowing waivers for budget changes between line items or implement monitoring procedures to mitigate risks of recipients using funds for unallowable expenses during the grant performance period.

Analysis of Agency Response

SBA management provided formal comments that are included in their entirety in Appendix IV. Management fully agreed with two recommendations, partially agreed with two recommendations, and disagreed with two recommendations. We found that the agency's planned, and in some cases implemented, actions are sufficient to resolve all six recommendations.

Management also included three concerns regarding the inspection methodology and report content. First, management was concerned that we used our sample as a basis of our conclusions about the SVOG program as a whole despite being a small sample and not representative of the SVOG program. We did not attempt to project our findings to the entire population of SVOG grants. We assessed SBA's processes for disbursing awards of SVOG grants. In our assessment of SBA's processes, the size of our sample does not change our finding that the designed processes did not ensure program officials used a risk-based approach for disbursing awards or ensured approved budgets accurately summarized the financial plan for the award amounts.

While the sample size was small, it was sufficient for our auditors to assess the process. Also, even with a small sample, it is concerning that we identified issues with every award tested (See Appendix I).

Second, management disagreed with our finding that SBA changed the initial risk-based multiple disbursement approach to single disbursements regardless of applicants' risk without informing Congress. Despite noting these concerns, management did not provide evidence of written communication to Congress prior to December 2021 when SBA submitted the revised Oversight and Audit Plan. We maintain our position that management made this change without formally communicating it to Congress.

Finally, management disagreed with our finding that SBA did not require recipients to provide an updated budget prior to the grant award amount. Management stated they implemented policy to require recipients to submit revised budgets on July 1, 2021 and started to enforce the policy on November 17, 2021. We acknowledge that enforcing the policy should help position program officials to make sure applicants planned to use the award funds for appropriate expenses. However, we maintain our position that there were instances in which SBA did not require an updated budget be submitted for any discrepancies prior to grant award and disbursement of funds. We assessed awards issued as of October 5, 2021, after the agency implemented the policy, but prior to the agency enforcing the policy. Because our review only captured awards from this specific period, and the agency enforced the policy more than four months after implementing it, we identified 1,849 instances in which the grant award amounts and approved budget amounts did not reconcile. These findings highlight the need for a consistent approach to ensure approved budgets match award amounts.

Summary of Actions Necessary to Close the Report

The following sections detail the status of the recommendations and the actions necessary to close them.

Recommendation 1

Establish procedures to use a risk-based approach for disbursing award funds for future disaster grant programs.

Status: Resolved.

SBA managers partially agreed with this recommendation, noting that program officials were following the Administrator's guidance to align the SVOG program with other SBA pandemic relief emergency programs when they changed disbursements to single payments. Management noted that single payments expedite funding to small businesses affected by a disaster. Management plans to document requirements to incorporate risk as a component of disbursement decisions and oversight of future disaster grant programs. SBA plans to complete final action by September 30, 2022.

This recommendation can be closed when management provides evidence that they established risk-based award disbursement and oversight practices for future disaster grant programs.

Recommendation 2

Ensure all SVOG program notices of award are signed by an authorized government official and remedy awards that were not entered into by an authorized government official.

Status: Resolved.

SBA managers partially agree with this recommendation. They stated that SBA agrees that all grant awards should be issued by an authorized government official and asserts this was the case with SVOG awards. Management acknowledged that it is part of SBA's normal practice to manually sign, issue, and approve disbursements when processing grants. However, management explained this practice was not feasible in this circumstance due to the time constraints and large volume of grant applications.

Management does not agree that a physical countersignature is required and explained that SBA maintains digital evidence of approvals. They stated that the digital records comply with 31 USC 1501 and 31 USC 1108, as interpreted by OMB Circular A-11, § 20.5(a) through (f).

We maintain our position that SBA did not design adequate controls to ensure an authorized official approved the SVOG awards. For all awards we reviewed, the system logged user activity captured the names and notes of the various reviewing officials but did not identify specific actions that showed an authorized officials approved the award.

The recommendation can be closed when management provides the procedures used to ensure an authorized government official approved the SVOG awards and digital evidence that authorized government officials awarded SVOG grants, including the ones we reviewed.

Recommendation 3

Recover the \$1.9 million of overpayments to a grant recipient in accordance with 2 CFR § 200.345-346.

Status: Resolved.

SBA managers disagreed with this recommendation, stating that SBA evaluated the documentation on file and concluded there is no overpayment. They noted that an SBA employee, outside the scope of their assigned duties, alleged an over calculation of the award recipient's 2019 earned revenue. However, based on a quality assurance team review in April 2022, management concluded that the grant award was made in accordance with SVOG program policy and within federal guidelines.

This recommendation can be closed when management provides the results of the quality assurance team review and the evidence that supports the full amount of the award.

Recommendation 4

Remedy or recover the \$683,000 of awards that were made without adequate support for the award amount.

Status: Resolved.

SBA managers disagreed with this recommendation, stating that SBA analyzed the three grants identified and concluded they were awarded with adequate supporting documents in accordance with SVOG program policy. Based on management's comments and documentation regarding one of the awards we reviewed, we agree with management that SBA did not overpay a recipient \$500,000 and removed this award and the amount from our report.

For the remaining two awards that we questioned as having received an overpayment, management determined that the recipient's revised budgets matched the award amounts as of March 10, 2022 and concluded there was not an overpayment. Management's determinations appear to include supplemental award funds because the analyzed award amounts were larger than the award amounts that we reviewed, but SBA did not provide the supporting documentation necessary to verify that an overpayment was not made.

Since we reviewed these awards before SBA made supplemental funding decisions, the additional award funds may have resolved the budget discrepancies. This recommendation can be closed when management provides the budget revisions that support the award amounts.

Recommendation 5

Require the reconciliation of the grant recipient's budget to the final award amount prior to awarding a grant, including ensuring receipt of revised budgets, when changes are needed, prior to disbursing grant awards. Furthermore, discontinue the disbursement of grant awards prior to the receipt of a revised budget.

Status: Resolved.

SBA managers fully agreed with this recommendation. Management stated that they implemented policy on July 1, 2021 that required budgets to match the award amounts prior to SBA issuing the notice of award. Management explained this policy was fully enforced through technology updates as of November 17, 2021.

The system controls SBA provided showed that the system would generate an error message if the budget amount did not match the award amount. We found a similar error message in 8 of the 10 files we reviewed. However, in these instances, SBA had finalized the notices of award and disbursed funds without resolving the error. While our sampled transactions were awarded prior to SBA implementing the system controls, we are unable to determine whether the November 17, 2021 updates would prevent the overrides we observed in our sample files.

This recommendation can be closed when management provides evidence that the system controls include restrictions that would fully enforce the current policy prior to awarding a grant.

Recommendation 6

Reassess SBA's flexibility in allowing waivers for budget changes between line items or implement monitoring procedures to mitigate risks of recipients using funds for unallowable expenses during the grant performance period.

Status: Resolved.

SBA management fully agreed with this recommendation, stating that they will reassess the flexibilities in allowing waivers for budget changes by SVOG awardees. Management stated they planned to make a determination whether to maintain this process by June 15, 2022. OIG was not provided with any updates concerning any changes in policies and procedures prior to issuing this report in final.

This recommendation can be closed when management provides evidence that they reassessed the budget change waivers or implemented monitoring procedures to mitigate risks of recipients using funds for unallowable expenses during the grant performance period.

Appendix I: Objective, Scope, and Methodology

Objectives

Our objectives were to determine whether SBA disbursed awards in accordance with SVOG program policy and ensured recipients' approved budgets accurately summarized the financial plan for the award amount in accordance with 2 CFR § 200.308.

Scope and Methodology

To meet our inspection objectives, we reviewed applicable public laws, federal grant regulations in 2 CFR 200, and applicable policies and procedures. We also reviewed SBA's SVOG program webpage and all publicly available documents and met with program officials for additional clarity and documentation, as required.

We relied on the data SBA provided showing the award recipients, the approved budgets, and disbursements that had been made since the program began making awards on April 8, 2021 through September 20, 2021. SBA used Salesforce to administer and maintain SVOG program grants awards. We selected ten SVOG grant recipients that had unreconciled grant award and applicant budget amounts to verify the data SBA provided. The scope of the inspection has been limited to documented comments made by grant awarding officials, budget forms, disbursement forms, and notices of award issued. We believe that the evidence we obtained provides a reasonable basis for our findings and conclusions based on our inspection objective.

We conducted this inspection in accordance with the Council of the Inspectors General on Integrity and Efficiency *Quality Standards for Inspection and Evaluation*. Those standards require that we adequately plan and perform the inspection to obtain sufficient and appropriate evidence to provide a reasonable basis for our findings and conclusions based on our objective.

Use of Computer-Processed Data

We relied on computer-processed data in the program office files. We retrieved SVOG program notices of award, budget information, disbursement information, and awarding official comments from the program office files maintained within Salesforce. We tested the reliability of the data by comparing data reported in the database spreadsheets provided by SBA to the source documentation. We also reviewed and compared the performance data of SBA's COVID-19 SVOG webpage.

In addition, we compared the data reported in the database spreadsheets provided by SBA to the source documentation generated from the grant recipient's data analytics program. We noted some inconsistencies, however, we believe the computer-processed information is reliable for the limited purposes of this inspection.

Prior Audit Coverage

Report Title	Objective	Report Number	Final Report Date	Monetary Impact
<i>Serious Concerns About SBA's Control Environment and the Tracking of Performance Results in the Shuttered Venue Operators Grant Program</i>	Notify management of risks and vulnerabilities in the SVOG program	Report 21-13	April 7, 2021	N/A

Appendix II: Monetary Impact

Questioned costs are expenditures that do not comply with legal, regulatory, or contractual requirements; are not supported by adequate documentation at the time of the audit; or are unnecessary or unreasonable.¹⁷ Questioned costs may be remedied by offset, waiver, recovery of funds, the provision of supporting documentation, or contract ratification, where appropriate.

Table 2. OIG Schedule of Questioned Costs for SVOG Awards Reviewed

Recommendation Number	Impact Category	Amount (dollars)
2	Unauthorized commitments	\$33,182,490
3	Unallowable cost	1,919,326
4	Unsupported award amount	683,000
Total	--	\$33,182,490

Note: The table totals \$33,182,490. We reduced the total questioned amount by \$2,602,326 because these costs were also questioned as unauthorized commitments.

Source: OIG analysis of the notices of award we reviewed

As defined in 2 CFR 200.1, the unsigned notices of award are questioned costs because they violate federal budget reporting and recording requirements and SBA policy.

Under 2 CFR 200.345, any funds paid to a non-federal entity in excess of what is entitled under the terms of the federal award constitutes a debt to the federal government. This debt must be recovered by reimbursement, withholding advance payments, or other remedies permitted by statute. For one entity, SBA miscalculated the award amount because they included unallowable revenue and overpaid the recipient \$1.9 million.

SBA's Federal Policy Directive for Grants requires program officials maintain all supporting documentation of the complete lifecycle of the award in the official electronic file. For two of the awards we reviewed, program officials determined the applicants should have received larger amounts than requested on their approved budgets. Program officials did not include documentation in the award file to support increasing the award amounts. As a result, we question the award amount associated with the two recipients who received \$683,000 in overpayments.

¹⁷ Inspector General Act of 1978, as amended, section 5(f)(1).

Appendix III: Management Comments

SBA Management Response to Inspection Report



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

DATE: May 13, 2021

TO: Hannibal "Mike" Ware
Inspector General

FROM: Francisco Sanchez, Jr.
Associate Administrator
Office of Disaster Assistance

SUBJECT: Response/Management Decisions to Office of Inspector General Draft Report - SBA's Award and Payment Practices in the Shuttered Venue Operators Grant Program (Project 21015)

We have reviewed the Office of Inspector General (OIG) draft inspection report, "SBA's Award and Payment Practices in the Shuttered Venue Operators Grant (SVOG) Program (Project 21015)," sent on March 29, 2022. Our response to the report follows. The response includes SBA's position on the six recommendations identified by OIG, as well as three comments on the report methodology/content.

We appreciate the opportunity to respond and look forward to further discussing at OIG's convenience.

Sincerely,

Francisco Sanchez, Jr.
Associate Administrator
Office of Disaster Assistance

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Responses to Recommendations

Recommendation #1: Establish procedures to use a risk-based approach for disbursing award funds for future disaster grant programs.

Response: SBA partially agrees with this recommendation.

In the context of the SVOG program:

- The change to a lump-sum payment for SVOG was made on June 10, 2021, following the Administrator’s guidance to align SVOG with other SBA pandemic-relief emergency programs, including the Restaurant Revitalization Fund, the COVID-EIDL program, and the Paycheck Protection Program. This change was communicated to grantees via their Form-1222 and budgetary paperwork, and to Congress via daily and weekly briefings beginning in mid-June.
- As of early February 2022, SVOG has completed all initial decisions and 99% of disbursements for base awards.
- Using single payments for disaster grants increases the likelihood of success. If SBA were to intentionally delay the availability of funds, it would increase the risk businesses would not receive timely relief. Without expedited funding, many small businesses will not survive a disaster.

Moving forward:

- SBA will continue to use risk assessments for future disaster grant programs to include the need, purpose, and audience of the emergency funding in its analysis of fraud risk and improper payments. The risk of bad actors receiving funds must be weighed against the risk of insufficiently supporting recipients. SBA will accept the recommendation to incorporate risk as a component of disbursement decisions and oversight of future disaster grant programs.

Corrective Action and Anticipated Completion Date:

Action	Target Completion Date
Document outlining the incorporation of risk when designing disbursement and oversight practices for future disaster grant programs	September 30, 2022

Recommendation #2: Ensure all SVOG program notices of award are signed by an authorized government official and remedy awards that were not entered into by an authorized government official.

Response: SBA agrees that all grant awards should be issued by an authorized government official and asserts this was the case with SVOG awards. However, SBA does not agree that a physical countersignature is required to accomplish this.

- SBA vigorously supports controls which reasonably prevent, detect, and correct unauthorized acquisition, use, or disposition of federal funds. SBA ensures all awards are entered into by an authorized government official, and SBA digitally maintains documentary evidence of such awards and certifications in compliance with 31 U.S.C. 1501 and 31 U.S.C 1108, as interpreted by OMB Circular A-11, § 20.5(a) through (f).
- While SBA's customary practice when processing grants is to manually sign, issue, and approve disbursements for each award,¹ this "one at a time" approach was not feasible for SVOG awards due to: (1) the number of awards the Agency needed to make under the program² being approximately 100 times greater than conventional Agency grant programs; and (2) the dire need for the Agency to quickly deliver disaster assistance to eligible businesses affected by the COVID-19 pandemic. Had SBA followed its manual practice in this instance, the incalculable delays to the award process likely would have forestalled the delivery of emergency relief to such an extent that many, if not most, eligible entities would have permanently gone out of business before they received their awards.
- Therefore, to effectuate the purpose of the legislation, the Agency followed the precedent set by another SBA emergency pandemic relief initiative, the Economic Injury Disaster Loan (EIDL) Advance grant program,³ and adopted a streamlined, expedited, and substantially digital process for reviewing, approving, issuing, and disbursing SVOG awards. As with SVOG, the EIDL Advance grant program also involved a high volume of applicants and awardees⁴ who required immediate support to remain in business, awards were issued via a non-competitive process, there were no performance requirements for grantees, and both award amounts⁵ and allowable uses of funds were stipulated by the EIDL Advance grants authorizing legislation.⁶
- Please see Appendix 1 for the complete memorandum documenting the SVOG award process and its alignment with Economic Injury Disaster Loan (EIDL) Advance processes

Recommendation #3: Recover the \$1.9 million of overpayments to a grant recipient in accordance with 2 CFR § 200.345-346.

Response: SBA does not agree with this recommendation and recommends removing this item from the report.

- SBA agrees that payment integrity is vital to protect the investment the Nation has made in the performing arts industry via the Shuttered Venue Operators Grant.

¹ SBA SOP 00 18 01, Federal Assistance Policy Directive (Grants) (Sep. 24, 2019).

² As of midday April 25, 2022, the program has reviewed 17,637 applications and has made 12,980 initial and reconsideration awards and 9,511 supplemental awards. In total, the program has awarded \$14.41 billion dollars. 3 15 U.S.C. § 9009(e).

⁴ Disaster Assistance Update: Nationwide COVID EIDL, Targeted EIDL Advances, Supplemental Targeted Advances (Apr. 14, 2022) https://www.sba.gov/sites/default/files/2022-04/COVID-19%20EIDL%20TA%20STA_04142022_Public-508.pdf

⁵ Id. at § 9009(e)(3).

⁶ Id. at § 9009(e)(5).

- In this instance, after OIG provided identifying information on the SVOG award⁷ in question, SBA evaluated the documentation on file and concluded there is no overpayment. On March 28, 2022, SBA confirmed the award was made in accordance with SVOG Program policy and within federal guidelines. Therefore, no recovery is needed.
- The SBA verification process, inclusive of 2019 tax returns, found Grantee had larger 2019 earned revenues (approximately \$14.9 million) than the Grantee estimated in their application. The verified financials were then used calculate revenue losses for eligibility, as well as award size.
- The SVOG Award System, applying the statutory formula, correctly calculated the maximum eligible award as \$6.7 million, prior to the PPP deduction required by the American Rescue Plan Act.
- Upon notification of their maximum possible award size, Grantee submitted a revised budget indicating they only wanted to receive \$4.9 million of the maximum eligible award.
- One month after the award was issued, a non-authoritative review by an SBA employee, outside of the scope of their assignment from the SVOG Program Office, alleged an overcalculation of 2019 Earned Revenue. The file was re-reviewed by a quality assurance team in April 2022, and the original revenue determination was upheld.

Table 1. Calculation of Correct Payment

Award Calculation - Formula	Data Input	Output
<p>1. Standard Award Amount: 45% of 2019 earned revenue</p> <p>a. Alternatives:</p> <p>i. If confirmed Date Business Began Operation (DBBO) is <u>greater than</u> 1/1/2019 but <u>less than or equal to</u> 12/1/2019: Avg. of <u>full</u> months of 2019, multiplied by 6.</p> <p>ii. If DBBO is <u>greater than</u> 12/1/2019 but <u>less than or equal to</u> 1/1/2020: Avg. of Jan 2020 and Feb 2020, multiplied by 6.</p> <p>iii. If DBBO is <u>greater than</u> 1/1/2020 but <u>less than or equal to</u> 2/29/2020: Avg. of Feb 2020, multiplied by 6.</p> <p>b. If (1) or (1.a) are not applicable, the SVOG Award System will calculate a maximum possible award of \$0. This may indicate an issue with eligibility.</p> <p>2. Adjusted Grant Award Amount</p>	<p>DBBO: Prior to 2019 [Per Articles of Incorporation]</p> <p>2019 Earned Revenue: \$14.9 Million (approx.) [per 2019 Form 1120-S]</p> <p>Applicable PPP: \$350 Thousand (approx.)</p>	<p>Maximum Award Amount: \$6.4 Million (approx.)</p> <p>Award selected by Grantee: \$4.9 Million (approx.)</p> <p>Award disbursed to Grantee: \$4.9 Million (approx.)</p>

⁷ Via email dated March 18, 2022, from OIG to SBA SVOG, the award identified by OIG has in an internal SVOG identification number of DA-000018186.

Award Calculation - Formula	Data Input	Output
a. Reduce Award amount by any Payment Protection Program Loan amounts created On or after 12/21/2020. 3. Maximum Award Size is \$10 Million		

Recommendation #4: Remedy or recover the \$1.2 million of awards that were made without adequate support for the award amount.

Response: SBA does not agree with this recommendation and recommends removing it from the report.

- After OIG provided SBA with identifying information, SBA analyzed the three grants⁸ identified and concluded they were awarded with adequate supporting documents in accordance with SVOG Program policy. Therefore, no recovery is needed. All three grantees are currently in the standard process of reconfirming their budgets via the SVOG Final Budget.
- The preliminary budget submitted in an application cannot exceed the estimated award within the application. Therefore, as SBA’s financial verification determines a larger maximum award, an applicant is provided the opportunity to submit a new budget.
- The SVOG legislation requires SBA use specific calculations which incorporate earned revenues to determine losses, as well as maximum award size. SBA used verified financial information for its calculations, and not solely an applicant’s representations, which can result in a different SVOG award calculation than is estimated by the Grantee’s application.
- SBA takes evidentiary support seriously. The SVOG Program requests updated, comprehensive financial documentation whenever there is a possibility an applicant or grantee may be eligible for funding.
- OIG correctly identifies that many of SBA’s SVOG recipients are first-time participants in the federal grant system. Many legitimate businesses in and around the arts industry do not have professional grants writers or teams of accountants and attorneys on-call. When revenue documents or statements in an SVOG interaction appear insufficient, but not fabricated or intentionally exaggerated, SVOG officials review the evidence provided and/or request additional documentation, such as financial statements, audit reports, and tax returns. This allows SBA to conduct a line-item level analysis, by month and year.
- SBA frequently found that small business owners were confused by accounting terminology, did not have, or could not access accountants during the pandemic, and frequently under-stated their “earned revenue” compared to their documentation.

⁸ Via email dated March 18, 2022, from OIG to SBA SVOG, the three awards identified by OIG have in an internal SVOG identification numbers of DA-000014215, DA-000011058 and DA-000017530.

- There are strict internal controls in place which prevent an SBA official from ever obligating and awarding more per award type than that which is established by the law.

Table 2. Review of SVOG Budgets

Entity Reviewed	Alleged Award & Discrepancy	Current Award and Budget
Live Performing Arts Organization Operator	Award: \$3.8 Million Alleged Overpayment: \$500,000	Award: \$3.3 Million Budget: \$3.3 Million (as of 7/3/2021)
Talent Representative	Award: \$551,000 Alleged Overpayment: \$496,000	Award: \$849,000 Budget: \$849,000 (as of 3/10/2022) ⁹
Theatrical Producer	Award: \$3.1 Million Alleged Overpayment: \$200,000	Award: \$4.6 million Budget: \$4.6 Million (as of 3/11/2022) ¹⁰

Recommendation #5: Require the reconciliation of the grant recipient’s budget to the final award amount prior to awarding a grant, including ensuring receipt of revised budgets, when changes are needed, prior to disbursing grant awards. Furthermore, discontinue the disbursement of grant awards prior to the receipt of a revised budget.

Response: SBA agrees with this recommendation but recommends that it be closed, as the proper procedure was implemented July 1, 2021, and fully enforced through technology updates as of November 17th, 2021.

- SBA does verify the stated revenues of all applicants. If a potential award is increased or decreased by SVOG officials, the SVOG Award System technologically requires that a matching budget be received prior to issuing a Notice of Award.
- SBA internally identified reconciliation as a concern and implemented this policy as a business rule July 1, 2021. The technological ability to request a revised budget was released June 29, 2021. The rule and associated procedure were implemented as a technologically enforced internal control on November 17th, 2021. Please see Appendix 2 for the supporting documentation of the final technological enforcement of this policy, to include a description of the user story and the activity history of its implementation.

⁹ A supplemental award was approved for this grantee; the award was disbursed on 10/28/21 for \$292,956.09

¹⁰ A supplemental award was approved for this grantee; the award was disbursed on 10/8/21 for \$1,565,709.75

Recommendation #6: Reassess SBA’s flexibility in allowing waivers for budget changes between line items to mitigate risks of recipients using funds for unallowable expenses.

Response: SBA agrees with this recommendation. SBA will reassess the flexibilities in allowing waivers for budget changes by SVOG awardees and will make a determination whether to maintain this process.

Corrective Action and Anticipated Completion Date:

Action	Target Completion Date
Document outlining assessment of SVOG waivers for budget changes between line items and determination of process moving forward	June 15, 2022

Management Comments – Report Methodology and Content

Comment #1: Sample Size of Evaluation and use of phrase “Random Sample”

SBA recommends that the Draft Report explicitly state that the findings are not indicative of overall performance of the SVOG Program, due to the small sample size and use of non-random sampling.

During the exit conference on March 18th, 2022, OIG staff described the process of sample selection for 10 awards as a “random” selection of five awards which had an award greater than the budget submitted alongside the initial application, as well as five awards which had an award less than the budget submitted. The statistical term for this type of sampling is “purposive sampling” and SBA recommends using that term, rather than “random” to describe the sampling methodology.

As the term “random sample” has specific statistical definition, the use of that term implies it speaks to the broader population of SVOG awards, the scope and methodology of the Draft Report should refrain from using this term. The population evaluated by OIG cannot be used to draw conclusion about the SVOG Program as a whole. A sample size of 10 is a statistically invalid method of sampling the SVOG program’s 12,000 grantees. A sample of this size analysis would only be accurate at a 95% confidence level with a 30% margin of error for any findings—meaning the results can be off by 30 percent in either direction. In general practice, this is far too small a sample to draw any comprehensive conclusions about the program.

Comment #2: Communicating the Change to a Single Disbursement

SBA recommends striking inaccuracies in the Draft Report narrative which imply changes were made to SVOG’s risk approach without informing Congress.

Congress and other public figures aggressively stressed to SBA that SVOG had too conservative a risk posture. A change to a single disbursement approach was recommended to SBA in a letter signed by over fifty U.S. Senators, and over 200 U.S. Representatives in May 2021.

SBA agreed that size of award alone was not a sufficient risk characteristic to justify such a restrictive payment schedule for disaster relief. In June of 2021, SBA adjusted its posture, keeping key stakeholders informed throughout the process with daily stakeholder meetings, including industry representatives and Congressional staff, as well as weekly Congressional meetings from June through September of 2021. Members of the public, including grant recipients, were informed via industry groups and updated award paperwork communicating a change away from staggered disbursements.

Comment #3: Description of the Budget Reconciliation Process

SBA recommends striking inaccuracies in the Draft Report narrative which state that grantees were not directed to provide an updated budget prior to a grant award. SBA internally identified reconciliation as a concern and implemented this policy as a business rule July 1, 2021. The technological ability to request a revised budget was released June 29, 2021. The rule and associated procedure were implemented as a technologically enforced internal control on November 17th, 2021.

Appendix

Appendix 1: Memorandum from Matthew Stevens, Director, Shuttered Venue Operators Grant Program to Francisco Sanchez, Jr., Associate Administrator, Office of Disaster Assistance (May 6, 2022) re: "Authorization of the Expedited Process for Reviewing, Approving, Issuing, and Disbursing SVOG Awards" (pdf attachment)

Appendix 2: Technological Implementation of Required SVOG Budget and Award Reconciliation - User Story and Development History



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

Date: May 6, 2022

To: Francisco Sanchez, Jr.
Associate Administrator, Office of Disaster Assistance

From: Matthew T. Stevens
Director, Shuttered Venue Operators Grant Program

Subject: Authorization of the Expedited Process for Reviewing, Approving,
Issuing, and Disbursing SVOG Awards

This document formally memorializes the process under which SBA authorized the review, approval, issuance, and disbursement of awards of financial assistance pursuant to the Agency's Shuttered Venue Operator Grants (SVOG) program. Following the adoption of 15 U.S.C. § 9009a in December of 2020,¹ Congress empowered SBA to make grants to live venue operators or promoters, theatrical producers, live performing arts organization operators, museum operators, motion picture theatre operators, or talent representatives for whom the uncertainty of the economic conditions brought about by the COVID-19 pandemic made such a grant necessary to support their ongoing business operations.

As articulated in the legislation, the guiding purpose of the SVOG program is to provide emergency financial assistance to help eligible entities stay open or reopen (when legally permitted to do so by applicable governmental authorities) in the face of hardships they experienced due to the public health disaster caused by the COVID-19 pandemic.² The statute also laid the groundwork for streamlined program operations through establishing a formula for determining SVOG award amounts based on an eligible entity's reduction in earned receipts compared to pre-pandemic levels³ and by strictly delineating the allowable uses of award funds.⁴ Furthermore, the SVOG program legislation did not mandate that awards be issued via a competitive process, nor did it impose any performance requirements on grantees. Both of these congressional design decisions further facilitated, and indeed steered the Agency toward, a streamlined approach to grantmaking in the context of the SVOG program.

While SBA's customary practice when processing grants is to manually sign, issue, and approve disbursements for each award,⁵ this "one at a time" approach was not feasible for

¹ Pub. L. No. 116-260, div. N, title III, § 324, 134 Stat. 2022 (2020); *as amended by* Pub. L. No. 117-2, title V, § 5005(b), 135 Stat. 92 (2021).

² 15 U.S.C. § 9009a(a)(1)(A)(ii).

³ *Id.* at § 9009a(c).

⁴ *Id.* at § 9009a(d).

⁵ SBA SOP 00 18 01, Federal Assistance Policy Directive (Grants) (Sep. 24, 2019).

SVOG awards due to: (1) the number of awards the Agency needed to make under the program⁶ being approximately 100 times greater than conventional Agency grant programs; and (2) the dire need for the Agency to quickly deliver disaster assistance to eligible businesses affected by the COVID-19 pandemic. Had SBA followed its manual practice in this instance, the incalculable delays to the award process likely would have forestalled the delivery of emergency relief to such an extent that many, if not most, eligible entities would have permanently gone out of business before they received their awards.

Therefore, to effectuate the purpose of the legislation, the Agency followed precedent set by another SBA emergency pandemic relief initiative, the Economic Injury Disaster Loan (EIDL) Advance grant program,⁷ and adopt a streamlined, expedited, and substantially digital process for reviewing, approving, issuing, and disbursing SVOG awards. As with SVOG, the EIDL Advance grant program also involved a high volume of applicants and awardees⁸ who required immediate support to remain in business, awards were issued via a non-competitive process, there were no performance requirements for grantees, and both award amounts⁹ and allowable uses of funds were stipulated by the EIDL Advance grants authorizing legislation.¹⁰

Under the approach utilized by the EIDL Advance grant program, SBA considered applications that successfully passed through the Agency's streamlined and automated process for verifying applicant identity and eligibility, validating award amounts, and conducting fraud checks to be fully authorized grant awards ready for immediate disbursement without any need for individual, manually signed and issued Notices of Award.¹¹ In contrast to the EIDL Advance grant program, which required the use of outside contractors as reviewers due to the sheer volume of applicants, the approach adopted by the SVOG program relied instead upon a cadre of "appropriately trained ODA federal employee loan officers" to review and "execute SVO grant awards rather than warranted grant management officers."¹²

SBA ensures all SVOG awards are entered into by an authorized government official, and SBA digitally maintains documentary evidence of such awards and certifications in compliance with 31 U.S.C. 1501 and 31 U.S.C 1108, as interpreted by OMB Circular A-11, § 20.5(a) through (f). To fulfill its duty to make SVOG awards to eligible entities in appropriate amounts, the Agency implemented controls before and after the generation of an SBA Form-1222. For example, even if the Form-1222 is returned and appears validly executed by the intended recipient, SBA will only consider this award conditionally approved so that SBA can

⁶ As of midday April 25, 2022, the program has reviewed 17,637 applications and has made 12,980 initial and reconsideration awards and 9,511 supplemental awards. In total, the program has awarded \$14.41 billion dollars.

⁷ 15 U.S.C. § 9009(e).

⁸ Disaster Assistance Update: Nationwide COVID EIDL, Targeted EIDL Advances, Supplemental Targeted Advances (Apr. 14, 2022) https://www.sba.gov/sites/default/files/2022-04/COVID-19%20EIDL%20TA%20STA_04142022_Public-508.pdf

⁹ *Id.* at § 9009(e)(3).

¹⁰ *Id.* at § 9009(e)(5).

¹¹ Memorandum from Stephen Kong, Acting Chief Operating Officer, to Tami Perriello, Chief Financial Officer (Jan. 14, 2021); APPENDIX 1

¹² Memorandum from Barbara J. Carson, Deputy Associate Administrator for the Office of Disaster Assistance to Kimberly S. Butler, Director, Office of Grants Management (Feb. 11, 2021); APPENDIX 2

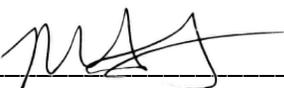
address any new concerns discovered prior to award obligation. Concerns could result in a rescission of a Form-1222, and possibly a referral to SBA's investigatory partners.

SBA considers its agreement with an SVOG awardee to be a binding "grant award" only once all of the following are true:

- Reviews for program eligibility, disqualifiers, and documentary compliance are complete;
- The Form 1222 has been executed by the intended recipient;
- The Form 1222 has been digitally accepted by an authorized SVOG official as to form, e.g., the document provided by the intended recipient is a valid Form-1222, the signatories are authorized;
- The size of the award listed on the Form 1222 has been administratively determined and confirmed for accuracy by an authorized SVOG official in the SVO Grant Award System, captured via a digital, time-stamped approval;
- The Federal Awardee Performance and Integrity Information System (FAPIS) and GSA System for Award Management (SAM) reflect a disbursement is possible and permissible; and
- Successful transmittal of the SVOG official's certification of the award obligation to the SBA's Joint Administrative Accounting Managements System (JAAMS). JAAMS is the financial management system of record for managing funding and expenditure of SBA's administrative funds.

In accordance with the Waiver of Small Business Administration SOP 00-18 and Agency Grants Training Plan signed by Stephen Kong on March 10, 2021, the Agency considers all applications for SVOG funding that have been verified, validated, and approved in accordance with the procedures outlined above to have been authorized for immediate issuance and disbursement. Furthermore, all records and awards verified, validated, approved, and complying with these procedures by SBA are deemed to have been effectively signed by an authorized government official pursuant to established SBA practice for COVID-19 pandemic related emergency assistance grant programs.

I authorize the disbursement of all such records and awards to the Office of the Chief Financial Officer.

X  _____

Matthew Stevens, Director, Shuttered Venue Operators Grant Program
(Appendices)

Appendix

Appendix 1: Memorandum from Stephen Kong, Acting Chief Operating Officer, to Tami Perriello, Chief Financial Officer (Jan. 14, 2021) re: “Targeted EIDL Disbursement Processes” (pdf attachment)

Appendix 2: Memorandum from Barbara J. Carson, Deputy Associate Administrator for the Office of Disaster Assistance to Kimberly S. Butler, Director, Office of Grants Management (Feb. 11, 2021) re: “Staff Support for Approval of Shuttered Venue Operators (SVO) Grant Awards” (pdf attachment)



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

Date: April 7, 2020
To: Tami Perriello, Chief Financial Officer
From: Kimberly S. Butler, Director, Office of Grants Management
Subject: Authorization for Payments from RER Solutions
Ref: (a) OGC memo of 3 April 2020

In accordance with reference (a), this guidance initiates the authorization for payments from RER Solutions to the Office of the Chief Financial Officer for disbursement to the Bureau of Fiscal Service, U.S. Treasury.

On March 27th, 2020, President Trump signed Pub. L. No. 116-136, the Coronavirus Aid, Relief, and Economic Security (CARES) Act that includes authority under § 1110 for Emergency Economic Injury Disaster Loan (EIDL) Advances up to \$10,000.

VERIFICATION.—Before disbursing amounts under this subsection, the Administrator shall verify that the applicant is an eligible entity by accepting a self-certification from the applicant under penalty of perjury pursuant to section 1746 of title 28 United States Code.

AMOUNT.—The amount of an Advance provided under this subsection shall be not more than \$10,000.

Verification

The Small Business Administration has contracted with RER Solutions for identity verification, data validation, and fraud detection.

1. EIDL applications collected through the Rapid Intake COVID-19 EIDL web form will be forwarded for processing to Rapid Decision automated processing platform configured and programmed in accordance with SBA Office of the Chief Financial Officer requirements as follows:
2. **Remove duplicates**
3. **Remove applicants previously funded under COVID-19 EIDL in the Disaster Credit Management System (DCMS)**
4. Perform fraud checks
5. Calculate eligible Advance amount based on logic provided by SBA
6. Applications that are not duplicates and not excluded based on fraud rules will be periodically placed in a batch file including fields required for processing through the Office of the Chief Financial Officer
7. Each batch file shall include batch number/code in the file name
8. Each batch file is sent to the Office of the Chief Financial Officer for funds check and creation of a Payment Automation Manager (PAM)-compliant file.

Fraud Check Indicators

If any 1 of the BOLDED fraud indicators in the verification process are triggered or any 3 BOLDED OR NON-BOLD indicators are triggered, the application will not be included in a batch file.

1. **Large number of applications with other lenders (large scale)**

2. Large number of applications for this program (several in succession)
3. **Owner information failed validation** (information does not match, person is listed as deceased, etc.)
4. Client location is international
5. **Digital identity fraud suspicion/suspicious online behavior** – the data has been used fraudulently online
6. VOIP phone number
7. Phone number is not associated with business or owner
8. Email has not passed validation
9. **Invalid bank account number and/or routing number**
10. **Bank account ownership does not match business**
11. Unable to confirm business registration

Any approved disbursements where the bank account number and routing number are valid and indicate that the account can receive a deposit but the EIN/SSN can't be authenticated are authorized. A report for awards at the \$10,000 value shall be provided to the Office of Grants Management within 60 days after the EIDL Advance program has completed its last disbursement.

Payment Amount

The total disbursement amount for each record included in the payment file is calculated based on the following logic:

If number of employees is 0 then amount is \$1,000

Otherwise if number of employees is greater than 10 then amount is \$10,000

Otherwise amount is number of employees times \$1,000

The total disbursement amount for each Advance file is the sum of the individual disbursements amount for each record in the file

Based on the procedures outlined above, and in accordance with § 1110 of Pub. L. No. 116-136 – (the CARES Act) and the streamlined procedures noted under 2 C.F.R. § 200.200(b), I authorize the disbursement of all records verified, validated, approved and from RER Solutions to the Office of the Chief Financial Officer.

X Kimberly S. Butler
 Kimberly S. Butler, Director,
 Office of Grants Management

Date: February 11, 2021

From: Barb Carson, ODA/DAA

To: Kym Butler, Director, OGM

Subject: Staff support for approval of Shuttered Venue Operators (SVO) grant awards

The Shuttered Venue Operators (SVO) grant program provides for \$15 billion in grants to shuttered venues. SBA anticipates a range of 1,500 to 27,000 awardees, the total number which is yet to be determined. The sheer scale of the program, and lack of administrative funds provided to stand up the program, have necessitated the creation of a highly automated a system for the receiving and processing of SVO applications.

That said, SBA will still require substantial staffing support for the review and approval of the SVO grants. To address this personnel demand, ODA intends to fulfill this requirement with federal employees currently assigned as loan officers in the Office of Disaster Assistance. The work to ultimately approve grants is inherently governmental, and typically conducted by a warranted grant management officer. However, the SVO grant program is unique in nature and is designed more like a direct payment program rather than a competitive grant program. SVO grant payments will be calculated based only on eligibility and revenue loss, unlike a competitive grant program where a higher level of analysis and expertise are needed to evaluate and approve awards. Given the design of the SVO program, the inherently governmental nature of the approval function, and the OPM technical competencies for grant management, it is conceivable that the SBA loan officers would satisfy the needed skill set to perform this function or that grant administrators from other agencies could be borrowed to fulfill this function.

To date, OPM's guidance on the technical competencies for grants management, which incorporates awards, does not indicate a required certification. It does however frame knowledge requirements for this function:

- Laws, regulations, rules, policies, procedures, and methods governing the administration of Federal grants, cooperative agreements, and awards;
- Grants/assistance management processes and techniques consistent with sound business and industry practices; and
- Financial methods, procedures, and practices to assess the financial stability of recipient of Federal grants or cooperative agreements.

ODA is developing a training plan, including a knowledge assessment, that SVO grant approvers must complete before commencing work in the SVO program. As stated above, employees eligible for this duty are ODA loan officers who have demonstrated experience evaluating program eligibility criteria and are trusted to make decisions to approve high dollar loans on behalf of the federal government. Additionally, ODA has developed a comprehensive audit and monitoring plan and conducted a robust risk assessment for the program.

ODA requests a waiver from SBA Standard Operating Procedure (SOP) 00-18 Chapter 6 (1) (b) to allow appropriately trained ODA federal employee loan officers to execute SVO grant awards rather than warranted grant management officers. An SBA Policy Notice, submitted by OGM into SBA's clearance process, can serve as the instrument to implement and memorialize this deviation from standard procedure for the SVO grant program.



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W-001235

Request Info

Subject	Require Internal User to complete Budget Review and completion of Form 1222 flow
Description	As an Internal Control user, I should be required to complete the Budget Review and process Form 1222 before I can send an NOA so that I can ensure these steps are not missed. (See report for current records impacted by this story: https://sbaodagrants.lightning.force.com/lightning/r/Report/00Ot0000001Nr1hEAC/view)
User Story Version Control	v1 - 09.27.21 - MCrooks - Original draft

User Story Details

Personas: Internal Controls User

Assumptions:

Acceptance Criteria:

1. User cannot send an NOA unless the following conditions are met:

1. Original Verified Budget record is populated AND Review Agent Status field = 'Verified'
2. User has clicked 'Adjust Grant Amount to Budget Amount' button
3. Funding Request record → Form-1222 Reviewed and Approved field does not = Null

2. User receives the following error message if they attempt to create an NOA action item and the conditions above are not met:

1. "You must complete the following steps prior to issuing the NOA:

1. Verify the most recent Original Budget Reported by Applicant
2. Confirm if a new Budget Action Item is needed by checking that the award and budget amount match. If they do not match, an authorized staff member must provide Applicant the opportunity to indicate their desired budget and adjust the award to match.
3. Generate Form 1222"

Key Decisions:

1. SBA needs to confirm if the error message language above is appropriate. (10/5 Grooming Session 1: SBA provided warning language in AC #2) - SBA confirmed language 10-12-21.

Alternative/Exception Paths:

Technical Dependencies/Impacts

Production Issue Info (if applicable)

Issue Found in Release

Release 2

Work History

38 items • Sorted by Date • Updated 2 minutes ago

	Date	Field	User	Original Value	New Value
1	11/17/2021, 4:16 PM	Status	Venkat Penukonda	Ready for Release	Closed - Implemented
2	11/17/2021, 12:28 PM	Status	Kelly Roe	In UAT	Ready for Release
3	11/14/2021, 2:19 PM	Assigned To	Venkat Penukonda	Venkat Penukonda	Michael Capkovic
4	11/13/2021, 4:25 PM	Status	Venkat Penukonda	QA Approved	In UAT
5	11/13/2021, 12:34 PM	Assigned To	Venkat Penukonda	Madhu Mekala	Venkat Penukonda
6	11/3/2021, 5:17 PM	Assigned To	Vinod Mamidi	Manjula Chintala	Madhu Mekala
7	11/3/2021, 5:17 PM	QA Consultant	Vinod Mamidi	Manjula Chintala	Vinod Mamidi
8	11/3/2021, 5:17 PM	Status	Vinod Mamidi	Ready for QA	QA Approved
9	11/1/2021, 4:19 PM	Status	Madhu Mekala	Dev Completed	Ready for QA
10	11/1/2021, 4:09 PM	Assigned To	Madhu Mekala	Madhu Mekala	Manjula Chintala
11	11/1/2021, 4:09 PM	QA Consultant	Madhu Mekala	Prasad Gudla	Manjula Chintala
12	10/28/2021, 11:14 AM	Assigned To	Jeremiah (JD) Dohn	Jeremiah (JD) Dohn	Madhu Mekala
13	10/28/2021, 11:14 AM	Status	Jeremiah (JD) Dohn	In Progress	Dev Completed
14	10/26/2021, 1:23 PM	Assigned To	Jeremiah (JD) Dohn	Cristian Mendoza	Jeremiah (JD) Dohn
15	10/26/2021, 1:23 PM	Status	Jeremiah (JD) Dohn	Story Accepted	In Progress
16	10/19/2021, 3:48 PM	Subject Matter Expert (SME)	Michael Capkovic		Aaron Taylor
17	10/12/2021, 3:05 PM	Status	Cristian Mendoza	Triage	Story Accepted