



## Office of Inspector General

U.S. Small Business Administration

### MEMORANDUM

**DATE:** November 15, 2022  
**TO:** Isabella Casillas Guzman  
Administrator  
**FROM:** Hannibal "Mike" Ware   
Inspector General  
**SUBJECT:** Independent Auditors' Report on SBA's Fiscal Year 2022 Financial Statements (Report 23-02)

I am pleased to present the attached independent auditors' report on the U.S. Small Business Administration's (SBA) financial statements for fiscal year (FY) 2022, as required annually by the Chief Financial Officers Act of 1990, as amended.

We contracted with the independent certified public accounting firm KPMG LLP to conduct an audit of SBA's consolidated balance sheets as of September 30, 2022 and 2021, and the related notes to these statements. Our contract with KPMG required that the audit be performed in accordance with auditing standards generally accepted in the United States of America, Government Auditing Standards issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Bulletin No. 22-01, Audit Requirements for Federal Financial Statements.

KPMG's responsibility was to express an opinion on the consolidated balance sheets based on their audit. KPMG was not engaged to audit the consolidated statements of net cost and changes in net position, and combined statements of budgetary resources for the years ended September 30, 2022 and 2021, and the related notes to these statements.

In the audit, KPMG reported significant matters for which they were unable to obtain sufficient and appropriate audit evidence to provide a basis for an audit opinion on SBA's balance sheet as of September 30, 2022. Accordingly, KPMG issued a disclaimer of opinion on the consolidated balance sheets as of September 30, 2022 and 2021.

The basis for the disclaimer was that due to inadequate processes and controls, SBA was unable to provide adequate evidential matter in support of a significant number of transactions and account balances related to the Paycheck Protection Program, Economic Injury Disaster Loan program, the Restaurant Revitalization Fund, and Shuttered Venue Operators Grant program.

As a result, KPMG was unable to determine whether any adjustments might have been necessary with respect to the following:

- Credit Program Receivables and Related Foreclosed Property, Net
- Other than Intragovernmental Advances and Prepayments
- Downward Reestimate Payable to Treasury
- Loan Guarantee Liabilities

For the period ended September 30, 2022, KPMG identified six material weaknesses and two significant deficiencies in internal control over financial reporting. Appendixes I and II of this report describe details of KPMG's conclusions about the material weaknesses and significant deficiencies. Appendix III describes instances of noncompliance with applicable laws or other matters required to be reported under Government Auditing Standards or OMB Bulletin No. 22-01.

In connection with the contract, we reviewed KPMG's report and related documentation and inquired of its representatives. Our oversight protocols included evaluation of major work products, attendance at critical meetings, review of significant findings and examination of related evidential matter. Our review, as differentiated from an audit of the financial statements in accordance with U.S. generally accepted government auditing standards, was not intended to enable us to express—and we do not express—opinions on SBA's financial statements or internal control over financial reporting or conclusions on SBA's compliance with applicable laws and other matters. Our review disclosed no instances where KPMG did not comply in all material respects with U.S. generally accepted government auditing standards. KPMG is responsible for the attached auditors' report dated November 15, 2022 and the conclusions expressed. However, OIG provides negative assurance of this audit.

We provided a draft of KPMG's report to SBA's Chief Financial Officer, who concurred with its findings and recommendations and agreed to implement the recommendations. SBA remains committed to excellence in financial management and looks forward to furthering progress in the coming year. The Chief Financial Officer's response is included in Appendix IV.

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.

cc: Arthur Plews, Chief of Staff  
Peggy Delinois Hamilton, Special Counsel for Enterprise Risk  
Katherine Aaby, Associate Administrator, Office of Performance, Planning,  
and the Chief Financial Officer  
Patrick Kelly, Associate Administrator, Office of Capital Access  
John Miller, Deputy Associate Administrator, Office of Capital Access  
Erica Gaddy, Deputy Chief Financial Officer, Office of Performance, Planning, and the  
Chief Financial Officer  
Joshua Barnes, Recovery Director, Office of Disaster Assistance  
Therese Meers, General Counsel  
Michael Simmons, Attorney Advisor, Office of General Counsel  
Tonia Butler, Director, Office of Internal Controls

Attachment



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## Independent Auditors' Report

Inspector General  
U.S. Small Business Administration

Administrator  
U.S. Small Business Administration

### Report on the Audit of the Consolidated Financial Statements

#### *Disclaimer of Opinion*

We were engaged to audit the consolidated balance sheets of the United States (U.S.) Small Business Administration (SBA) as of September 30, 2022 and 2021, and the related notes to the consolidated balance sheets (the consolidated financial statements).

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

#### *Basis for Disclaimer of Opinion*

During fiscal year 2022, SBA continued to execute provisions of the Paycheck Protection Program and Economic Injury Disaster Loan programs, and the Restaurant Revitalization Fund and Shuttered Venues Operators Grant programs that were authorized by the Coronavirus Aid, Relief, and Economic Security Act of 2020 and related legislations. SBA was unable to provide adequate evidential matter in support of a significant number of transactions and account balances related to these programs due to inadequate processes and controls. As a result of this matter, we were unable to determine whether any adjustments might have been necessary related to Credit Program Receivables and Related Foreclosed Property, Net; Other than Intragovernmental Advances and Prepayments; Downward Reestimate Payable to Treasury; and Loan Guarantee Liabilities.

#### *Other Matter – Report on Certain Fiscal Year 2022 and 2021 Information*

We were not engaged to audit the consolidated statements of net cost and changes in net position, and combined statements of budgetary resources for the years ended September 30, 2022 and 2021, and the related notes to these statements. Accordingly, we express no opinion on them.

#### *Other Matter - Interactive Data*

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



### *Responsibilities of Management for the Consolidated Financial Statements*

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

### *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements*

Our responsibility is to conduct an audit of the SBA's consolidated financial statements in accordance with auditing standards generally accepted in the United States of America (GAAS), *Government Auditing Standards*, and Office of Management and Budget (OMB) Bulletin No. 22-01, *Audit Requirements for Federal Financial Statements*, and to issue an auditors' report. However, because of the matter described in the Basis for Disclaimer of Opinion section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these consolidated financial statements.

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

### *Required Supplementary Information*

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

### **Report on Internal Control Over Financial Reporting**

In connection with our engagement to audit the SBA's consolidated balance sheet as of September 30, 2022, we considered the SBA's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the SBA's internal control. Accordingly, we do not express an opinion on the effectiveness of the SBA's internal control. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

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

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



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

### **Report on Compliance and Other Matters**

In connection with our engagement to audit the SBA's consolidated balance sheet as of September 30, 2022, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the consolidated balance sheet. However, providing an opinion on compliance with those provisions was not an objective of our engagement, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 22-01, and which are described in Appendix III.

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

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

### **SBA's Response to Findings**

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

### **Purpose of the Reporting Required by Government Auditing Standards**

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

**KPMG LLP**

Washington, DC  
November 15, 2022

**U.S. Small Business Administration****Material Weaknesses**

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

- 1. Controls over Paycheck Protection Program (PPP) Loan Guarantees Need Improvement**
- 2. Controls over COVID-19 Economic Injury Disaster Loans (EIDLs) Need Improvement**
- 3. Controls over the Subsidy Reestimate Need Improvement**
- 4. Controls over the Evaluation of Service Organizations Need Improvement**
- 5. Controls over Accounting and Monitoring of Restaurant Revitalization Fund (RRF) and Shuttered Venues Operators Grant (SVOG) Programs Need Improvement**
- 6. Entity Level Controls Need Improvement**

For purposes of presentation and as described below, material weaknesses (1) and (4) have multiple components. Material weakness (1) Controls over PPP Loan Guarantees Need Improvement, is comprised of: (A) Reporting of PPP Loan Guarantees, (B) Forgiveness Review of PPP Loan Guarantees, and (C) Purchases of PPP Loan Guarantees. Material weakness (4) Controls over the Evaluation of Service Organizations Need Improvement, is comprised of: (A) Service Organization Used for COVID-19 EIDLs; (B) Service Organizations Used for Loan Guarantee Programs; and (C) Service Organization Used for the SVOG Program.

During fiscal year 2022, SBA continued to implement provisions of the PPP, COVID-19 EIDLs, RRF, and SVOG programs. These programs were authorized and funded by the Coronavirus Aid, Relief, and Economic Security Act of 2020, the Paycheck Protection Program and Health Care Enhancement Act, the Economic Aid to Hard-Hit Small Businesses, Nonprofits, and Venues Act, and the American Rescue Plan Act. The referenced laws from this point forward are collectively referred to as the CARES Act and related legislation. The CARES Act and related legislation were passed by Congress to provide emergency assistance in response to the extensive effects of the public health and economic crisis arising from the Coronavirus Disease 2019 (COVID-19) pandemic. In fiscal year 2022, SBA processed forgiveness and purchase payments for the 2020 and 2021 cohort of PPP loan guarantees, and continued to issue additional COVID-19 EIDLs, and RRF and SVOG program awards.

**1. Controls over PPP Loan Guarantees Need Improvement***A. Reporting of PPP Loan Guarantees*

Management did not adequately design and implement controls to determine that the status of PPP loan guarantees was complete and accurate to enable the fair presentation of the Loan Guarantee Liabilities and related elements in the consolidated financial statements. Specifically, management did not have adequate processes and controls in place to review the status of PPP loan guarantees where lender loan status reports had not been submitted, had been submitted incorrectly, or were not processed.

For fiscal year 2022, the average number of monthly, lender loan status reports for the 7(a) and PPP loan guarantee programs that had not been submitted or not processed was 16 percent and 9 percent, respectively, of the average active loans. Additionally, we tested a sample of 135 PPP loan

guarantees and noted variances for 39 sampled items with the accuracy of the outstanding principal balance recorded by SBA and the confirmation response received from the respective lenders.

The deficiencies were caused by insufficient monitoring controls over the follow-up process performed for lender loan status reports that were not submitted, submitted incorrectly, or not processed and a lack of accountability over the lenders who do not submit loan status reports timely or correctly.

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

- Government Accountability Office's (GAO's) Standards for Internal Control in the Federal Government (Green Book), Principle 10, Design Control Activities; and Principle 16, Perform Monitoring Activities
- OMB Circular No. A-123, Management's Responsibility for Enterprise Risk Management and Internal Control

The deficiencies noted above may result in material misstatements to the Loan Guarantee Liabilities, Downward Reestimate Payable to Treasury line items and related elements in the consolidated financial statements.

#### Recommendations – Reporting of PPP Loan Guarantees

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

1. Design and implement controls to ensure the population of nonreporting loan status reports or loan status reports with errors is complete and accurate.
2. Determine and enforce policies and controls to hold lenders accountable for submitting loan status reports timely and correctly.
3. Design and implement controls to monitor incomplete or inaccurate PPP lender loan status reports on an ongoing basis, including the review and resolution of loan status reports with errors.

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

4. Design and implement controls to assess the accounting considerations, based on the results of the lender loan status reports review process for PPP loan guarantees, including the impact on the reestimate and balances presented in the consolidated financial statements, and record any necessary adjustments.

#### *B. Forgiveness Review of PPP Loan Guarantees*

Management did not adequately design and implement controls to ensure PPP loan guarantees were completely and accurately reviewed to address their respective eligibility flags and ultimately determine their eligibility for forgiveness. Specifically, management did not demonstrate controls over the review and validation of identified flags from the case management system. Additionally, management did not demonstrate effective monitoring controls over the results from the key contractor involved in the review process. The loan guarantees determined by the contractor as 'No Further Action' were not subsequently reviewed by SBA. During fiscal year 2022, \$167 billion of loan forgiveness payments were processed for loans determined by the contractor as 'No Further Action'.

In addition, SBA's process for the 2021 cohort of PPP loan guarantees did not identify and resolve a complete population of potential noncompliance flags. More specifically, SBA did not ensure the 2021 cohort of PPP loan guarantees met select program eligibility requirements by verifying with all

validation checks available within its case management system. Instead, only a limited number of checks were performed. Furthermore, for the limited flags that were identified, SBA did not have a sufficient monitoring process implemented to ensure that lenders followed established procedures and adequately addressed the eligibility concerns raised for the limited number of flags identified by the case management system's automated screening.

The deficiencies were caused by the lack of a policy in place to adequately review outputs of the case management system, insufficient design and implementation of monitoring controls over the contractor's loan review process, and insufficient design of the loan forgiveness review process prior to the processing of forgiveness payments.

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

- GAO's Green Book, Principle 3, Establish Structure, Responsibility, and Authority; Principle 6, Define Objectives and Risk Tolerances; Principle 7, Identify, Analyze, and Respond to Risks; Principle 10, Design Control Activities; and Principle 16, Perform Monitoring Activities
- OMB Circular No. A-123, Management's Responsibility for Enterprise Risk Management and Internal Control

The deficiencies noted above may result in a material misstatement to the Loan Guarantee Liabilities and Downward Reestimate Payable to Treasury line items, and the related elements in the consolidated financial statements.

#### Recommendations – Forgiveness Review of PPP Loan Guarantees

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

5. Develop and enforce a policy and controls that require the adequate review, validation, and monitoring of the outputs of the case management system and maintenance of documentation evidencing the review.
6. Develop and enforce a policy and controls to monitor the results of the contractor's loan review process including a review of loans with a 'No Further Action' determination and maintenance of documentation evidencing the review.
7. Perform a thorough review of the 2021 cohort of PPP loan guarantees. Based on the review, determine the impact on the outstanding loan guarantee and the eligibility for forgiveness of loans that are determined to not be in conformance with the CARES Act and related legislation and program requirements.
8. Develop and document an effective funds recovery plan and controls to ensure funds disbursed to ineligible recipients as part of the forgiveness review process are recovered and reported accurately in a timely manner.

#### *C. Purchases of PPP Loan Guarantees*

Management did not adequately design and implement controls to ensure purchase requests of PPP loan guarantees were reviewed to verify that requesting lenders met the origination requirements prior to approving and disbursing the loan. There was not an approved, documented, comprehensive process implemented prior to purchase transactions being processed.

In addition, SBA performs a manual review of purchase requests of PPP loan guarantees with a subset of flags while all other requests are automatically approved and processed. There was not an adequate review of the determination of the subset of flags requiring manual review as 16 additional

flags were added at the end of the fiscal year after purchase requests for PPP loan guarantees with those flags had already been processed.

Also, when determining which subset of flags would require a manual review for purchase requests, SBA determined the flags that may indicate lenders did not meet the origination requirements prior to approving and disbursing the PPP loan. However, SBA did not consider all guidance issued to lenders when determining the subset of flags that would require a manual purchase review and indicate that lenders did not meet origination requirements. Specifically, SBA did not consider the procedural notices issued to lenders to address the flags identified prior to approving the 2021 cohort of PPP loan guarantees.

The PPP loan guarantee purchases review process also relies on the identified flags from the case management system. However, management did not have adequate controls to ensure the completeness and accuracy of flags identified and resolved.

The deficiencies were caused by an inadequate risk assessment performed to ensure sufficient controls were designed and implemented for the review of PPP loan guarantee purchase transactions and a lack of policy and controls that require the adequate training, onboarding, and monitoring of lenders executing their responsibilities in the PPP loan origination process.

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

- GAO's Green Book, Principle 3, Establish Structure, Responsibility, and Authority; Principle 6, Define Objectives and Risk Tolerances; Principle 7, Identify, Analyze, and Respond to Risks; Principle 10, Design Control Activities; and Principle 16, Perform Monitoring Activities
- OMB Circular No. A-123, Management's Responsibility for Enterprise Risk Management and Internal Control

The deficiencies noted above may result in a material misstatement to the Loan Guarantee Liabilities and Downward Reestimate Payable to Treasury line items, and the related elements in the consolidated financial statements.

#### Recommendations – Purchases of PPP Loan Guarantees

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

9. Perform a thorough and complete analysis of all requirements communicated to lenders for the PPP program and determine how to evaluate whether lenders met the requirements prior to disbursing a PPP loan. The analysis should include evidence to support the adequacy of SBA's review process when determining which purchase requests will require additional review.
10. Develop and document an effective funds recovery plan and controls to ensure funds disbursed to ineligible recipients as part of the purchases review process are recovered and reported accurately in a timely manner.

#### **2. Controls over COVID-19 EIDLs Need Improvement**

Management did not adequately design and implement controls to ensure that approved COVID-19 EIDLs were provided to eligible borrowers and accurately recorded. Specifically, SBA approved and disbursed COVID-19 EIDLs in the following instances:

- More than one COVID-19 EIDL was approved and disbursed to the same borrower;
- COVID-19 EIDLs were issued to borrowers with fraudulent tax identification numbers;

- COVID-19 EIDLs were issued that management flagged to be potentially fraudulent, a victim of identity theft, or where the borrower or the bank was involved in an Office of Inspector General investigation; and
- COVID-19 EIDLs with eligibility concerns were issued to borrowers.

As of September 30, 2022, there were a total of 182,298 approved and disbursed COVID-19 EIDLs (with a total value of \$15,618,781,808) flagged within the loan repository system that were potentially issued to ineligible borrowers. The loans were flagged for one or more of 14 different codes. The codes corresponding to COVID-19 EIDLs are: Research Duplicate 9 Digit Tax Identification Issue; Potential Fraud; EIDL Criminal Record; EIDL Bankruptcy; Treasury – Do Not Pay - Death Sources; Treasury - Do Not Pay – SAM; Treasury – Do Not Pay - TOP Education; Confirmed Fraud; Fraud; Potential Identity Theft; Confirmed Identity Theft; Manual Review Potential Fraud; Original Loan was Correct but Identity Theft on the Loan Modification; and DCI Awaiting Legal Review.

Also, management did not implement adequate procedures and controls to address certain alerts within the system. Specifically, the system’s Reference Guide that is used by loan officers during the approval process did not have adequate procedures to address the following alerts: Public records search did not find business; Bank account or routing number could not be verified; Bank account could not be confirmed to be associated with the business; Deferred student loans; Foreclosure; and Outstanding lawsuit.

According to management, a review plan was implemented and ongoing to address the COVID-19 EIDLs identified with eligibility concerns and indicated in the loan repository system by hold codes. However, management was not able to provide sufficient evidence of a consistent process documenting how the COVID-19 EIDLs with eligibility concerns were identified and resolved. This would include the specific rules that were developed and applied for the COVID-19 EIDLs portfolio to identify and designate COVID-19 EIDLs with hold codes that may indicate eligibility concerns, the approved rationale for why only those rules were applied, and any testing or review performed on the implementation and application of the rules.

The deficiencies were caused by an inadequate design and implementation of controls within the COVID-19 EIDLs processing portal, a lack of effective procedures implemented to adequately train, onboard, and monitor the performance of loan officers involved in the COVID-19 EIDLs origination process, and the inadequate design and implementation of controls in the COVID-19 EIDLs loan review process to ensure hold codes were appropriate, reviewed, and resolved consistently.

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

- GAO’s Green Book, Principle 3, Establish Structure, Responsibility, and Authority; Principle 6, Define Objectives and Risk Tolerances; Principle 7, Identify, Analyze, and Respond to Risks; and Principle 10, Design Control Activities
- OMB Circular No. A-123, Management’s Responsibility for Enterprise Risk Management and Internal Control

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

### Recommendations – Controls over COVID-19 EIDLs Need Improvement

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

11. Perform a thorough review of the COVID-19 EIDLs and determine which transactions were not in conformance with the CARES Act and related legislation and provided to ineligible recipients.
12. Implement adequate controls over the loan review process to ensure that COVID-19 EIDLs identified with eligibility concerns are complete and the specific eligibility concerns identified are accurate.
13. Document a comprehensive process for the COVID-19 EIDLs review process, including how loans with eligibility concerns are identified, tracked, and resolved.
14. Develop and document an effective funds recovery plan and controls to ensure funds disbursed to ineligible recipients as part of the COVID-19 EIDLs review process are recovered and reported accurately in a timely manner.

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

15. Assess the accounting considerations, based on the results of the review process for COVID-19 EIDLs, including the impact on the consolidated financial statements, and record any necessary adjustments for transactions determined not to be in conformance with the CARES Act and related legislation.

### **3. Controls over the Subsidy Reestimate Need Improvement**

Management did not adequately design and implement controls over the review of the data inputs used in the PPP subsidy reestimate. Specifically, management did not consider and document the effects on the subsidy reestimate methodology regarding:

- PPP loan guarantees with lender loan status report errors that were not reviewed or processed to update the outstanding loan principal balance. This includes lender loan status reports submitted incorrectly, or did not process due to an error. As such, management did not have sufficient controls to ensure the unpaid principal balance of loan guarantees within the portfolio, on which the reestimate is performed, is complete and accurate.
- The results from the PPP loan forgiveness review process were used to develop a significant assumption in the PPP reestimate model. However, there were not effective monitoring controls over the performance of the PPP loan forgiveness review process. As such, management did not have sufficient controls in place to ensure the completeness and accuracy of the data used to develop the significant assumption.
- The forgiveness transactions processed by SBA during the year that were also used to develop another significant assumption. The PPP loan forgiveness review process was not adequately designed to ensure that forgiveness transactions processed were appropriate and in accordance with the program terms. As such, management did not have sufficient controls in place to ensure the completeness and accuracy of the data used to develop forgiveness related significant assumption.
- The impact that the PPP purchases review process may have on another assumption in the PPP reestimate model. In particular, management did not adequately design and implement controls to ensure the purchase requests for PPP loan guarantees were reviewed to verify that requesting lenders met the origination requirements prior to approving and disbursing the loan. There was not an approved, documented, comprehensive process implemented prior to purchase transactions being

processed and changes made to the process at the end of the fiscal year were not communicated and evaluated for impact on the reestimate model.

In addition, management did not adequately design and implement controls to ensure the assumptions used in the subsidy reestimate for the COVID-19 EIDLs were commensurate with their risks. Management is in process of reviewing the COVID-19 EIDLs portfolio to address eligibility concerns on disbursed loans. This review was not completed at the time of the year-end reestimate. As such, management does not have a reasonable basis to determine whether the assumptions applied are appropriate to COVID-19 EIDLs in the portfolio based on their specific risk characteristics.

The deficiencies were caused by an inadequate entity wide control environment related to the design, implementation, and operating effectiveness of controls related to the review of the loan portfolio at a precision level necessary to ensure the data inputs used for the reestimate models are complete and accurate. In addition, the deficiencies were caused by the inherent challenges with the implementation and development of subsidy reestimate models for new programs that do not have a significant volume of historical data or precedence.

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

- GAO's Green Book, Principle 10, Design Control Activities; and Principle 13, Use Quality Information
- OMB Circular No. A-123, Management's Responsibility for Enterprise Risk Management and Internal Control

The deficiencies noted above may result in a material misstatement to the Loan Guarantee Liabilities, Credit Program Receivables and Related Foreclosed Property (Net), and Downward Reestimate Payable to Treasury line items, and the related elements in the consolidated financial statements.

#### Recommendations – Controls over the Subsidy Reestimate Need Improvement

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

16. Continue implementing controls to accumulate relevant, complete, and accurate data on which to base the subsidy reestimate models for the PPP and COVID-19 EIDLs portfolios.
17. Design and implement adequate review and approval controls over the reestimate models for the PPP and COVID-19 EIDLs portfolios by appropriate levels of management, and to coordinate with relevant program offices to assess the integrity of relevant data inputs used in the development of assumptions, and reasonableness for the selected assumptions used and the resulting estimates.

#### **4. Controls over the Evaluation of Service Organizations Need Improvement**

##### *A. Service Organization Used for COVID-19 EIDLs*

Management did not obtain reasonable assurance on the operating effectiveness of internal controls in the service organization's control environment relevant to the processing of COVID-19 EIDLs transactions. The service organization control environment includes the operation of the system used for COVID-19 EIDLs processing and the application controls within the system. In addition, the relevant control environment includes the data transmissions over the internet between the system and various third-party organizations.

In addition, management did not provide evidence of adequate monitoring activities performed over the relevant internal control environment at the service organization, such as obtaining and reviewing an attestation report on the design, implementation, and operating effectiveness of

controls at the service organization. Management also did not provide evidence whether adequate user entity controls were designed, implemented, and operated effectively to complement the service organization's controls. Management's assessment of internal controls over financial reporting is not complete without the sufficient consideration of existing and non-existing controls at relevant service organizations and the effectiveness of those controls.

The deficiencies were caused by management not holding the service organization accountable for the assigned internal control responsibilities by obtaining reasonable assurance on the operating effectiveness of internal controls in the service organization's control environment (e.g., requiring a service organization control (SOC) 1 Type 2 report for the control environment relevant to the processing of COVID-19 EIDLs transactions).

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

- GAO's Green Book, Section 4, Additional Considerations: Service Organizations; Principle 5, Enforce Accountability; Principle 10, Design Control Activities; and Principle 16, Perform Monitoring Activities
- OMB Circular No. A-123, Management's Responsibility for Enterprise Risk Management and Internal Control

The deficiencies noted above prevented SBA from obtaining an understanding of relevant service organization controls and any weaknesses that increase the risk of misstatements in the Credit Program Receivables and Related Foreclosed Property (Net), and Downward Reestimate Payable to Treasury line items, and related elements in the consolidated financial statements.

#### Recommendations – Service Organization Used for COVID-19 EIDLs

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

18. Continually evaluate the established policy for SOC 1 reports that requires new service organizations to provide a SOC 1 report over the control environment that is relevant and significant to the processing and recording of SBA's transactions as it relates to COVID-19 EIDLs. If a SOC 1 report cannot be obtained, identify, and evaluate relevant controls at the service organizations that have an impact on SBA's internal controls over financial reporting.
19. Assess the risk posed by the service organization's control environment and obtain sufficient assurance over the operating effectiveness of relevant and significant controls to determine the integrity of the COVID-19 EIDLs transactions processed on behalf of and recorded by SBA. If a SOC 1 report is obtained for the relevant control environment at the service organization, determine and document the following:
  - SOC 1 report is sufficiently scoped to cover transaction processing and related control activities performed by the service organization on behalf of SBA (e.g., that services, business applications and other information technology, service organization departments and locations, control objectives and activities, and other aspects of scope that are relevant to SBA's internal controls over financial reporting are included in the scope of SOC 1 reports).
  - All exceptions noted in the SOC 1 report – not just those described in the independent service auditor's report – are evaluated to determine applicability to SBA's internal controls over financial reporting, the potential impact to SBA's financial statements, and mitigating controls other considerations made during their risk assessment.

- All complementary user entity controls described in the SOC 1 reports are evaluated using current information and with consideration to their applicability to SBA's internal controls over financial reporting.
- Evaluation procedures performed to assess whether complementary user entity controls and other SBA-performed controls were tested and found effective and, if they are not, the impact of such deficiencies on SBA's internal controls over financial reporting.
- All complementary subservice organization controls described in SOC 1 reports are evaluated to determine whether they provided services and performed controls considered relevant to SBA's internal controls over financial reporting and, if relevant subservice organizations were identified, an evaluation is performed to obtain an understanding of the subservice organization(s) and their controls.
- SOC 1 reports cover the appropriate period or corresponding gap letters provide sufficient coverage to assess impacts on SBA's internal controls over financial reporting.

#### *B. Service Organizations Used for Loan Guarantee Programs*

Management did not obtain reasonable assurance on the operating effectiveness of internal controls in multiple service organizations' control environments relevant to the 7(a) loan guarantee program fiscal transfer agent, the financial service providers for the 7(a) and 504 loan guarantee programs, and the PPP forgiveness and purchases platform. With regards to the financial service providers for the 7(a) and 504 loan guarantee programs, the relevant control environments include the facilitation, maintenance, and reporting of the account balances for the respective secondary market programs. With regards to the PPP forgiveness and purchases platform, the relevant control environment includes the operation of the PPP loan forgiveness and PPP loan purchase modules, the data transmissions over the internet between the relevant modules and SBA systems used in the configured checks, the cloud-based infrastructure hosting provider, and the application controls within the application intake platform.

In addition, management did not provide evidence of adequate monitoring activities performed over the relevant internal control environments at the respective service organizations and subservice organizations, such as obtaining and reviewing an attestation report on the design, implementation, and operating effectiveness of controls at the service organization.

Management's evaluation of SOC 1 reports obtained for the 7(a) loan guarantee program fiscal transfer agent and the 504 loan guarantee program financial service provider were not sufficient or properly documented to aid in management's assessment of internal controls over financial reporting. Specifically, management's review of complementary user entity controls within the SOC 1 reports identified control gaps or placed reliance on controls for which deficiencies were noted. Management's assessment of internal controls over financial reporting is not complete without the sufficient consideration of existing and non-existing controls at relevant service organizations and the effectiveness of those controls.

Management did not hold the service organizations accountable for the assigned internal control responsibilities by obtaining reasonable assurance on the operating effectiveness of internal controls in the service organizations' control environments (e.g., by requiring a SOC 1 Type 2 report for the control environment relevant to the processing of SBA's transactions).

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

- GAO's Green Book, Section 4, Additional Considerations: Service Organizations; Principle 5, Enforce Accountability; Principle 10, Design Control Activities; and Principle 16, Perform Monitoring Activities

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

The deficiencies noted above prevented SBA from obtaining an understanding of relevant service organization controls and any weaknesses that increase the risk of misstatements in the Loan Guarantee Liabilities line item and related elements in the consolidated financial statements.

#### Recommendations – Service Organizations Used for Loan Guarantee Programs

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

20. Continually evaluate the established policy for SOC 1 reports that requires new service organizations to provide a SOC 1 report over the control environment that is relevant and significant to the processing and recording of SBA's transactions as it relates to loan guarantee programs. If a SOC 1 report cannot be obtained, identify, and evaluate relevant controls at the service organizations that have an impact on SBA's internal controls over financial reporting.
21. Assess the risk posed by the service organizations' control environments and obtain sufficient assurance over the operating effectiveness of relevant and significant controls to determine the integrity of loan guarantee program transactions processed on behalf of and recorded by SBA. If a SOC 1 report is obtained for the relevant control environment at the service organization, determine and document the following:
  - SOC 1 report is sufficiently scoped to cover transaction processing and related control activities performed by the service organization on behalf of SBA (e.g., that services, business applications and other information technology, service organization departments and locations, control objectives and activities, and other aspects of scope that are relevant to SBA's internal controls over financial reporting are included in the scope of SOC 1 reports).
  - All exceptions noted in the SOC 1 report – not just those described in the independent service auditor's report – are evaluated to determine applicability to SBA's internal controls over financial reporting, the potential impact to SBA's financial statements, and mitigating controls considerations made during their risk assessment.
  - All complementary user entity controls described in the SOC 1 reports are evaluated using current information and with consideration to their applicability to SBA's internal controls over financial reporting.
  - Evaluation procedures performed to assess whether complementary user entity controls and other SBA-performed controls were tested and found effective and, if they are not, the impact of such deficiencies on SBA's internal controls over financial reporting.
  - All complementary subservice organization controls described in SOC 1 reports are evaluated to determine whether they provided services and performed controls considered relevant to SBA's internal controls over financial reporting and, if relevant subservice organizations were identified, an evaluation is performed to obtain an understanding of the subservice organization(s) and their controls.
  - SOC 1 reports cover the appropriate period or corresponding gap letters provide sufficient coverage to assess impacts on SBA's internal controls over financial reporting.

### *C. Service Organization Used for the SVOG Program*

Management did not obtain reasonable assurance on the operating effectiveness of internal controls in the service organization's control environments relevant to the external cloud service provider used for the SVOG platform in the processing of applications and monitoring the status of awards.

While a SOC 1 report was obtained for the service provider, management did not provide evidence of adequate monitoring activities performed over the relevant internal control environments at the respective subservice organizations identified in the report. In addition, management also did not provide evidence whether adequate user entity controls were designed, implemented, and operated effectively to complement the service organization's controls. Finally, management did not provide evidence of adequate evaluation of the control exceptions noted in the report and the impact to SBA's internal control over financial reporting. Management's assessment of internal controls over financial reporting is not complete without the sufficient consideration of existing and non-existing controls at relevant service and subservice organizations and the effectiveness of those controls.

The deficiencies were caused by management not implementing effective monitoring of the effectiveness of internal control over the assigned processes performed by relevant service organizations.

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

- GAO's Green Book, Section 4, Additional Considerations: Service Organizations; Principle 5, Enforce Accountability; Principle 10, Design Control Activities; and Principle 16, Perform Monitoring Activities
- OMB Circular No. A-123, Management's Responsibility for Enterprise Risk Management and Internal Control

The deficiencies noted above prevented SBA from obtaining an understanding of relevant service organization controls and any weaknesses that increase the risk of misstatements in the Other than Intragovernmental Advances and Prepayments line item and related elements in the consolidated financial statements.

### Recommendations – Service Organizations Used for the SVOG Program

We recommend the Administrator coordinate with the Acting Chief Information Officer to:

22. Assess the risk posed by the service organizations' control environments and obtain sufficient assurance over the operating effectiveness of relevant and significant controls to determine the integrity of SVOG program transactions processed on behalf of and recorded by SBA and communicate the results to the relevant program offices. If a SOC 1 report is obtained for the relevant control environment at the service organization, determine and document the following:
  - SOC 1 report is sufficiently scoped to cover transaction processing and related control activities performed by the service organization on behalf of SBA (e.g., that services, business applications and other information technology, service organization departments and locations, control objectives and activities, and other aspects of scope that are relevant to SBA's internal controls over financial reporting are included in the scope of SOC 1 reports).
  - All exceptions noted in the SOC 1 report – not just those described in the independent service auditor's report – are evaluated to determine applicability to SBA's internal controls over financial reporting, the potential impact to SBA's financial statements, and mitigating controls considerations made during their risk assessment.

- All complementary user entity controls described in the SOC 1 reports are evaluated using current information and with consideration to their applicability to SBA's internal controls over financial reporting.
- Evaluation procedures performed to assess whether complementary user entity controls and other SBA-performed controls were tested and found effective and, if they are not, the impact of such deficiencies on SBA's internal controls over financial reporting.
- All complementary subservice organization controls described in SOC 1 reports are evaluated to determine whether they provided services and performed controls considered relevant to SBA's internal controls over financial reporting and, if relevant subservice organizations were identified, an evaluation is performed to obtain an understanding of the subservice organization(s) and their controls.
- SOC 1 reports cover the appropriate period or corresponding gap letters provide sufficient coverage to assess impacts on SBA's internal controls over financial reporting.

## **5. Controls over Accounting and Monitoring of RRF and SVOG Programs Need Improvement**

Management did not adequately design and implement monitoring controls over RRF and SVOG awards to ensure accurate financial reporting as of the fiscal year-end, and the funds were used in accordance with the CARES Act and related legislation. According to management, monitoring plans were implemented and ongoing. However, the monitoring process could not be relied upon for financial reporting purposes at fiscal year-end. Specifically, we noted that management was unable to provide evidence that the accounting treatment and financial reporting for the RRF and SVOG awards were in accordance with U.S. generally accepted accounting principles. The full amount of the awards was expensed immediately upon disbursement without evidence supporting the existence, accuracy, and timely recognition of expenses, instead of advances, as they were incurred by the recipients during the fiscal year.

In addition, management did not adequately design and implement controls to ensure the RRF and SVOG awards were approved and disbursed to eligible recipients in conformance with the related legislation. Management approved and disbursed RRF and SVOG awards to recipients that also had PPP loan guarantees that were flagged in SBA's loan repository system. SBA placed flags on PPP loan guarantees if the loans were indicative of potential noncompliance with select eligibility requirements. We noted that RRF and SVOG award recipients also had a PPP loan guarantee with an alert or flag that were not resolved prior to the approval of the (RRF) award.

The deficiencies were caused by an inadequate entity wide control environment to design and implement sufficient review and monitoring controls related to the RRF and SVOG programs. In addition, there was a lack of a sufficient analysis performed to determine the appropriate accounting treatment for the programs.

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

- GAO's Green Book, Principle 10, Design Control Activities
- OMB Circular No. A-123, Management's Responsibility for Enterprise Risk Management and Internal Control

The deficiencies noted above may result in a material misstatement to the Other than Intragovernmental Advances and Prepayments line item and the related elements in the consolidated financial statements.

## Recommendations – Controls over Accounting and Monitoring of RRF and SVOG Programs Need Improvement

We recommend the Administrator coordinate with the Associate Administrators for the Office of Capital Access and the Office of Disaster Assistance to:

23. Design and implement a sufficient ongoing review of RRF and SVOG awards disbursed and identify recipients that may not have been eligible to receive the awards in accordance with the program's terms, especially for recipients with flagged PPP loan guarantees.
24. Design and implement effective monitoring controls to ensure that RRF and SVOG award recipients are complying with the program's terms and to ensure complete, accurate, and timely reporting for the use of the award.
25. Develop and document an effective funds recovery plan and controls to ensure funds disbursed to ineligible recipients as part of the RRF and SVOG review process are recovered and reported accurately in a timely manner.

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

26. Design and implement controls to ensure the accounting treatment established to record the balances related to the RRF and SVOG programs are in accordance with U.S. generally accepted accounting principles and the basis for the appropriate treatment is sufficiently documented.

### **6. Entity Level Controls Need Improvement**

Due to the implementation of the new and expanded programs, management faced challenges in maintaining an adequate entity level controls system that produces reliable and accurate financial reporting. The significance of the internal control matters indicated weaknesses across several entity level control categories. We noted the following conditions.

Risk Assessment: Management did not design and implement an effective risk assessment process. For example, the following matters were noted:

1. The materiality threshold developed and documented was not adequately considered and applied by program offices when key decisions regarding controls and review processes were implemented. The controls within the relevant offices were not designed, implemented, and operating effectively to a sufficient precision level to ensure the reporting objective of preparing the financial statements free of material misstatement could be achieved. For example, the 2021 cohort of PPP loan guarantees were subject to a limited set of validation checks as compared to the 2020 cohort of PPP loan guarantees without a documented risk assessment determining the rationale for why a lower response was appropriate. Additionally, the PPP loan guarantee forgiveness review process was not designed to ensure the reviews performed were to a sufficient level of precision to ensure the related balances were free of material misstatement.
2. While risk assessments were planned, they were not completed in fiscal year 2022 for material programs, including COVID-19 EIDLs, PPP, and Debt Relief Program payments.

Monitoring: Management did not design and implement effective monitoring processes. The following matters were noted concerning various program areas. Specifically, we noted that SBA did not have adequate or effective monitoring controls related to:

3. PPP lenders
4. Internal control over processes performed by service organizations.

5. RRF and SVOG program award recipients.
6. Entity level controls, manual controls, general information technology controls, and system application controls for key financial statement line items and risks. Specifically, evidence was not provided to substantiate that the testing of controls was complete for significant new and expanded programs authorized from the CARES Act and related legislation.

The deficiencies were primarily caused by the prioritization and the urgent need to implement the provisions of the CARES Act and related legislation as quickly and efficiently as possible over internal control processes and related remediation of prior year control deficiencies. In addition, these deficiencies were caused by the inherent challenges with the implementation of new and expanded programs that do not have any historical precedence. The challenges included implementing programs with inadequate systems to implement such large-scale programs, and an insufficient number of personnel to assist in the design, implementation, and execution of internal controls. Finally, these deficiencies were caused by the lack of an effective risk assessment, communication, and monitoring processes and controls to ensure financial statement reporting objectives were achieved.

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

- GAO's Green Book, Principle 6, Define Objectives and Risk Tolerances; Principle 7, Identify, Analyze, and Respond to Risks; Principle 9, Identify, Analyze, and Respond to Change; Principle 10, Design Control Activities; Principle 12, Implement Control Activities; and Principle 16, Perform Monitoring Activities
- OMB Circular No. A-123, Management's Responsibility for Enterprise Risk Management and Internal Control

As a result of the deficiencies noted above, transactions were approved and in certain cases disbursed to potentially ineligible entities and not in conformance with the CARES Act and related legislation, and the Office of Chief Financial Officer placed reliance on controls that were not designed, implemented, and operating effectively to ensure the financial statements are free from potential material misstatements. Without the proper level of entity level controls in place and operating effectively, there is an increased risk that a material misstatement exists in the consolidated financial statements, and noncompliance with the relevant laws and regulations would not be prevented or detected and timely corrected.

#### Recommendations – Entity Level Controls Need Improvement

We recommend that the Administrator coordinate with the Associate Administrators for the Office of Capital Access and Disaster Assistance to:

27. In conjunction with the Office of the Chief Financial Officer, complete the internal control risk assessments for programs that have a material impact on the financial statements at a process level in a timely manner. The risk assessments should include the consideration of whether controls designed and implemented are operating at a sufficient precision level in accordance with management's materiality threshold and will be sufficient for financial reporting purposes.
28. Develop and implement monitoring controls as required by the GAO's Standards for Internal Control in the Federal Government to ensure implementation of an effective internal control environment.

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

29. Perform and document a thorough risk assessment at the financial statement assertion level to identify process level risks and communicate the results to relevant program offices.

30. In conjunction with relevant program offices, assess the effectiveness of key process level controls to respond to the identified risks.
31. In conjunction with relevant program offices, develop and implement processes to ensure the timely completion of the testing and monitoring of the design, implementation, and operating effectiveness of key, relevant controls that affect financial reporting and compliance with relevant laws and regulations.

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**Significant Deficiencies**

The following deficiencies are considered to be significant deficiencies in internal controls over financial reporting.

- 1. Controls over Payments for Covered Loans under the Debt Relief Program Need Improvement**
- 2. Controls over General Information Technology Need Improvement**

**1. Controls over Payments for Covered Loans under the Debt Relief Program Need Improvement**

Management did not adequately design and implement controls to determine that payments made to lenders for covered loans under the Debt Relief Program were accurate, reviewed, and approved prior to payment to enable the fair presentation of the Loan Guarantee Liabilities. Specifically, management did not have a documented process and sufficient controls in place to substantiate the accuracy of the payments made to lenders.

The deficiency was caused by an inadequate entity wide control environment to implement processes, and procedures to account for new and expanded programs under the CARES Act and related legislation with sufficiently designed, implemented, and effectively operating controls.

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

- GAO's Green Book, Principle 3, Establish Structure, Responsibility, and Authority; and Principle 10, Design Control Activities

The deficiency noted above may result in misstatements of the Loan Guarantee Liabilities line item and related elements in the consolidated financial statements.

Recommendations – Payments for Covered Loans under the Debt Relief Program

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

32. Perform a review of the payments made by SBA for covered loans under the Debt Relief Program to identify, review, and remediate any potential over or under payments made on the related loans.

**2. Controls over General Information Technology Need Improvement**

Management had control deficiencies that limited SBA's ability to effectively manage its information system risks. Collectively, these conditions increase the risk of unauthorized use, modification, or destruction of financial data, which may impact the integrity of information used to prepare the financial statements. In the sections below, we have omitted some technical details from the conditions and recommendations due to the sensitivity of the information. These details were communicated to management in notices of findings and recommendations.

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

- GAO's Green Book, Principle 3, Establish Structure, Responsibility, and Authority; and Principle 11, Design Activities for the Information System

- National Institute of Standards and Technology Special Publication 800-53, Revision 5, Security and Privacy Controls for Federal Information Systems and Organizations

We have summarized the information technology control deficiencies by the following general information technology control objectives: logical access controls and system configuration management.

### **Logical Access Controls**

Management did not consistently follow established policy and procedure requirements for the timely removal of access to SBA systems for separated employees and contractors.

The deficiency was caused by the lack of a separated personnel report being provided to the relevant points of contact in program offices.

The deficiency noted above increases the risk that unauthorized users may retain access to the system resulting in unauthorized modification, destruction, or exposure to SBA systems and data.

### Recommendations – Logical Access Controls

We recommend the Administrator coordinate with the Chief Human Capital Officer to:

33. Review and update current processes and procedures for notifying program offices of personnel separations to ensure inclusion of current primary and secondary points of contacts for each program office responsible for managing information systems.

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

34. Review the activities of the terminated employees and contractors to ensure that their accounts were not used after they separated from SBA.
35. Update the Office of Capital Access procedures to identify the control activities, responsible parties, and the process for the removal of access for terminated users upon notification from the Office of the Chief Human Capital Officer.

### **System Configuration Management**

Management did not implement corrective actions to remediate the prior year deficiency related to the testing of patches prior to implementation. Specifically, management did not follow established policy and procedures by maintaining supporting evidence to consistently demonstrate that database and operating system patches were tested and approved prior to migration into the production environment.

The deficiency was caused by a lack of sufficient resources to implement a testing team for the patch management process and a lack of prioritization to remediate this prior year deficiency.

The deficiencies noted above increase the risk that known vulnerabilities can be exploited and unauthorized changes can be applied to the system, resulting in possible disclosure, modification, or destruction of SBA system programs and data.

### Recommendations – System Configuration Management

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

36. Implement controls and a monitoring process to ensure that patches applied to the database and operating system and application changes are appropriately tested prior to being moved into the production environment.

37. Update the system configuration management plan to require internal control documentation for patch management and application changes as required by GAO's Standards for Internal Control in the Federal Government.
38. Periodically train personnel involved with the implementation of database and operating system patches, and the review and approval of application changes, to follow the respective controls and requirements of the patch management and application change management processes in accordance with existing policies.

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**Compliance and Other Matters**

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

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

1. Perform, document, and demonstrate that they completed an internal control over financial reporting evaluation regarding the new or expanded programs, including the evaluation and consideration of the risks and controls of significant service organizations.
2. For the risks significant to financial reporting, consistently document financial statement risks and assertions covered, testing procedures performed, extent of sampling performed, testing results, corrective action plans to respond to deficiencies identified, and provide evidence of management review. Additionally, management did not complete testing over significant areas and did not plan for and test information technology controls as part of the internal control evaluation program.
3. Ensure their own assurance process was sufficient to identify material weaknesses that existed during the fiscal year in addition to those identified by external auditors.

Management did not substantially meet FMFIA requirements due to the urgent need to implement the provisions of the CARES Act and related legislation as quickly and efficiently as possible, the lack of historical precedence, and other inherent challenges faced in implementing and expanding programs. In addition, management did not consider all FMFIA and OMB Circular No. A-123 requirements when performing their evaluation over internal controls.

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

- Section 2 of FMFIA
- OMB Circular No. A-123, Management's Responsibility for Enterprise Risk Management and Internal Control

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

**Recommendations – FMFIA**

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

39. Update the risk assessment regarding the evaluation of internal controls to ensure it includes all significant programs, key processes, and other material line items on the consolidated financial statements.
40. In conjunction with relevant program offices, perform and document the internal control evaluation over all programs. This should include entity level controls, manual controls, general information technology controls, and system application controls covering key financial statement line items and risks.

41. Update the existing policy and implement adequate controls to ensure that the statement of assurances provided by the program offices are adequately documented and reviewed for completeness and accuracy to provide a sufficient basis to support the Administrator's statement of assurance.

#### **B. Federal Financial Management Improvement Act of 1996 (FFMIA)**

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

1. Federal Financial Management Systems Requirements. As discussed in Appendix I – Material Weaknesses, control deficiencies over transactions arising from the implementation of the CARES Act and related legislation do not enable reliable and accurate financial reporting and do not ensure budgetary resources are safeguarded against waste, loss, and misuse. In addition, the deficiencies may not support compliance objectives related to ensuring financial transactions are in conformance with the CARES Act and related legislation are achieved.
2. Federal Accounting Standards. The deficiencies identified and reported in Appendix I – Material Weaknesses, provide an indication that SBA's financial management systems were substantially non-compliant with applicable federal accounting standards. Specifically, management was unable to provide evidence that the accounting treatment and financial reporting for the RRF and SVOG awards were in accordance with U.S. generally accepted accounting principles. The full amount of the awards was expensed immediately upon disbursement without evidence supporting the existence, accuracy, and timely recognition of expenses, instead of advances, as they were incurred by the recipients during the fiscal year.

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

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

- Section 803(a) of FFMIA
- GAO's Green Book, Section 2, Establishing an Effective Internal Control System
- Appendix D to OMB Circular No. A-123, Compliance with the Federal Financial Management Improvement Act of 1996

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

#### Recommendations – FFMIA

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

42. Address the control deficiencies over transactions arising from the implementation of the CARES Act and related legislation by working with the Office of Capital Access and the Office of Disaster Assistance to implement the recommendations in Appendix I – Material Weaknesses.



**CFO Response to Audit Report on  
FY 2022 Financial Statements**

November 15, 2022

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

**FROM:** Kate Aaby, Associate Administrator for Performance, Planning and the Chief  
Financial Officer 

**SUBJECT:** FY 2022 Financial Statement Audit

The Small Business Administration has reviewed the Independent Auditors' Report from KPMG that includes the auditors' disclaimer of opinion on the Agency's FY 2022 and FY 2021 Consolidated Balance Sheets. The independent audit of the Agency's financial statements and related processes is a core component of SBA's financial management program, and we are concerned by this result.

The FY 2022 Agency Financial Report includes the programs implemented under the American Rescue Plan Act, the Economic Aid Act, in addition to those programs funded under the CARES Act and subsequent legislation. As in FY 2021, the expansion of these programs during prolonged unprecedented times continued to emphasize the importance of serving small businesses as they navigate extraordinary circumstances.

The SBA has continued making tremendous progress strengthening internal controls for pandemic-focused programs and is dedicated to accountability and transparency to the American public. SBA implemented the Fraud Risk Management Board (FRMB) this year to effectively mitigate, manage and monitor fraud risks. The FRMB is chaired by the CFO and members include Deputy Associate Administrators of key Program Offices. In addition, to the governance bodies SBA has in place, the CFO and key SBA Program Offices have partnered in the development and implementation of corrective actions that will strengthen internal controls as well as address audit identified deficiencies.

The SBA Senior Management Council (SMC) which is chaired by the Deputy Chief Financial Officer and comprised SBA managers from program and support offices, actively plans and executes the Agency's internal control activities that include assessing and improving compliance, monitoring and remediation of identified deficiencies and communicating results of reviews to senior management.

As in FY 2021, the auditors identified material weaknesses related to the internal controls over six areas; PPP Loan Guarantees, COVID-19 EIDLs and Grants, Subsidy Reestimate, Restaurant Revitalization and Shuttered Venues Operators Grant Program, Entity Level Controls, and Evaluation of Service Organizations. The SBA has undergone tremendous efforts to strengthen internal controls, policies and procedures and will continue remediation efforts in the coming audit year.

We appreciate your efforts and those of your colleagues in the Office of the Inspector General, as well as those of KPMG. The independent audit process continues to provide us with beneficial recommendations that support our efforts to further enhance the SBA's financial management practices. We remain committed to excellence in financial management and look forward to furthering progress in the coming year.