




**OFFICE OF INSPECTOR GENERAL  
U.S. SMALL BUSINESS ADMINISTRATION**

**MEMORANDUM**

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**DATE:** May 15, 2023

**TO:** Isabella Casillas Guzman  
Administrator

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

**SUBJECT:** Independent Auditors' Report on SBA's Fiscal Year 2022 Compliance with the Payment Integrity Information Act of 2019 (Report 23-07)

This independent auditors' report on the U.S. Small Business Administration's (SBA) improper payment reporting is required by the Payment Integrity Information Act of 2019. We contracted with the independent certified public accounting firm KPMG LLP to conduct a performance audit of SBA's Fiscal Year (FY) 2022 compliance with the Act. The auditor was engaged to review the payment integrity section of SBA's *Agency Financial Report Fiscal Year 2022* (AFR) and accompanying materials to determine whether the agency complied with the reporting requirements under the Act.

KPMG was engaged to conduct the audit in accordance with consulting services standards established by the American Institute of Certified Public Accountants. The audit also complied with standards applicable to government performance audits issued by the Comptroller General of the United States and the Council of the Inspectors General on Integrity and Efficiency *Guidance for Payment Integrity Information Act Compliance Reviews*.

In the report, KPMG auditors found SBA was not compliant with 9 of the 10 reporting requirements under the Act and Office of Management and Budget (OMB) guidance. Specifically, SBA is not compliant with the Act because:

- The agency's risk assessment methodology did not consider certain identified risk factors to adequately conclude whether the Restaurant Revitalization Fund, Shuttered Venue Operators Grant, and the payments for covered loans in the 7(a) and 504 Certified Development Company loan guaranty programs under the debt relief assistance program were likely to include improper and unknown payments above or below the statutory threshold.

- The sampling and estimation methodology plans were not appropriate for the SBA disaster assistance loans, COVID-19 Economic Injury Disaster Loans (COVID-19 EIDL), and Economic Injury Disaster Loan Targeted Advance programs and activities. In addition, for COVID-19 EIDLs, EIDL advances, and the Paycheck Protection Program (PPP), SBA did not design and implement adequate sample review procedures to produce reliable sample results that could be used to develop accurate improper and unknown payment estimates. As a result, SBA's improper payment and unknown payment rate estimates were not accurate or reliable for the disaster assistance loans, COVID-19 EIDLs, EIDL advances, and the PPP. Due to the unreliable estimates, these programs and activities did not comply with the requirement to report improper and unknown payment rate estimates of less than 10 percent.
- SBA did not demonstrate improvements to payment integrity for 7(a) loan guaranty purchases because the improper payment estimate increased between fiscal years 2021 and 2022, and
- SBA did not publish improper and unknown payment estimates, corrective action plans, and reduction targets within the AFR and accompanying materials for PPP loan guaranty purchases and forgiveness activities. While SBA presented payment integrity information within its FY 2022 AFR and accompanying materials under PPP, this information presented was only for PPP loan guaranty approvals. KPMG's assessment of PIIA compliance is based on all payment activities within the program including PPP loan guaranty approvals, forgiveness, and purchases activities.

We reviewed KPMG's report and related documentation and inquired of its representatives. Our review, as differentiated from an audit in accordance with the *Government Auditing Standards*, was not intended to enable us to express, and we do not express, opinions on SBA's compliance with the Act or internal control over improper payment reporting. KPMG is responsible for the attached auditors' report dated May 15, 2023 and the conclusions expressed.

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

SBA indicates that it is committed to reducing the dollar amount of improper payments, ensuring program integrity, and continuing to implement effective risk management procedures in accordance with improper payment legislation, as well as guidance prescribed in OMB Memorandum M-21-19, Appendix C to OMB Circular A-123, Requirements for Payment Integrity Improvement.

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

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  
Katherine Aaby, Associate Administrator, Office of Performance, Planning,  
and the Chief Financial Officer  
Patrick Kelley, Associate Administrator, Office of Capital Access  
John Miller, Deputy Associate Administrator, Office of Capital Access  
Therese Meers, General Counsel  
Michael Simmons, Attorney Advisor, Office of General Counsel  
Tonia Butler, Director, Office of Internal Controls

Attachment



## Performance Audit of the U.S. Small Business Administration's Fiscal Year 2022 Compliance with the Payment Integrity Information Act of 2019

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

Date: May 15, 2023

KPMG LLP  
1801 K Street NW, Suite 12000  
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Administrator  
Inspector General  
U.S. Small Business Administration

This report presents the results of our performance audit related to the U.S. Small Business Administration's (SBA's) compliance with the requirements contained in the Payment Integrity Information Act of 2019 (PIIA), section 3351(2). We performed our work between December 15, 2022 and May 15, 2023, and our results are as of May 15, 2023.

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

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

We leveraged the Council of the Inspectors General on Integrity and Efficiency Guidance (CIGIE) for Payment Integrity Information Act Compliance Reviews (November 8, 2022), which provides guidance regarding the fieldwork and reporting related to the performance audit objective. The objective of our performance audit was to determine whether SBA complied with the PIIA for fiscal year (FY) 2022.

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

We determined that SBA was not compliant with PIIA due to the following:

- SBA's risk assessment methodology did not consider certain identified risk factors to adequately conclude whether the Restaurant Revitalization Fund (RRF), Shuttered Venues Operator Grant (SVOG), and the payments for covered loans in the 7(a) and 504 loan guaranty programs under the Debt Relief Program were likely to include improper and unknown payments above or below the statutory threshold.
- The sampling and estimation methodology plans (S&EMP) were not appropriate for the Disaster Assistance Loans, COVID-Economic Injury Disaster Loans (COVID-EIDL), and Economic Injury Disaster Loan Emergency Assistance Advance (EIDL Advance) programs and activities. In addition, for COVID-EIDL, EIDL Advance, and Paycheck Protection Program (PPP), SBA did not design and implement adequate sample review procedures to produce reliable sample results that could be used to develop accurate improper and unknown payment estimates. As a result, SBA's improper payment and



unknown payment rate estimates were not accurate or reliable for the Disaster Assistance Loans, COVID-EIDL, EIDL Advance, and PPP. Due to the unreliable estimates, these programs and activities did not comply with the requirement to report improper and unknown payment rate estimates of less than 10 percent.

- SBA did not demonstrate improvements to payment integrity for 7(a) loan guaranty purchases as the improper payment estimate increased between FYs 2021 and 2022.
- SBA did not publish improper and unknown payment estimates, corrective action plans, and reduction targets within the FY 2022 agency financial report (AFR) and accompanying materials for PPP loan guaranty purchases and forgiveness activities. While SBA presented payment integrity information within its FY 2022 AFR and accompanying materials under “Paycheck Protection Loan Program (PPP)”, the information presented was only for PPP loan guaranty approvals. Our assessment of PIIA compliance is based on all payment activities within the program including PPP loan guaranty approvals, forgiveness, and purchases activities.

See Table 1 for a summary of SBA’s compliance with the PIIA for FY 2022 for programs and activities reported by SBA in the FY 2022 AFR or accompanying materials. As the payments for covered loans in the 7(a) and 504 loan guaranty programs under the Debt Relief Program were not reported by SBA in the FY 2022 AFR or accompanying materials, this program was not included in Table 1.

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

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



Program or Activity	1a) Published Payment Integrity Information within the AFR	1b) Posted the AFR and Accompanying Materials on the Agency Website	2a) Conducted Risk Assessment	2b) Adequately Concluded from Risk Assessment	3) Published Improper Payment Estimates	4) Published Corrective Action Plans	5a) Published Reduction Target	5b) Demonstrated Improvements to Payment Integrity	5c) Developed a Plan to Meet the Reduction Target	6) Reported Improper Payment and Unknown Payment Estimate of Less Than 10 Percent
Economic Injury Disaster Loan Emergency Assistance (EIDL Advance)	Compliant	Compliant	Not Applicable	Not Applicable	<b>Not Compliant</b>	Compliant	Compliant	Not Applicable	Compliant	<b>Not Compliant</b>
Paycheck Protection Program (PPP)	<b>Not Compliant</b>	<b>Not Compliant</b>	Not Applicable	Not Applicable	<b>Not Compliant</b>	<b>Not Compliant</b>	<b>Not Compliant</b>	Not Applicable	<b>Not Compliant</b>	<b>Not Compliant</b>
Restaurant Revitalization Fund (RRF) <sup>1</sup>	Not Applicable	Not Applicable	Compliant	<b>Not Compliant</b>	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable
Shuttered Venues Operator Grant (SVOG) <sup>1</sup>	Not Applicable	Not Applicable	Compliant	<b>Not Compliant</b>	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable

The compliance requirements 2a and 2b are applicable for programs and activities in the first of two review phases for improper and unknown payments reporting (i.e., Phase 1) as defined by the Office of Management and Budget (OMB) Memorandum M-21-19, *Transmittal of Appendix C to OMB Circular No. A-123, Requirements for Payment Integrity Improvement* (OMB Memorandum M-21-19). We found that the RRF, SVOG, and payments for covered loans in the 7(a) and 504 loan guaranty programs under the Debt Relief Program were in Phase 1 of review. Therefore, the compliance requirements 1a, 1b, 3, 4, 5a, 5b, 5c and 6 are not applicable for these programs and activities.

The compliance requirements 2a and 2b are not applicable for programs and activities in the second of two review phases for improper and unknown payments reporting (i.e., Phase 2), as defined by OMB Memorandum M-21-19. We found that the 7(a) loan guaranty approvals, 7(a) loan guaranty purchases, 504 Certified Development loan approvals, Disaster Assistance Loans, COVID-EIDL, EIDL Advance, and PPP programs and activities were in Phase 2 of review.

The compliance requirement 5b is not applicable for the COVID-EIDL, EIDL Advance, and PPP programs and activities because their improper and unknown payment rate estimates were not reported in the prior fiscal year.

Our findings, identified internal control deficiencies, and related recommendations are detailed in Section IV.

<sup>1</sup> Based on our evaluation of SBA's risk assessment process, we concluded these programs were not appropriately assessed by SBA during Phase 1 of review.





We caution that projecting the results of our performance audit, as described above, to future periods is subject to the risks that controls may become inadequate due to changes in conditions or compliance with controls may deteriorate.

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

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

*KPMG LLP*

May 15, 2023

## I. BACKGROUND

The Payment Integrity Information Act of 2019 (PIIA) Public Law (P.L.) 116-117 repealed the Improper Payments Elimination and Recovery Act of 2010 (IPERA) P.L. 111-204) (and other laws) but set forth similar improper payment reporting requirements, including an annual compliance report by Inspectors General.

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

- published improper payments information within an agency financial report (AFR) or performance and accountability report (PAR) for the fiscal year ended September 30, 2022, and posted that report and any accompanying materials required by OMB on the agency website;
- conducted a program specific risk assessment for each program that conforms with section 3352(a) of PIIA (if required);
- published improper payment estimates for all programs identified as susceptible to significant improper payments under its risk assessment under section 3352(a) of PIIA (if required);
- published programmatic corrective action plans under section 3352(d) of PIIA in the AFR or PAR or the accompanying materials (if required);
- published reduction targets under section 3352(d) of PIIA, developed a plan to meet the reduction targets, and demonstrated improvements for each program assessed to be at risk and estimated for improper payments (if required and applicable); and
- reported a gross improper payment rate of less than 10 percent for each program and activity for which an improper payment estimate was published under section 3352(c) of PIIA.

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

On March 5, 2021, OMB issued Memorandum M-21-19, *Transmittal of Appendix C to OMB Circular No. A-123, Requirements for Payment Integrity Improvement* (OMB Memorandum M-21-19), as updated implementation guidance to federal agencies. OMB Memorandum M-21-19 requires agencies to identify susceptible programs with an improper payment risk assessment, report improper payment estimates, identify root causes of the improper payments, develop, implement, and monitor corrective actions, and recapture improper payments identified.

We performed our fiscal year (FY) 2022 compliance review using the requirements set forth in OMB Memorandum M-21-19, OMB Circular No. A-136, *Financial Reporting Requirements* (June 3, 2022), OMB Annual Data Call Instructions, OMB Payment Integrity Question and Answer Platform, and the Council of the Inspectors General on Integrity and Efficiency (CIGIE) Guidance for Payment Integrity Information Act Compliance Reviews.

## II. OBJECTIVE, SCOPE, AND METHODOLOGY

### Objective

We conducted this performance audit to determine whether SBA complied with the PIIA for FY 2022.

### Scope

The scope of our performance audit was SBA's FY 2022 improper payments and reporting data in the payment integrity section of the agency's FY 2022 AFR and any accompanying materials.

### Methodology

During our planning and testing phases, we performed the following to achieve our objective:

- interviewed staff from SBA's Offices of Performance, Planning, and the Chief Financial Officer and Capital Access that performed the improper payment reviews;
- collected and inspected SBA provided documentation and evidence, and
- participated in process and control walkthroughs with SBA staff responsible for the programs identified as susceptible to significant improper payments.

Our detailed procedures consisted of the following:

- obtained an understanding of SBA's improper payments reporting process and relevant controls through inquiries with management;
- reviewed SBA's policies and procedures over the improper payments reporting process;
- reviewed management's risk assessment for agency programs identified as susceptible to significant improper payments;
- reviewed related legislation for significant changes or increases in funding levels for each program;
- reviewed and evaluated the statistically determined improper payment and unknown payment estimates for each program deemed susceptible to improper payments in consultation with a statistician;
- reviewed and evaluated the population of outlays for each program for completeness and accuracy;
- reviewed and evaluated SBA's payment integrity section in the AFR and accompanying materials for completeness and accuracy;
- evaluated the corrective actions published and determined whether they focus on the true root cause, and were implemented;
- evaluated the root cause category classifications and determined whether SBA accurately classified the true root causes of improper payments, and
- obtained OMB waivers/exemptions for improper payments reporting (if applicable).

We leveraged the CIGIE Guidance for Payment Integrity Information Act Compliance Reviews, as it provides guidance regarding the fieldwork and reporting related to the performance audit objective.

We obtained sufficient and appropriate evidence to provide a reasonable basis for our conclusions related to the audit objective.

### III. RESULTS AND CONCLUSIONS

We determined SBA was not compliant under PIIA based on our audit procedures performed. See below for additional details of our results.

Requirement 1a – Determine if SBA published payment integrity information within the AFR for the fiscal year ended September 30, 2022.

- Not Compliant. SBA did not publish payment integrity information in its FY 2022 AFR for the Paycheck Protection Program (PPP) loan guaranty purchases and forgiveness activities.

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

- Not Compliant. SBA did not publish payment integrity information in the AFR and any accompanying materials for the PPP loan guaranty purchases and forgiveness activities on the agency's website.

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

- Compliant. SBA performed risk assessments for programs with annual outlays greater than \$10 million. However, the outlays data used in the risk assessments is not reliable.

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

- Not Compliant. SBA did not adequately conclude whether the Restaurant Revitalization Fund (RRF), Shuttered Venues Operator Grant (SVOG), and the payments for covered loans in the 7(a) and 504 loan guaranty programs under the Debt Relief Program were likely to make improper payments and unknown payments above or below the statutory threshold.

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

- Not Compliant. SBA did not implement adequate sampling and estimation methodology plans that are statistically acceptable to produce improper and unknown payment estimates that are accurate and representative of the Disaster Assistance Loans, COVID-Economic Injury Disaster Loans (COVID-EIDL), and Economic Injury Disaster Loan Emergency Assistance Advance (EIDL Advance) programs.

In addition, SBA did not design and implement adequate review procedures over the documentation of the sample results used to produce the programs' improper and

unknown payment estimates to ensure that the procedures could be reperformed and the results independently validated for the COVID-EIDL and EIDL Advance programs.

The population of outlays reported in the AFR and accompanying materials and subjected to sampling were not reconciled to the general ledger and were not complete for the Disaster Assistance Loans, COVID-EIDL, EIDL Advance, and PPP loan guaranty approvals programs and activities. Consequently, certain transactions were omitted from the population and excluded from SBA's review procedures. The unreconciled populations resulted in an incomplete sample which increases the risk of inaccurate and unreliable improper payment estimates.

SBA did not design and implement adequate sample review procedures to produce an accurate and representative estimate of the improper and unknown payments for the PPP loan guaranty approvals activity.

SBA also did not report improper and unknown payment estimates for the PPP loan guaranty purchases and forgiveness activities.

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

- Not Compliant. SBA did not publish corrective actions for the PPP loan guaranty purchases and forgiveness activities. Also, the classification of the root cause category reported in the accompanying materials to the AFR was not appropriate for the 7(a) loan guaranty approvals, 504 Certified Development loan approvals, Disaster Assistance Loans, COVID-EIDL, EIDL Advance, and PPP loan guaranty approvals programs and activities. We observed that the root cause categories reported in the accompanying materials to the AFR were not consistent with the supporting evidence from the sample results. However, we found that the corrective action plans published for each program and activity focused on the true root cause and were implemented appropriately.

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

- Not Compliant. SBA did not publish a reduction target for the PPP loan guaranty purchases and forgiveness activities.

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

- Not Compliant. SBA did not demonstrate improvements to payment integrity for the 7(a) loan guaranty purchases activity.

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

- Not Compliant. SBA did not develop improper payment and unknown payment reduction targets and a plan to meet reduction targets for the PPP loan guaranty purchases and forgiveness activities.

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

- Not Compliant. The improper and unknown payment rate estimates for the Disaster Assistance Loans, COVID-EIDL, EIDL Advance, and PPP loan guaranty approvals programs and activities were not reliable or accurate. Moreover, SBA did not report improper and unknown payment rate estimates for the PPP loan guaranty purchases and forgiveness activities.

Our findings identified internal control deficiencies, and related recommendations for each requirement are detailed in Section IV below.

#### IV. FINDINGS

See Section III. RESULTS AND CONCLUSIONS (above). Refer to Section IV.A and IV.B for details on the identified internal control deficiencies, and related recommendations.

##### A. DEFICIENCIES IN INTERNAL CONTROL

In planning and performing our performance audit of SBA’s FY 2022 compliance with PIIA reporting, we considered internal controls that were relevant to our audit objective by obtaining an understanding of those controls and assessing control risk for the purposes of achieving our objective.

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

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

Program or Activity	Control Deficiencies
Disaster Assistance Loans  COVID-EIDL  EIDL Advance  PPP	1. The population of outlays reported in the AFR and accompanying materials and subjected to sampling, were not reconciled to the general ledger and were not complete.

Program or Activity	Control Deficiencies
PPP	2. Management did not effectively review the criteria established for PIIA reporting and excluded the improper and unknown payment estimates for the PPP forgiveness and purchase activities.
7(a) Loan Guaranty Approvals  504 Certified Development Loan Approvals  Disaster Assistance Loans  COVID-EIDL  EIDL Advance  PPP	3. Management did not have an adequate process in place to communicate technical reporting challenges to OMB to ensure that the root causes of improper payment rates reported in the AFR and accompanying materials were accurate and consistent.
7(a) Loan Guaranty Purchases	4. The preventative controls implemented to reduce improper payments as the gross improper payment and unknown payment rate increased from FY 2021 to FY 2022 were not effective.
PPP	5. The process used by management to test samples in accordance with PIIA requirements was not appropriate. Specifically, a subset of sample reviews only addressed borrowers' eligibility but did not address the accuracy of loan amounts. Also, the testing procedures used a difference threshold when calculating the maximum loan amount which did not accurately identify the improper payment amount for the samples reviewed.
COVID-EIDL  EIDL Advance	6. The management review process over sample testing was not adequate to ensure that the relevant transaction-specific risks of each sample were addressed to determine whether the payments were improper.
Disaster Assistance Loans  COVID-EIDL  EIDL Advance	7. The sampling and estimation methodology plans documentation used to support the development of the improper payment and unknown payment rate estimates were not appropriately reviewed for sufficiency and the results could not be independently verified.  8. The sampling and estimation methodology plans did not provide a statistically acceptable and accurate estimate of improper and unknown payments.
PPP	9. The sampling and estimation methodology plan, as implemented by the statisticians, had extrapolation errors and a management review was not performed to ensure the results were appropriate.
Various Programs	10. The management review control was not adequately designed and implemented to ensure that the outlays report used to select programs subject to risk assessment in FY 2022 was accurate or complete.

Program or Activity	Control Deficiencies
<p>Restaurant Revitalization Fund (RRF)</p> <p>Shuttered Venue Operators Grant Program (SVOG)</p> <p>Payments for Covered Loans in the 7(a) and 504 Loan Guaranty Programs under the Debt Relief Program</p>	<p>11. The review of the risk assessment procedures did not appropriately identify certain risk factors when determining the likelihood of programs to make improper and unknown payments above or below the statutory threshold.</p>



## B. RECOMMENDATIONS

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

1. Enhance existing procedures using the framework in GAO's Green Book to design and implement robust internal and quality control processes to ensure complete and accurate reporting of annual improper payment results and formalized risk assessment processes to ensure all programs/activities and the related risk factors are appropriately considered to meet PIIA reporting objectives.
2. Provide training to responsible staff involved in the payment integrity reporting process regarding the updates to existing procedures.
3. Communicate with OMB to ensure accurate input of improper payment data and documentation in the accompanying materials related to the payment integrity data call process.
4. Continue to provide training and collaborate with program office staff, as needed, to ensure the timely and complete reconciliation of the population of transactions used for estimating improper payments to the general ledger is performed.

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

5. Collaborate with the responsible staff involved in the payment integrity reporting process to ensure timely and complete reconciliations are performed on the populations subject to sampling for improper payment reviews.
6. Formally document and implement appropriate preventative and monitoring controls prior to approval of 7(a) loan guaranty purchases.
7. Exercise effective management review controls over the statistician's work by verifying that the documentation of the sampling and estimation methodology plans comprehensively outlines the details of the implemented sampling and extrapolation methodology, while maintaining statistical validity.
8. Design and document adequate review procedures to ensure that the results of the sample meet the PIIA objectives.

## V. APPENDIX I: MANAGEMENT'S RESPONSE TO REPORT



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

**DATE:** May 9, 2023

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

**FROM:** Katherine Aaby, Associate Administrator for Performance, Planning, and Chief Financial Officer, OPPCFO *Katherine Aaby*  
Adrienne Grierson, Deputy Director, Portfolio Management and Quality Control, OCA through Jihoon Kim, Director, Office of Financial Program Operations, OCA  
ADRIENNE GRIERSON Digitally signed by ADRIENNE GRIERSON  
Date: 2023.05.09 14:53:22 -04'00'

**SUBJECT:** Response to Audit: Performance Audit of the U.S. Small Business Administration's Fiscal Year 2022 Compliance with the Payment Integrity Information Act of 2019

The Small Business Administration (SBA) appreciates the opportunity to review and respond to the draft Performance Audit of the U.S. Small Business Administration's Fiscal Year 2022 Compliance with the Payment Integrity Information Act of 2019 (PIIA).

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

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

**Recommendation 1.** Enhance existing procedures using the framework in GAO's Green Book to design and implement robust internal and quality control processes to ensure complete and accurate reporting of annual improper payment results and formalized risk assessment processes to ensure all programs/activities and the related risk factors are appropriately considered to meet PIIA reporting objectives.

**Agency Response.** OPPCFO will continue enhancing procedures, as needed, using the framework in GAO's Greenbook to design and implement robust internal and quality control processes to ensure complete and accurate reporting of annual improper payment results and formalized risk assessment processes to ensure all programs/activities are considered sufficiently

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

to meet PIIA reporting objectives. Specifically, ICD will revise the qualitative risk assessment process to ensure consideration for each risk factor is adequate and fair.

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

**Agency Response.** OPPCFO, as an oversight office, will continue to provide training, as needed, to responsible staff involved in the payment integrity reporting process regarding the updates to existing procedures. OPPCFO will also continue to host recurring meetings with the program offices to ensure improper payment related topics are communicated in a timely manner.

**Recommendation 3.** Communicate with OMB to ensure accurate input of improper payment data and documentation in the accompanying materials related to the payment integrity data call process.

**Agency Response.** OPPCFO, as an oversight office, will collaborate with SBA Program Offices to ensure accurate input of improper payment data and documentation in the accompanying materials related to the payment integrity data call process. As technical reporting challenges arise that require notification to OMB, OPPCFO will communicate and collaborate with OMB, as needed, to ensure accurate reporting of payment integrity data.

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

**Agency Response.** OPPCFO will continue to provide training and collaborate with program office staff, as needed, to ensure the timely and complete reconciliation of the population of transactions used for estimating improper payment to the general ledger is performed. Specifically, ICD will work with other OPPCFO offices to revise the Improper Payments Outlays report to ensure programs and disbursements are accurate and implement a reconciliation process as a quality assurance step to ensure accurate reporting.

**Recommendation 5.** Collaborate with the responsible staff involved in the payment integrity reporting process to ensure timely and complete reconciliations are performed on the populations subject to sampling for improper payment reviews.

**Agency Response.** The Office of Capital Access will work with appropriate staff in the Office of the Chief Financial Officer to ensure that timely and complete reconciliations are performed on populations subject to improper payment reviews.

**Recommendation 6.** Formally document and implement appropriate preventative and monitoring controls prior to approval of 7(a) loan guaranty purchases.

**Agency Response.** The Office of Capital Access will formally document and implement preventative monitoring controls prior to approval of 7(a) loan guaranty purchases.

**Recommendation 7.** Exercise effective management review controls over the statistician's work by verifying that the documentation of the sampling and estimation methodology plans comprehensively outlines the details of the implemented sampling and extrapolation methodology, while maintaining statistical validity.

**Agency Response.** The Office of Capital Access will exercise management review controls over its statistician's work by verifying that the sampling and estimation methodology plans comprehensively outlines the details of the implemented sampling and extrapolation methodology, while maintaining statistical validity.

**Recommendation 8.** Design and document adequate review procedures to ensure that the results of the sample meet the PIIA objectives.

**Agency Response.** OCA will document its review procedures to ensure that the results of the sample meet PIIA objectives.