




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

MEMORANDUM

DATE: May 15, 2024

TO: Isabella Casillas Guzman
Administrator

FROM: Hannibal "Mike" Ware
Inspector General 

SUBJECT: Independent Auditors' Report on SBA's Fiscal Year 2023 Compliance with the Payment Integrity Information Act of 2019 (Report 24-16)

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) 2023 compliance with the Act. The auditor was engaged to review the payment integrity section of SBA's *Agency Financial Report Fiscal Year 2023* (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 8 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 it did not:

- Publish improper and unknown payment estimates in the FY 2023 agency AFR and accompanying materials for the Restaurant Revitalization Fund, Shuttered Venue Operators Grant, and payments for covered loans in the 7(a) and 504 loan guaranty programs under the Debt Relief Program. These programs and activities did not comply with the requirement to report improper and unknown payment rate estimates of less than 10 percent. Further, SBA did not publish corrective action plans and reduction targets for payments for covered loans in the 7(a) and 504 loan guaranty programs under the Debt Relief Program.
- Use appropriate sampling and estimation methodology plans for disaster assistance loans, Coronavirus Disease 2019 (COVID-19) Economic Injury Disaster Loans (EIDL), and EIDL Targeted Advance programs and activities. In addition, the population of outlays SBA used for sampling and reporting were not complete and accurate for disaster assistance loans, COVID-19 EIDLs, Paycheck Protection Program (PPP) loan forgiveness, and PPP loan guaranty purchases. Further, SBA did not design and implement adequate sample review procedures to produce reliable sample results that it could use to develop accurate improper and unknown payment estimates for the COVID-19 EIDL, EIDL advance, PPP loan forgiveness, and PPP loan guaranty purchases programs. Consequently, SBA's improper payment and unknown payment rate estimates were not accurate or reliable for disaster assistance loans, COVID-19 EIDLs, EIDL advances, PPP loan forgiveness, and PPP loan guaranty purchases. These programs and activities did not comply with the requirement to report improper and unknown payment rate estimates of less than 10 percent because of unreliable estimates.
- Did not publish effective corrective action plans for the disaster assistance loans, PPP loan forgiveness, and PPP loan guaranty purchases programs and activities.
- Demonstrate improvements to payment integrity for 7(a) loan guaranty approvals, 7(a) loan guaranty purchases, 504 Certified Development Company loan approvals, disaster assistance loans, and COVID-19 EIDL programs and activities as the improper payment estimates increased between FYs 2022 and 2023.

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 controls over improper payment reporting. KPMG is responsible for the attached auditors' report dated May 15, 2024 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 1 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.

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Attachment



Performance Audit of the U.S. Small Business Administration's Fiscal Year 2023 Compliance with the Payment Integrity Information Act of 2019

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

Date: May 15, 2024

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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 5, 2023, and May 15, 2024, and our results are as of May 15, 2024.

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 used the Council of the Inspectors General on Integrity and Efficiency Guidance (CIGIE) for Payment Integrity Information Act Compliance Reviews dated October 19, 2023, 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) 2023.

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 did not publish improper and unknown payment estimates within the FY 2023 Agency Financial Report (AFR) and accompanying materials for 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. As a result, these programs and activities did not comply with the requirement to report improper and unknown payment rate estimates of less than 10 percent. Further, SBA did not publish corrective action plans and reduction targets for the payments for covered loans in the 7(a) and 504 loan guaranty programs under the Debt Relief Program.
- 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. Also, the population of outlays used for sampling and reporting were not complete and accurate for the Disaster Assistance Loans, COVID-EIDL, Paycheck Protection Program (PPP) loan forgiveness, and PPP loan guaranty purchases. Further, 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 for the COVID-EIDL, EIDL Advance, PPP loan forgiveness, and PPP loan guaranty purchases programs. Consequently, SBA's improper payment and unknown payment rate estimates were not accurate or reliable for the Disaster Assistance Loans, COVID-EIDL, EIDL Advance, PPP loan forgiveness, and PPP loan guaranty purchases. These programs and activities did not comply with the requirement to report improper and unknown payment rate estimates of less than 10 percent because of unreliable estimates.

- SBA did not publish effective corrective action plans for the Disaster Assistance Loans, PPP loan forgiveness, and PPP loan guaranty purchases programs and activities.
- SBA did not demonstrate improvements to payment integrity for the 7(a) loan guaranty approvals, 7(a) loan guaranty purchases, 504 Certified Development loan approvals, Disaster Assistance Loans, and COVID-EIDL programs and activities as the improper payment estimates increased between FYs 2022 and 2023.

See Table 1 for a summary of SBA's compliance with the PIIA for FY 2023 for programs and activities reported by SBA in the FY 2023 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 2023 AFR or accompanying materials, this program was not included in Table 1.

Table 1. Summary of SBA's PIIA Compliance

Program or Activity ¹	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	Not Compliant	Compliant	Compliant
7(a) Loan Guaranty Purchases	Compliant	Compliant	Not Applicable	Not Applicable	Compliant	Compliant	Compliant	Not Compliant	Compliant	Compliant
504 Certified Development Loan Approvals	Compliant	Compliant	Not Applicable	Not Applicable	Compliant	Compliant	Compliant	Not Compliant	Compliant	Compliant
Disaster Assistance Loans	Compliant	Compliant	Not Applicable	Not Applicable	Not Compliant	Not Compliant	Compliant	Not Compliant	Compliant	Not Compliant
COVID-Economic	Compliant	Compliant	Not Applicable	Not Applicable	Not Compliant	Not Applicable	Not Applicable	Not Compliant	Not Applicable	Not Compliant

¹ Based on our evaluation of SBA's reporting, we concluded the Congressional Grants Program was compliant with requirements 2a and 2b during Phase 1 of review.



Program or Activity ¹	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
Injury Disaster Loan (COVID-EIDL)										
Economic Injury Disaster Loan Emergency Assistance (EIDL Advance)	Compliant	Compliant	Not Applicable	Not Applicable	Not Compliant	Not Applicable	Not Applicable	Not Compliant	Not Applicable	Not Compliant
Paycheck Protection Program (PPP) Loan Forgiveness	Compliant	Compliant	Not Applicable	Not Applicable	Not Compliant	Not Compliant	Compliant	Not Applicable	Compliant	Not Compliant
Paycheck Protection Program (PPP) Loan Guaranty Purchases	Compliant	Compliant	Not Applicable	Not Applicable	Not Compliant	Not Compliant	Compliant	Not Applicable	Compliant	Not Compliant
Restaurant Revitalization Fund (RRF) ²	Not Compliant	Not Compliant	Not Applicable	Not Applicable	Not Compliant	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Compliant
Shuttered Venues Operator Grant (SVOG) ²	Not Compliant	Not Compliant	Not Applicable	Not Applicable	Not Compliant	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Compliant

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 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 programs and activities included in Table 1 were in Phase 2 of review. Therefore, the compliance requirements 2a and 2b are not applicable for these programs and activities. However, SBA was compliant with requirements 2a and 2b as a risk assessment was conducted and adequately concluded on for the Congressional Grants program.

The compliance requirement 5b is not applicable for the PPP loan forgiveness, PPP loan guaranty purchases, RRF, and SVOG programs and activities because the improper and unknown payment rate estimates were not reported in the prior fiscal year for these programs and activities.

The compliance requirements 4, 5a, and 5c are not applicable for the COVID-EIDL, EIDL Advance, RRF, and SVOG programs and activities because payments for these programs ended as of the FY 2023 reporting period.

² Based on our evaluation of SBA's reporting, we concluded these programs were not appropriately assessed by SBA during Phase 2 of review.



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

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, 2024

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 an agency's Inspector 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, 2023, 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) 2023 compliance review using the requirements set forth in OMB Memorandum M-21-19, OMB Circular No. A-136, *Financial Reporting Requirements* dated May 19, 2023, 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 2023.

Scope

The scope of our performance audit was SBA's FY 2023 improper payments and reporting data in the payment integrity section of the agency's FY 2023 AFR and any accompanying materials. The accompanying materials to the AFR are the payment integrity information published on paymentaccuracy.gov.

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, but were not limited to, 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 used 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, 2023.

- Not Compliant. SBA did not publish payment integrity information in its FY 2023 AFR for 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.

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

- Not Compliant. SBA did not publish payment integrity information in the AFR or any accompanying materials for the RRF, SVOG, and the payments for covered loans in the 7(a) and 504 loan guaranty programs under the Debt Relief Program 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 a risk assessment for the Congressional Grants program in FY 2023. In accordance with OMB Memorandum M-21-19, during FY 2022, SBA conducted risk assessments for all other programs with annual outlays greater than \$10 million at least once every three years, or earlier if a program experiences a significant change in legislation or a significant increase in funding level.

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.

- Compliant. SBA adequately concluded the Congressional Grants program was not 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 accurate improper and unknown payment estimates that are 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, EIDL Advance, PPP loan forgiveness, and PPP loan guaranty purchases programs and activities. The review of key eligibility requirements for these programs and activities was not adequately documented and maintained. The review procedures did not consistently verify whether the original PPP loan amount that was approved, paid, and ultimately purchased, was accurate for the PPP loan guaranty purchases activity. Also, the interest portion for each PPP loan forgiveness and PPP loan guaranty purchases sample payment was not tested for accuracy as part of the review procedures for the activities.

The population of outlays reported in the AFR and accompanying materials and subjected to sampling were not reconciled to the general ledger for the Disaster Assistance Loans and COVID-EIDL to support completeness. Consequently, certain transactions were improperly omitted from the population and excluded from SBA's review procedures. The unreconciled populations resulted in incomplete sample selection which ultimately increases the risk of inaccurate and unreliable improper payment estimates.

The populations of outlays subjected to sampling, testing, and reporting were not complete for the PPP loan forgiveness and PPP loan guaranty purchases activities. The populations excluded significant amounts of outlays that occurred prior to FY 2023 for these activities. In prior years, SBA did not report improper and unknown payment estimates for these activities to ensure compliance with PIIA and excluded these payments in the FY 2023 populations. As such, improper payments related to significant amounts of outlays for the PPP loan forgiveness and PPP loan guaranty purchases activities remain untested and unreported.

SBA did not report improper and unknown payment estimates for the RRF, SVOG, and the payments for covered loans in the 7(a) and 504 loan guaranty programs under the Debt Relief Program. In prior years, SBA did not adequately perform risk assessments for these programs to ensure PIIA compliance. Also, SBA did not adequately perform their responsibility to review the criteria for reporting to ensure compliance for these programs in FY 2023. Although SBA determined the RRF and SVOG programs were susceptible to significant improper payments, SBA did not publish improper payment information for these programs in its FY 2023 reporting. In October 2023, OMB requested SBA to conduct further analysis on the estimation and methodology related to the RRF and SVOG programs to ensure compliance with PIIA which resulted in the exclusion of RRF and SVOG improper payment information as part of SBA's FY 2023 reporting.

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 payments for covered loans in the 7(a) and 504 loan guaranty programs under the Debt Relief Program.

The published corrective action plans for the PPP loan forgiveness and PPP loan guaranty purchases activities were not effective as they did not adequately address the true root causes of unknown payments. Specifically, the unknown payment rates were a result of lenders not providing complete documentation to enable SBA to determine whether the sample of payments were proper or improper for PPP loan forgiveness and PPP loan guaranty purchases activities. However, SBA did not provide a corrective action plan that would be effective in reducing the improper and unknown payment rates.

Also, the published corrective action plans for the Disaster Assistance Loans program were not effective as they did not adequately address the true root causes of improper payments. SBA did not provide the specific root causes for each Disaster Assistance Loans improper payment sample. As a result, the corrective action plans published were not focused on the true causes of improper payments.

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 reduction targets for the payments for covered loans in the 7(a) and 504 loan guaranty programs under the Debt Relief Program.

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 7(a) loan guaranty approvals, 7(a) loan guaranty purchases, 504 Certified Development loan approvals, Disaster Assistance Loans, and COVID-EIDL as the improper payment estimates increased between FYs 2022 and 2023.

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 payments for covered loans in the 7(a) and 504 loan guaranty programs under the Debt Relief Program.

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 were not reliable or accurate for the Disaster Assistance Loans, COVID-EIDL, EIDL Advance, PPP loan forgiveness, and PPP loan guaranty purchases programs and activities. SBA also published improper payment and unknown payment rate estimates greater than 10 percent for the PPP loan forgiveness and PPP loan guaranty purchases activities. Moreover, SBA did not report improper and unknown payment rate estimates for the RRF, SVOG, and the payments for covered loans in the 7(a) and 504 loan guaranty programs under the Debt Relief Program.

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 2023 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
PPP Loan Forgiveness PPP Loan Guaranty Purchases	1. The procedures implemented to obtain sufficient documentation from lenders to determine whether a significant number of samples selected were proper or improper as the improper and unknown payment rate estimates exceed the statutory compliance threshold of 10% were not effective.
7(a) Loan Guaranty Approvals 7(a) Loan Guaranty Purchases 504 Certified Development Loan Approvals Disaster Assistance Loans COVID-EIDL	2. The preventative controls implemented to reduce improper payments were not effective as the gross improper payment and unknown payment rate increased from FY 2022 to FY 2023.
Disaster Assistance Loans COVID-EIDL	3. 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
Disaster Assistance Loans COVID-EIDL EIDL Advance	4. The sampling and estimation methodology plans did not provide a statistically acceptable and accurate estimate of improper and unknown payments.
7(a) Loan Guaranty Approvals 7(a) Loan Guaranty Purchases PPP Loan Forgiveness PPP Loan Guaranty Purchases	5. The sampling and estimation methodology plan, as implemented by the statisticians, had errors for the improper payment amounts and related statistical measures of precision and a management review was not performed to ensure the results were appropriate.
PPP Loan Forgiveness PPP Loan Guaranty Purchases	6. The population of outlays subjected to sampling, testing, and reporting were not complete and accurate as management did not consistently determine and review a significant number of outlays prior to the FY 2023 reporting period.
COVID-EIDL EIDL Advance PPP Loan Forgiveness PPP Loan Guaranty Purchases	7. The management review process over sample testing was not adequate to ensure that key eligibility requirements and the relevant transaction-specific risks of each sample were addressed and documented to determine whether the payments were improper.
Payments for Covered Loans in the 7(a) and 504 Loan Guaranty Programs under the Debt Relief Program	8. The risk assessment was not reperformed and documented under the significantly revised risk assessment methodology.
Restaurant Revitalization Fund (RRF) Shuttered Venue Operators Grant Program (SVOG) Payments for Covered Loans in the 7(a) and 504 Loan Guaranty Programs under the Debt Relief Program	9. Management did not effectively review the criteria established for PIIA reporting and excluded the improper and unknown payment estimates for the RRF, SVOG, and payments for covered loans in the 7(a) and 504 loan guaranty programs under the Debt Relief Program programs and activities.

Program or Activity	Control Deficiencies
PPP Loan Guaranty Purchases	10. The process used by management to test samples in accordance with PIIA requirements was not appropriate. Specifically, the review procedures did not consistently verify whether the original PPP loan amount that was approved, paid, and ultimately purchased, was accurate.
PPP Loan Forgiveness PPP Loan Guaranty Purchases	11. The process used by management to test samples in accordance with PIIA requirements was not appropriate. Specifically, the interest portion of each sample payment was not tested for accuracy as part of the review procedures.
PPP Loan Forgiveness	12. There were not adequate review controls designed and implemented to ensure the proper and unknown payment amounts and rates presented in the AFR and in the accompanying materials were accurate.
7(a) Loan Guaranty Approvals 7(a) Loan Guaranty Purchases 504 Certified Development Loan Approvals Disaster Assistance Loans COVID-EIDL EIDL Advance PPP Loan Forgiveness PPP Loan Guaranty Purchases	13. There were not adequate review controls designed and implemented to ensure the margins of error reported in the accompanying materials were accurate.
Various Programs	14. The review controls designed and implemented to ensure the disclosures within the AFR and accompanying materials were complete regarding the risk assessments reperformed and their results due to the updated risk assessment methodology were not adequate. Specifically, the disclosures were not updated for the results of the risk assessments for the RRF and SVOG programs.
Disaster Assistance Loans COVID-EIDL EIDL Advance	15. The review controls designed and implemented to ensure the root causes of the sample of improper payments published in the AFR were accurate were not adequate.

Program or Activity	Control Deficiencies
Disaster Assistance Loans PPP Loan Forgiveness PPP Loan Guaranty Purchases	16. The process designed and implemented to ensure that corrective action plans developed, published, and addressed the true root causes of the improper and unknown payments identified was not adequate.

B. RECOMMENDATIONS

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

1. Continue to provide training and collaborate with program office staff to ensure the timely and complete reconciliation of the population of transactions used for estimating improper payments to the general ledger is performed, as needed. **(Deficiency 3)**
2. Proactively seek and obtain guidance from OMB in the first year of a new program's implementation and develop a plan to ensure compliance with PIIA reporting requirements, as needed. **(Deficiency 6 and 9)**
3. Enhance existing procedures using the framework in the Government Accountability Office'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 and activities are considered sufficiently to meet PIIA reporting objectives. **(Deficiency 8, 9, 12, 13, 14, and 15)**

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

4. Design and implement enforceable actions and controls to hold lenders accountable for not providing all documentation requested for loan samples in a timely manner. **(Deficiency 1)**
5. Formally document and implement additional preventative and monitoring controls to determine the eligibility of loans prior to loan approval and payments and loan guaranty purchases. **(Deficiency 2)**
6. 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. **(Deficiency 3)**
7. Exercise effective management review controls over the statistician's work product 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. **(Deficiency 4 and 5)**
8. Design and implement effective communication and review processes with responsible staff involved in the payment integrity reporting process to ensure compliance for the reporting of new programs and activities. **(Deficiency 6)**
9. Design and document adequate review procedures to ensure that the results of the sample meet the PIIA objectives. **(Deficiency 7, 10, and 11)**
10. Design and implement a formal review process to ensure corrective actions plans developed, implemented, and published are adequately addressing the true root causes of improper and unknown payments. **(Deficiency 16)**

V. APPENDIX I: MANAGEMENT'S RESPONSE TO REPORT



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

DATE: May 10, 2024

TO: Hannibal M. Ware, Inspector General

FROM: *Katherine Aaby*
Katherine Aaby, Associate Administrator for Performance, Planning, and Chief
Financial Officer, Office of Performance, Planning, & the Chief Financial Officer
Kathryn Frost, Associate Administrator, Office of Capital Access *Kathryn Frost*

SUBJECT: Response to Audit: Performance Audit of the U.S. Small Business
Administration's Fiscal Year 2023 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 2023 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 legislation³, 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. We recommend the Administrator coordinate with the Chief Financial Officer to continue to provide training and collaborate with program office staff to ensure the timely and complete reconciliation of the population of transactions used for estimating improper payments to the general ledger is performed, as needed.

Agency Response. OPPCFO will continue to provide training and collaborate with program office staff to ensure timely and complete reconciliation of the population of transactions used for estimating improper payments to the general ledger. Additionally, OPPCFO will be conducting population reconciliation quality control reviews for select programs.

³ Payment Integrity Information Act (2019)

Recommendation 2. We recommend the Administrator coordinate with the Chief Financial Officer to proactively seek and obtain guidance from OMB in the first year of a new program's implementation and develop a plan to ensure compliance with PIIA reporting requirements, as needed.

Agency Response. OPPCFO will continue to work with OMB to obtain guidance on the application of OMB Circular A-123, Appendix C for first year programs to ensure conformance and compliance with PIIA reporting requirements.

Recommendation 3. We recommend the Administrator coordinate with the Chief Financial Officer to 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 and activities are considered sufficiently to meet PIIA reporting objectives.

Agency Response. OPPCFO will continue enhancing 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 and activities are considered sufficiently to meet PIIA reporting objectives. Specifically, OPPCFO will review and report improper payment data for total programmatic outlays related to the Restaurant Revitalization Fund (RRF) program and the Shuttered Venue Operators Grant (SVOG) program, and will continue oversight and review efforts over improper payment data reported in the Agency Financial Report and the annual OMB improper payment data-call.

Recommendation 4. We recommend the Administrator coordinate with the Associate Administrator of the Office of Capital Access to design and implement enforceable actions and controls to hold lenders accountable for not providing all documentation requested for loan samples in a timely manner.

Agency Response. The Office of Capital Access (OCA) already has enforceable actions it can employ to hold lenders accountable for not providing all documentation requested for loan samples in a timely manner. OCA will improve its controls to ensure these actions are exercised to ensure lenders provide all necessary documentation in a timely manner.

Recommendation 5. We recommend the Administrator coordinate with the Associate Administrator of the Office of Capital Access to formally document and implement additional preventative and monitoring controls to determine the eligibility of loans prior to loan approval and payments and loan guaranty purchases.

Agency Response. OCA designed and implemented state-of-the-art controls to determine eligibility for all 7(a) and 504 loans prior to loan approval in August 2023. SBA also has very good controls prior to guaranty purchase. For PPP loans, SBA will continue to formally document and implement additional preventative and monitoring controls to determine the eligibility of loans prior to loan approval and payments and loan guaranty purchases.

Recommendation 6. We recommend the Administrator coordinate with the Associate Administrator of the Office of Capital Access to 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. OCA will collaborate with responsible staff involved in the payment integrity process to ensure timely and complete reconciliations are performed on the populations subject to sampling for improper payment reviews.

Recommendation 7. We recommend the Administrator coordinate with the Associate Administrator of the Office of Capital Access to exercise effective management review controls over the statistician's work product 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. OCA will exercise effective management review controls over the statistician's work product 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.

Recommendation 8. We recommend the Administrator coordinate with the Associate Administrator of the Office of Capital Access to design and implement effective communication and review processes with responsible staff involved in the payment integrity reporting process to ensure compliance for the reporting of new programs and activities.

Agency Response. OCA will design and implement effective communication and review processes with responsible staff involved in the payment integrity reporting process to ensure compliance for the reporting of new programs and activities.

Recommendation 9. We recommend the Administrator coordinate with the Associate Administrator of the Office of Capital Access to design and document adequate review procedures to ensure that the results of the sample meet the PIIA objectives.

Agency Response. OCA will design and document adequate review procedures to ensure that the results of the sample meet the PIIA objectives.

Recommendation 10. We recommend the Administrator coordinate with the Associate Administrator of the Office of Capital Access to design and implement a formal review process to ensure corrective actions plans developed, implemented, and published are adequately addressing the true root causes of improper and unknown payments.

Agency Response. OCA will design and implement a formal review process to ensure corrective actions plans developed, implemented, and published are adequately addressing the true root causes of improper and unknown payments.