

SBA's Processing of COVID-19 Economic Injury Disaster Loan Reconsideration Requests



Inspection Report

Report 24-22

August 6, 2024



Make a Difference

To report fraud, waste, or mismanagement, contact the U.S. Small Business Administration's Office of Inspector General Hotline at <https://www.sba.gov/oig/hotline>. You can also write to the U.S. Small Business Administration, Office of Inspector General, 409 Third Street, SW (5th Floor), Washington, DC 20416. In accordance with the Inspector General Act of 1978, codified as amended at 5 U.S.C. §§ 407(b) and 420(b)(2)(B), confidentiality of a complainant's personally identifying information is mandatory, absent express consent by the complainant authorizing the release of such information.

NOTICE:

Pursuant to the James M. Inhofe National Defense Authorization Act for Fiscal Year 2023, Public Law 117-263, Section 5274, any nongovernmental organizations and business entities identified in this report have the opportunity to submit a written response for the purpose of clarifying or providing additional context as it relates to any specific reference contained herein. Comments must be submitted to AIGA@sba.gov within 30 days of the final report issuance date. We request that any comments be no longer than two pages, Section 508 compliant, and free from any proprietary or otherwise sensitive information. The comments will be appended to this report and posted on our public website.



U.S. Small Business Administration Office of Inspector General

EXECUTIVE SUMMARY

SBA's Processing of COVID-19 Economic Injury Disaster Loan Reconsideration Requests (Report 24-22)

What OIG Reviewed

This report presents the results of our inspection of the U.S. Small Business Administration's (SBA) Coronavirus Disease 2019 (COVID-19) Economic Injury Disaster Loan (EIDL) reconsideration process.

SBA began accepting COVID-19 EIDL applications on March 12, 2020, and continued to accept them through December 31, 2021, when the COVID-19 EIDL program ended. COVID-19 EIDL applicants who were not approved for a loan could request the agency reconsider their loan application, initiating the reconsideration process. Our objective was to assess SBA's reconsideration process for COVID-19 EIDLs.

To accomplish our objective, we evaluated the accuracy and timeliness of reconsideration processing by reviewing information and supporting documentation for 83 randomly sampled reconsideration requests SBA approved and funded.

What OIG Found

We found SBA generally processed reconsideration requests timely and accurately. The agency approved and funded 77 of the 83 (or 93 percent) COVID-19 EIDL reconsideration requests within 30 days of receiving all documents needed for processing, which is the agency's goal.

We also determined SBA processed 71 of the 83 (or 86 percent) reconsideration requests accurately. The remaining 12 requests involved the approval of 2 loans to ineligible borrowers and other discrepancies, including 7 miscalculated loan amounts and 3 instances

in which the system did not contain sufficient information to determine eligible loan amounts for borrowers.

What OIG Recommended

We recommended SBA recover the funds provided to ineligible applicants.

Agency Response

SBA agreed with our recommendation and intends to recover the funds provided to ineligible applicants through the normal repayment and collection processes. Management's proposed corrective actions satisfy the recommendation.




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

MEMORANDUM

Date: August 6, 2024

To: Isabella Casillas Guzman
Administrator

From: Hannibal "Mike" Ware 
Inspector General

Subject: SBA's Processing of COVID-19 Economic Injury Disaster Loan
Reconsideration Requests (Report 24-22)

This report presents the results of our inspection of SBA's Processing of COVID-19 Economic Injury Disaster Loan Reconsideration Requests. We considered management's comments on the draft of this report when preparing the final report. SBA management agreed with our recommendation.

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

cc: Dilawar Syed, Deputy Administrator, Office of the Administrator
Katie Frost, Associate Administrator, Office of Capital Access
Arthur Plews, Chief of Staff, Office of the Administrator
David Brown, Director of Policy, Office of the Administrator
John Miller, Deputy Associate Administrator, Office of Capital Access
Peter Meyers, Senior Advisor, Office of Capital Access, Disaster Loan Program
Kate Aaby, Associate Administrator, Office of Performance, Planning, and
Chief Financial Officer
Therese Meers, General Counsel, Office of General Counsel
Michael Simmons, Attorney Advisor, Office of General Counsel
Anna M. Calcagno, Director, Office of Program Policy, Analysis, and Evaluation
Walter B. Hill Jr., Chief Risk Officer, Office of Strategic Management and Enterprise
Integrity, Office of Performance, Planning, and the Chief Financial Officer
Han Nguyen, Associate Administrator, Office of Communications and Public Liaison
George Holman, Associate Administrator, Office of Congressional and Legislative Affairs
Isabelle James, Deputy Chief of Staff, Office of the Administrator
Rachel Wilson, Program Analyst, Office of Capital Access, Disaster Loan Liaison

Contents

Introduction	1
Background	1
Objective	2
Results	2
Finding 1: Reconsideration Processing Timeliness	2
Finding 2: Reconsideration Processing Accuracy	3
Ineligible Borrowers	3
Other Discrepancies	4
Recommendations	4
Evaluation of Agency Response.....	4
Summary of Actions Necessary to Close the Recommendation	4

Appendices

1	Scope and Methodology	1-1
2	Monetary Impact.....	2-1
3	Agency Response.....	3-1

Introduction

Background

In response to the adverse economic effects caused by the Coronavirus Disease 2019 (COVID-19) pandemic, Congress provided lending authority for the U.S. Small Business Administration (SBA) to provide COVID-19 Economic Injury Disaster Loans (EIDL) to help businesses pay for expenses that could have been met had the pandemic not occurred, including working capital needs such as fixed debt payments and operating expenses such as payroll.

SBA began accepting COVID-19 EIDL applications on March 12, 2020, and continued to accept them through December 31, 2021, when the COVID-19 EIDL program ended. As of September 30, 2022, SBA had approved approximately 4 million COVID-19 EIDLs totaling \$387 billion. COVID-19 EIDL applicants who were not approved for a loan could ask the agency to reconsider their loan application.

SBA contracted to use an existing commercial loan application processing system for COVID-19 EIDLs. Unlike the agency's usual disaster loan processing system, the contractor's system did not initially have a mechanism for reconsidering an application once it was declined. Therefore, SBA developed an ad hoc method to accept and process COVID-19 EIDL reconsideration requests. The method required applicants to request reconsideration via email. Once SBA received the request, staff manually entered the information into the system. These applications were commingled with all other applications; therefore, SBA could not track or identify reconsideration requests received and processed prior to September 2020.

In September 2020, the system was enhanced to identify reconsideration requests, and in June 2021, SBA added the ability to track each request. Through our data analytics capabilities, we were able to identify all reconsideration requests received between September 16, 2020, and May 5, 2022.

Upon receipt of a COVID-19 EIDL reconsideration request, a SBA loan specialist determined why the original loan application was declined and what additional information was needed to approve the loan. Once SBA received all required documents from the applicant, the loan specialist reviewed the documents and then recommended approval or declination of the reconsideration request.

Our analysis revealed that SBA received 263,752 reconsideration requests from applicants between September 16, 2020, and May 5, 2022. SBA approved and funded 138,157 reconsideration requests totaling \$27.2 billion during this time.

Objective

Our objective was to assess SBA's reconsideration process for COVID-19 EIDLs.

Results

We found SBA generally processed reconsideration requests timely and accurately. Specifically, we randomly sampled 83 reconsideration requests that SBA approved and funded. Of the 83 requests, we determined SBA processed 77 of the 83 (or 93 percent) timely, within the agency's 30-day goal. The remaining six requests were processed between 37 and 61 days. SBA's goal measured the processing time beginning with the date it received all documentation from the applicant because the agency could not evaluate a reconsideration request until it received all required documentation from the applicant.

We also found SBA accurately processed 71 of 83 (or 86 percent) COVID-19 EIDL reconsideration requests we reviewed. The remaining 12 requests totaling \$737,600 had the following discrepancies:

- SBA approved loans to ineligible applicants for two requests totaling \$144,500.
- SBA approved incorrect loan amounts for seven requests totaling \$320,300.
- We could not verify whether applicants were approved and funded for the correct loan amounts for three requests totaling \$272,800.

Finding 1: Reconsideration Processing Timeliness

SBA's goal was to make lending decisions for COVID-19 EIDL reconsideration requests within 30 days of receiving all required documentation. We found the agency processed 77 of 83 (or 93 percent) requests within 30 days or less. For the remaining six requests, applicants experienced wait times ranging from 37 to 61 days. Overall, the agency processed all 83 requests we sampled in an average of 7 days, ranging from 1 to 61 days.

While it was not possible for SBA to evaluate a reconsideration request until it received all required documentation from the applicant, it is noted that borrowers could have experienced considerable dialogue with SBA officials leading up to their submission of necessary documentation. For instance, based on our sample, an average of 106 days elapsed between the date applicants submitted their initial request and the date SBA received all required documentation.

Finding 2: Reconsideration Processing Accuracy

Based on our review, SBA processed 71 of the 83 (or 86 percent) reconsideration requests we reviewed accurately according to program standards. The remaining 12 requests involved the approval of 2 loans to ineligible borrowers and other discrepancies, including 7 miscalculated loan amounts and 3 instances in which the system did not contain sufficient information to determine eligible loan amounts for borrowers.

Ineligible Borrowers

Two reconsideration requests totaling \$144,500 were approved for ineligible borrowers. The first borrower was a wage earner who did not have a business in 2019 but received a loan for \$44,500. The Coronavirus Aid, Relief, and Economic Security Act authorized COVID-19 EIDLs only for businesses, not wage earners. The other borrower received a \$100,000 loan but was ineligible because the loan was made to a Limited Liability Company that included a nonqualified alien business partner, which is not permitted by both federal law and SBA procedures.¹

The co-owner of the business was not a qualified alien; therefore, the other applicant agreed to dissolve the partnership and remove the nonqualified partner so that he could obtain the loan. However, the documents in the loan file did not confirm the nonqualified alien relinquished ownership of the business. An SBA official confirmed the agency should have obtained additional documents to verify the nonqualified alien relinquished ownership prior to loan approval and disbursement.

¹ *Reconsideration Guide*, updated on November 5, 2021. This requirement is based on 8 U.S.C. § 1611(a)-(c) and SOP 50 30 9, Disaster Assistance Program, pages 173–174, effective May 31, 2018 (citing U.S.C. 8 § 1641).

Other Discrepancies

We found seven requests totaling \$320,300 had minor miscalculated loan amounts due to errors made by the loan specialist and three requests totaling \$272,800 for which we could not verify whether applicants were approved and funded for the correct loan amounts. We provided this information to the agency and are not making recommendations regarding these discrepancies.

Recommendations

To address inaccurate processing of COVID-19 EIDL reconsideration requests, we recommend the Administrator direct the Associate Administrator for the Office of Capital Access to:

Recommendation 1: Recover COVID-19 EIDL funds provided to the two ineligible borrowers.

Evaluation of Agency Response

SBA management provided formal written comments that are included in their entirety in appendix 3. Management agreed with our recommendation to recover COVID-19 EIDL funds provided to the two ineligible borrowers.

Summary of Actions Necessary to Close the Recommendation

The following section summarizes the status of our recommendation and the actions necessary to close it.

Recommendation 1

To address inaccurate processing of COVID-19 EIDL reconsideration requests, we recommend the Administrator direct the Associate Administrator for the Office of Capital Access to recover COVID-19 EIDL funds provided to the two ineligible borrowers.

Status: Resolved

Management agreed with our recommendation, stating that the funds from the two ineligible loans will be returned to SBA through the normal loan repayment and collection processes. Management further stated that both loans in question are current and have never been late or missed a payment. Additionally, the borrowers have never been enrolled in the Hardship Accommodation Program. SBA plans to complete final action by September 6, 2024.

This recommendation can be closed when SBA provides evidence that the two loans referenced in the recommendation are current and that the ineligible borrowers have never made a late payment or missed a loan payment and have never been enrolled in the Hardship Accommodation Plan.

Appendix 1: Scope and Methodology

The scope of our inspection to assess the reconsideration request process for Coronavirus Disease 2019 (COVID-19) Economic Injury Disaster Loans (EIDL) covered September 16, 2020, the first date for which COVID-19 EIDL reconsideration request data was available, through May 5, 2022, the date of the last reconsideration approval shown in the data.

We obtained and reviewed pertinent laws, U.S. Small Business Administration (SBA) policies and procedures, and other written guidance pertaining to COVID-19 EIDLs and reconsideration request processing requirements. We also reviewed information regarding the COVID-19 EIDL program found on the SBA website. Our review methodology included interviews of SBA officials and staff at Headquarters and the Processing and Disbursement Center responsible for the management, oversight, and execution of the COVID-19 EIDL reconsideration process.

We obtained a universe of all available reconsideration requests identified between September 16, 2020, and May 5, 2022. This did not include reconsideration requests received or processed prior to September 16, 2020, because the system did not have the ability to identify reconsideration requests separately from other COVID-19 EIDL applications until this date. From this, we selected a random statistical sample of COVID-19 reconsideration requests to review.

We conducted a file review of a sample of 83 funded reconsideration requests to evaluate the timeliness and accuracy of the reconsideration decision and to determine whether the loan file contained adequate support for the decision. For each of the 83 funded samples, we obtained and reviewed information and supporting documentation contained in SBA's systems.

COVID-19 EIDL reconsideration data records contained only the last decision date for each reconsideration request, not the reconsideration approval decision date. Because reconsideration decision dates were not available for the entire universe of reconsideration requests, we relied on the results of our review of the random sample of 83 reconsideration requests to evaluate reconsideration processing timeliness.

We identified the reconsideration decision date from the loan notes and comments. From our sample, we calculated the time that elapsed from the date SBA received the final documents required for a loan decision to the date the agency approved each of the reconsideration requests to determine the total processing time. We also calculated the time that elapsed from the original loan reconsideration request date to the date the agency received all documents needed for a loan decision.

We did not project the results of our test of the sample of 83 funded COVID-19 EIDL reconsideration requests to the total population because the small sample size would have resulted in a wide deviation range. Therefore, a projection would not be meaningful.

We performed this review in accordance with the Council on Inspectors General on Integrity and Efficiency's *Quality Standards for Inspection and Evaluation*. Those standards require we plan and perform a review to obtain sufficient and appropriate evidence to provide a reasonable basis for our conclusions and observations based on our objective. We believe the evidence obtained provides a reasonable basis for our conclusions and observations based on our objectives.

Use of Computer-processed Data

We leveraged automated tools to identify and extract COVID-19 EIDL reconsideration data. The data contained reconsideration requests dated from September 16, 2020, through May 5, 2022.

We determined an entire universe of records of reconsideration requests did not exist because requests initiated prior to September 16, 2020, were not identified in the loan data. Additionally, this data did not include:

- The date that each reconsideration request was submitted;
- A record of the date each reconsideration decision was made (for loans with multiple reconsideration requests); or
- The dollar amount approved by the reconsideration.

We were able to use the limited data to select a sample of reconsideration requests for review; however, we could not perform any additional analyses using the reconsideration data.

Prior Audit Coverage

The following lists the Office of Inspector General's previous audit coverage related to the objective of this report:

Report Number	Report Title	Report Date
22-22	<i>Follow-Up Inspection of SBA's Internal Controls to Prevent COVID-19 EIDLs to Ineligible Applicants</i>	September 29, 2022
21-02	<i>Inspection of Small Business Administration's Initial Disaster Assistance Response to the Coronavirus Pandemic</i>	October 28, 2020
20-16	<i>Serious Concerns of Potential Fraud in Economic Injury Disaster Loan Program Pertaining to the Response to COVID-19</i>	July 28, 2020

Appendix 2: Monetary Impact

Monetary Impact identified in this report is categorized as “questioned costs.” Questioned costs are expenditures that do not comply with legal, regulatory, or contractual requirements; are not supported by adequate documentation at the time of the audit; or are unnecessary or unreasonable.¹ Questioned costs may be remedied by offset, waiver, recovery of funds, the provision of supporting documentation, or contract ratification, where appropriate.

Recommendation	Category	Amount	Explanation
1	Ineligible costs	\$144,500	Loans disbursed to ineligible applicants
	Total questioned costs	\$144,500	

Source: Office of Inspector General analysis

¹ Inspector General Act of 1978. Public Law 110-409, §5(f)(1), as amended, <https://www.govinfo.gov/content/pkg/USCODE-2015-title5/pdf/USCODE-2015-title5-app-inspector.pdf>

Appendix 3: Agency Response

U.S. Small Business Administration Response to Report



U.S. SMALL BUSINESS ADMINISTRATION
WASHINGTON, DC 20416

To: Hannibal “Mike” Ware
Inspector General
U.S. Small Business Administration

From: Jihoon Kim
Director **JI KIM** Digitally signed by JI KIM
Date: 2024.07.29 16:27:50
Office of Financial Program Operations
Office of Capital Access
-04'00'

Date: July 29, 2024

Subject: Response to OIG Draft Report – SBA’s Processing of COVID-19 Economic
Injury Disaster Loan Reconsideration Requests – Project 22806

We appreciate the role the Office of Inspector General (OIG) plays in working with management in ensuring that our programs are effectively managed, and for the feedback provided in this draft report. We offer the following response to draft report’s recommendation.

To address inaccurate processing of COVID-19 EIDL reconsideration requests, we recommend the Administrator direct the Associate Administrator for the Office of Capital Access to:

Recommendation 1: Recover COVID-19 EIDL funds provided to the two ineligible borrowers.

SBA Response: SBA agrees with this recommendation. The funds addressed in this recommendation will be returned to SBA through the normal loan repayment and collection processes. In the case of both loans referenced in this recommendation, both loans are current and have never been late nor missed a payment. Both borrowers have also never been enrolled in the Hardship Accommodation Plan.