



Office of the Special Inspector General for
Pandemic Recovery
Office of Audits

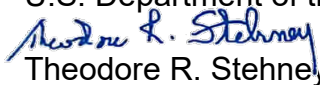
Independent Review of 4003(b) Loan Recipient's Validation Memo – Ovation Travel Group, Inc.

Report Number: SIGPR-A-22-003-14
December 2, 2022



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TO: Jacob D. Leibenluft
Chief Recovery Officer
U.S. Department of the Treasury

FROM: 
Theodore R. Stehney
Assistant Inspector General for Auditing
Special Inspector General for Pandemic Recovery (SIGPR)

SUBJECT: Independent Review of 4003(b) Loan Recipient's
Validation Memo – Ovation Travel Group, Inc.

This report presents the results of our review of the Validation Memo associated with Ovation Travel Group, Inc.'s (Ovation) application submission to the Department of the Treasury (Treasury). Ovation received a \$20 million loan under Section 4003, Division A, Title IV, Subtitle A of the Coronavirus Aid, Relief, and Economic Security Act of 2020 (the "CARES Act").

On April 19, 2020, Ovation, a ticket agent, applied for a loan under Application Number LA-2004160285. All applicants had to provide specific documentation along with their applications to be further considered to receive a loan, as outlined in Treasury's Underwriting Guide. Treasury completed a Validation Memo once it received and reviewed an applicant's document submissions. Once the Validation Memo was completed, Treasury forwarded the application to the next level of the underwriting process.

Our review identified material deficiencies within the Validation Memo. Therefore, based on our review, Treasury did not complete the Validation Memo in accordance with its Underwriting Guide and the loan application should not have advanced to the next step in the loan process.

Please address questions regarding this report to Michael Sinclair at (202) 923-8021 or Michael.Sinclair@sigpr.gov.

Introduction

Section 4003 of the CARES Act authorizes the Treasury to make loans, loan guarantees, and other investments to provide liquidity to eligible businesses related to losses incurred as a result of the coronavirus pandemic. Sections 4003(b)(1)-(3) appropriated \$46 billion to help stabilize the airline industry and businesses critical to maintaining national security.

The breakdown of available funding was as follows:

1. Up to \$25 billion for passenger air carriers; businesses certified to perform inspection, repair, replace or overhaul services; and ticket agents;
2. Up to \$4 billion for cargo air carriers; and
3. Up to \$17 billion for businesses critical to maintaining national security.

Section 4003 loans were further categorized by the loan amount requested. The Air Carrier Loan Program is categorized into tiers as follows: Tier 1 loan amounts were \$300 million or greater, Tier 2 loans were less than \$300 million and greater than \$20 million, and Tier 3 loans were up to \$20 million and no less than \$250,000.

Background

On April 19, 2020, Ovation applied for a \$10 million loan under Section 4003 of the CARES Act. Treasury and Ovation finalized the loan amount of \$20 million on October 15, 2020. Based on its loan amount, Ovation is classified as a Tier 3 borrower. In January 2021, Ovation paid the balance of its loan in full.

During the application period, applicants were required to submit documents through a Treasury web portal. For each applicant to move forward in the loan process, they had to provide a financial plan, IRS Form 941, and financial statements, among other documentation. Depending on the applicant's type of business, additional documentation was also required. For instance, ticket agents had to provide the percentage of 2019 revenue earned from air ticketing, packaged travel products, or other travel services. All documentation provided was to be maintained by Treasury.

Once the required documentation was compiled, Treasury verified and recorded it using a Validation Memo. A completed and signed Validation Memo allowed the applicant to move forward to the loan underwriting process.

Results in Brief

Our review identified the following material deficiencies within the Validation Memo:

- There was no supervisory review signature.
- There is a large discrepancy between the number of employees on the IRS Form 941 versus what the company reported to Treasury. Ovation's application indicates there are 263 worldwide employees while the IRS Form 941 shows 727. There is no explanation for the discrepancy.
- Several boxes in the Validation Memo were not checked by the reviewer.
- The entire Ticket Agents Only section was left blank.

Based on our review, because of the significance of the deficiencies listed above, Treasury did not complete the Validation Memo in accordance with its Underwriting Guide. Therefore, the loan application should not have advanced to the next step in the process. Had we performed an examination, other matters might have come to our attention.

Compliance Statement

We conducted our review in accordance with generally accepted government auditing standards for attestation engagements. Those standards require that we plan and perform the review to obtain limited assurance that the Validation Memo is fairly presented in all material respects and completed according to Treasury's Underwriting Guide. A review is substantially less in scope than an examination, the objective of which is to obtain reasonable assurance and express an opinion on the subject matter. Accordingly, we do not express such an opinion. We believe that our review provides a reasonable basis for our conclusion.

Audit Team

This review was conducted by the individuals listed below:

Michael Sinclair	Audit Manager
Kevin Gallagher	Audit Manager

Appendix A – Objective, Scope and Methodology

We have reviewed Ovation's submission of loan documents under Application Number LA-2004160285. Treasury was responsible for obtaining Ovation's loan documentation and completing the Validation Memo in accordance with its Underwriting Guide prior to moving the application further in the loan process. Our responsibility is to express a conclusion about whether any material modification should be made to the Validation Memo for it to be in accordance with Treasury's Underwriting Guide and be fairly stated.

The objective of this review is to evaluate whether Treasury's Validation Memo for Ovation was completed according to Treasury's Underwriting Guide and other applicable criteria, and fairly presents the supporting documentation provided by Ovation in all material respects. Treasury's efforts culminated in the completion of the Validation Memo. Additionally, this review is an offshoot of the overall examination of the 4003(b) loan program.

We primarily performed this review remotely due to the ongoing telework situation dictated by the pandemic. We therefore relied on mostly electronic records for our review.

To accomplish the review objective, our fieldwork included, but was not limited to, the following procedures:

- Reviewed Treasury's Underwriting Guide and determined the documents required by all applicants;
- Reviewed Ovation's Validation Memo for completeness and accuracy;
- Determined if the document submissions were complete and accurate;
- Requested additional documentation from Treasury officials when needed; and
- Held discussions with Treasury officials when applicable.

The review was conducted in accordance with generally accepted government auditing standards for attestation engagements.

Appendix B – Report Distribution

Chief Recovery Officer – U.S. Department of the Treasury

Office of General Counsel – U.S. Department of the Treasury

Inspector General – Special Inspector General for Pandemic Recovery

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