

Congress of the United States
U.S. House of Representatives
Committee on Small Business
2361 Rayburn House Office Building
Washington, DC 20515-6515

MEMORANDUM

TO: Members of the Subcommittee on Oversight, Investigations, and Regulations

FROM: Committee Majority Staff

DATE: April 13, 2023

RE: Subcommittee Hearing Titled: “Office of Inspector General Reports to Congress on Investigations of SBA Programs”

On **April 19, 2023 at 10 A.M. (EST)**, the Subcommittee on Oversight, Investigations, and Regulations will hold a hearing titled “**Office of Inspector General Reports to Congress on Investigations of SBA Programs**.” The meeting will convene in room 2360 of the Rayburn House Office Building. The purpose of this hearing is to hear from the Small Business Administration (SBA), Office of Inspector General (OIG) on how the SBA can operate more effectively and efficiently to help small businesses nationwide.

I. Witness

- **Mr. Hannibal “Mike” Ware, Inspector General
Office of Inspector General, Small Business Administration**

II. Background

The SBA OIG’s mission is to “provide independent, objective oversight to improve the integrity, accountability, and performance of SBA and its programs for the benefit of the American people.”¹ OIG seeks to “improve SBA programs by identifying key issues facing the agency, recommending corrective actions, and promoting a high level of integrity.”² The Inspector General, a senate-confirmed Presidential appointee, keeps the SBA Administrator and Congress fully informed of any problems, recommends corrective actions, and monitors progress in the implementation of such actions.”³

¹ *About SBA, About the Office of Inspector General*, U.S. SMALL BUS. ADMIN. (last visited Mar. 28, 2023), <https://www.sba.gov/about-sba/oversight-advocacy/office-inspector-general>.

² *Id.*

³ *Id.*

The Inspector General Act, which dictates the responsibilities of the OIG, states that among other things, the OIG: Promotes economy, efficiency, and effectiveness in the management of SBA programs and support operations; conducts and supervises audits, investigations, and reviews relating to the agency's programs and support operations; and detects and prevents fraud and abuse.⁴ When one of these investigations finds a "serious systemic deficiency in agency procedures or practices of SBA personnel" the OIG staff presents the problem and potential solutions to the appropriate program officials.

Management Challenges at the SBA

When IG Ware testified before this committee in January 2022, he noted in his testimony that even prior to the pandemic, the SBA faced major challenges in managing financial lending programs.⁵ Unfortunately many of the same problems remain.

The SBA is faced with rectifying the breadth of improper payments made over the course of the pandemic- which includes any federal government payment made to an ineligible recipient or for an ineligible good or service, duplicate payment, or payment for goods or services not received.⁶ The OIG found that while the appeal process effectively assessed improper payments, the initial review process was inefficient.⁷

Before the pandemic SBA was servicing about 263,000 outstanding disaster loans, totaling approximately \$9 billion, across its three servicing centers. As of May 31, 2022, SBA was servicing more than 15 times what the agency was doing before the pandemic, and more than 43 times the pre-pandemic disaster loan portfolio, totaling \$390 billion.⁸ The OIG is concerned that the SBA does not have the staff or infrastructure to manage this volume and anticipates the agency will face significant challenges in managing this volume going forward.⁹

Finally, inaccurate procurement data and eligibility concerns are ongoing issues in SBA's small business contracting programs. Self-reporting and self-certification by businesses have resulted in inaccurate categorization and improper payments, undermining the reliability of SBA's contracting goal achievements.

⁴ *Id.*

⁵ *Review of SBA's Top Management and Performance Challenges in Fiscal Year 2022 and SBA OIG's Semiannual Report to Congress; Hearing Before the H. Comm. on Small Bus. 117th Cong. (Jan. 12, 2022) (statement of Hannibal "Mike" Ware, Inspector General, Office of the Inspector Gen., U.S. Small Bus. Admin.).*

⁶ *Id.* at 29.

⁷ *Id.*

⁸ *Id.* at 31.

⁹ *Id.*

Fraud in COVID Relief Programs

Economic Injury Disaster Loans (EIDL):

The COVID-19 EIDL program was activated to support small businesses' recovery from the COVID-19 disaster's economic impacts by providing accessible and borrower-friendly capital.¹⁰ Congress tasked SBA with lending \$470 billion for EDIL and \$35 billion for targeted and supplemental EIDL advance.¹¹ From March 2020 to the end of 2021, SBA received more than 27.7 million COVID-19 EIDL applications and approved 3.7 million loans valued at \$303.6 billion.¹² According to the SBA OIG, as of September 2022 at least \$78.1 billion in EIDL program funds were potentially fraudulently obtained.¹³ The SBA OIG argued that the SBA did not have the proper infrastructure to vet these applications.¹⁴ Further, small businesses are now having to pay back these loans with little guidance from the SBA.

Paycheck Protection Program (PPP):

The SBA launched the PPP in collaboration with the U.S. Department of the Treasury in early April 2020.¹⁵ Through four legislative efforts, the total amount allocated to the PPP was \$813.7 billion.¹⁶ By the end of the program, SBA had processed 11.8 million PPP loans, totaling \$799.8 billion, through more than 5,400 private lenders.¹⁷ The OIG identified 70,835 loans totaling more than \$4.6 billion in potentially fraudulent PPP loans.¹⁸

III. Conclusion

The mission of the SBA is to help Americans start, grow, and build resilient businesses. The OIG plays an important role in keeping the SBA accountable to this mission. The OIG has found a number of issues the SBA must remedy in order to better serve the American people.

¹⁰ *About COVID-19 EIDL*, U.S. SMALL BUS. ADMIN. (last visited Mar. 17, 2023), available at <https://www.sba.gov/funding-programs/loans/covid-19-relief-options/covid-19-economic-injury-disaster-loan/about-covid-19-eidl>.

¹¹ U.S. SMALL BUS. ADMIN., OFFICE OF THE INSPECTOR GENERAL, SEMIANNUAL REPORT TO CONGRESS, APR. 1, 2022 – SEPT. 30, 2022 (Nov. 30, 2022).

¹² U.S. SMALL BUS. ADMIN., OFFICE OF INSPECTOR GEN., REP. 23-01, OIG FINAL REPORT 23-01 TOP MANAGEMENT AND PERFORMANCE CHALLENGES FACING THE SBA IN FY 2023 (Oct. 14, 2023).

¹³ *Id.*

¹⁴ *Id.*

¹⁵ *Id.*

¹⁶ *Id.*

¹⁷ *Id.*

¹⁸ U.S. SMALL BUS. ADMIN., OFFICE OF THE INSPECTOR GEN., SEMIANNUAL REPORT TO CONGRESS, APR. 1, 2022 – SEPT. 30, 2022 (Nov. 30, 2022).