



Testimony  
Before the Committee on Small Business,  
House of Representatives

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# SMALL BUSINESS ADMINISTRATION

## Progress and Work Remaining to Implement Key Management Improvements

Statement of Courtney LaFountain, Acting Director,  
Financial Markets and Community Investment

# GAO Highlights

Highlights of [GAO-24-107395](#), a testimony before the Committee on Small Business, House of Representatives

## Why GAO Did This Study

Since spring 2020, SBA has administered four pandemic relief programs, including PPP and COVID-19 EIDL. PPP provides potentially forgivable loans to small businesses. COVID-19 EIDL provides low-interest loans of up to \$2 million for operating and other expenses, as well as advances (grants).

Concerns about SBA's implementation of PPP and COVID-19 EIDL led GAO to include emergency loans for small businesses on its High-Risk List in March 2021. SBA made or guaranteed more than \$1 trillion in loans and grants and assisted more than 10 million small businesses through its relief programs. In addition, SBA has continued to make loans under its Disaster Loan Program.

Among other things, this testimony focuses on the status of selected recommendations GAO has made to SBA on its pandemic relief and disaster loan programs, and on issues related to SBA's financial accounting. This testimony is based largely on the reports GAO issued since February 2020 containing the 23 key recommendations. For those reports, GAO reviewed SBA documentation, analyzed program data, and interviewed officials from SBA and other federal agencies. GAO also reviewed the opinions of SBA's independent financial statement auditor.

View [GAO-24-107395](#). For more information, contact Courtney LaFountain at (202) 512-8678 or [lafountainc@gao.gov](mailto:lafountainc@gao.gov).

March 6, 2024

## SMALL BUSINESS ADMINISTRATION

### Progress and Work Remaining to Implement Key Management Improvements

#### What GAO Found

In response to the economic downturn caused by the COVID-19 pandemic, the Small Business Administration (SBA) quickly set up the Paycheck Protection Program (PPP), COVID-19 Economic Injury Disaster Loan (COVID-19 EIDL) program, and other relief programs. SBA also administers a Disaster Loan Program that helps small businesses and others recover after natural disasters.

Since February 2020, GAO has made recommendations to improve SBA programs, including 23 key recommendations. SBA fully addressed 10 of the key recommendations, including the following:

- **PPP oversight.** Because SBA initially had limited safeguards, GAO recommended in [June 2020](#) that it implement plans to respond to PPP risks, help ensure program integrity, and address potential fraud. In response, SBA developed a loan review process in December 2020. As of the end of fiscal year 2023, GAO estimated that SBA's use of additional safeguards in PPP and other COVID programs had resulted in more than \$12 billion in savings.
- **Assessment of fraud risks.** SBA did not conduct a formal fraud risk assessment before implementing PPP or COVID-19 EIDL. In [March 2021](#), GAO recommended that SBA conduct a formal assessment and develop a strategy to manage fraud risks for each program. SBA completed these steps in August 2023.

SBA has not yet fully addressed 13 of these recommendations, including the following:

- **Enhancing data analytics.** In [May 2023](#), GAO recommended that SBA identify data that could help verify applicant information and detect potential fraud. GAO also recommended that SBA develop cross-program data analytics that would better identify applicants who tried to defraud multiple programs. According to SBA, to begin addressing these recommendations, it has procured third-party services to help validate customer identity and has begun a comprehensive review of its data analytics.
- **Addressing access barriers.** GAO found in [December 2021](#) that SBA's Disaster Loan Program and five other federal programs did not have key information for examining barriers to access and disparate recovery outcomes among various socioeconomic and demographic groups. GAO recommended SBA work with two other agencies to implement an interagency plan to address these equity issues. SBA officials said the agencies are in the process of developing such a plan.

In addition, SBA's independent financial statement auditor has issued four consecutive disclaimers of opinion on SBA's consolidated financial statements since fiscal year 2020. SBA was unable to support a significant number of transactions and account balances related to PPP and COVID-19 EIDL. The auditor identified six material weaknesses in internal controls over financial accounting, including in controls for PPP and COVID-19 EIDL. GAO supports the auditor's recommendations to address these weaknesses and encourages SBA to develop and implement a corrective action plan to address them.

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Chairman Williams, Ranking Member Velázquez, and Members of the Committee:

Thank you for the opportunity to be here today to discuss the status of selected recommendations we have made to the Small Business Administration (SBA) and concerns related to its financial accounting.

Since spring 2020, SBA has done much to help small businesses adversely affected by the COVID-19 pandemic. SBA made or guaranteed more than \$1 trillion in loans and grants and assisted more than 10 million small businesses, primarily through the Paycheck Protection Program (PPP) and COVID-19 Economic Injury Disaster Loan (COVID-19 EIDL) program. SBA also continued to operate programs providing small businesses with access to capital, help with federal contracting opportunities, and aid in disaster recoveries.

Although SBA helped millions of small businesses with its pandemic relief programs, our concerns about its implementation of PPP and COVID-19 EIDL led us to include emergency loans for small businesses on our High-Risk List in March 2021.<sup>1</sup> We identified significant program integrity risks, potential for fraud, and the need for improved management and oversight.

We also have issued a number of reports with recommendations to improve a range of non-pandemic-related efforts at SBA. These include SBA's Disaster Loan Program, 8(a) Business Development Program, Small Business Innovation Research (SBIR) and Small Business Technology Transfer (STTR) programs, and support for veteran-owned small businesses. In May 2023, we identified seven non-pandemic-related recommendations as high priorities for SBA.<sup>2</sup>

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<sup>1</sup>GAO, *High-Risk Series: Dedicated Leadership Needed to Address Limited Progress in Most High-Risk Areas*, [GAO-21-119SP](#) (Washington, D.C.: Mar. 2, 2021). We provided an update on this high-risk area in April 2023. See *High-Risk Series: Efforts Made to Achieve Progress Need to Be Maintained and Expanded to Fully Address All Areas*, [GAO-23-106203](#) (Washington, D.C.: Apr. 20, 2023).

<sup>2</sup>GAO, *Priority Open Recommendations: Small Business Administration*, [GAO-23-106377](#) (Washington, D.C.: May 15, 2023). Priority recommendations are those that GAO believes warrant priority attention from heads of key departments or agencies. They are highlighted because, upon implementation, they may significantly improve government operations, for example, by realizing large dollar savings; eliminating mismanagement, fraud, and abuse; or making progress toward addressing a high-risk or duplication issue.

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SBA has made progress over the years improving its programs in response to our recommendations. Overall, as of February 28, 2024, SBA had fully addressed about 84 percent of the 397 recommendations we have made since 2000, including about 57 percent of those made from 2020 through 2023.

In this statement, I will discuss the status of 23 key recommendations made to SBA in the following three areas: (1) pandemic relief programs, including PPP and COVID-19 EIDL; (2) the Disaster Loan Program; and (3) the 8(a) Business Development Program, SBIR and STTR programs, and veteran-owned business support.<sup>3</sup> I will also discuss concerns identified by SBA's independent financial statement auditor.

For this statement, we relied primarily on our body of work issued from June 2020 through May 2023 on SBA's implementation of four pandemic relief programs.<sup>4</sup> We also relied on work issued from February 2020 through December 2023 on SBA's Disaster Loan Program, SBIR and

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<sup>3</sup>We have designated 18 of these recommendations as a priority for SBA. We made the remaining five since the most recent high priority designation in May 2023.

<sup>4</sup>These programs are PPP, COVID-19 EIDL, the Restaurant Revitalization Fund, and Shuttered Venue Operators Grants. GAO, *COVID-19: Opportunities to Improve Federal Response and Recovery Efforts*, [GAO-20-625](#) (Washington, D.C.: June 25, 2020); *COVID-19: Urgent Actions Needed to Better Ensure an Effective Federal Response*, [GAO-21-191](#) (Washington, D.C.: Nov. 30, 2020); *COVID-19: Critical Vaccine Distribution, Supply Chain, Program Integrity, and Other Challenges Require Focused Federal Attention*, [GAO-21-265](#) (Washington, D.C.: Jan. 28, 2021); *COVID-19: Sustained Federal Action Is Crucial as Pandemic Enters Its Second Year*, [GAO-21-387](#) (Washington, D.C.: Mar. 31, 2021); *Economic Injury Disaster Loan Program: Additional Actions Needed to Improve Communication with Applicants and Address Fraud Risks*, [GAO-21-589](#) (Washington, D.C.: July 30, 2021); *COVID-19: Current and Future Federal Preparedness Requires Fixes to Improve Health Data and Address Improper Payments*, [GAO-22-105397](#) (Washington, D.C.: Apr. 27, 2022); *Restaurant Revitalization Fund: Opportunities Exist to Improve Oversight*, [GAO-22-105442](#) (Washington, D.C.: July 14, 2022); *COVID Relief: SBA Could Improve Communications and Fraud Risk Monitoring for Its Arts and Entertainment Venues Grant Program*, [GAO-23-105199](#) (Washington, D.C.: Oct. 11, 2022); and *COVID Relief: Fraud Schemes and Indicators in SBA Pandemic Programs*, [GAO-23-105331](#) (Washington, D.C.: May 18, 2023).

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STTR programs, and support for veteran-owned small businesses.<sup>5</sup> For those reports, we reviewed SBA documentation and analyzed program data, and interviewed officials from SBA and other federal agencies, such as the Department of the Treasury. For this statement, we also updated the status of agency efforts to implement recommendations made in our prior work. We also reviewed the opinions of SBA's independent financial statement auditor. More detailed information on our scope and methodology can be found in the individual reports we cite.

We conducted the work on which this statement is based in accordance with generally accepted government auditing standards. 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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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## Background

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### SBA's Pandemic Relief Programs

**Paycheck Protection Program.** Congress established PPP in the CARES Act to help small businesses affected by the COVID-19 pandemic.<sup>6</sup> In total, Congress provided approximately \$814 billion in commitment authority for PPP.<sup>7</sup> PPP loans were made by lenders and guaranteed 100 percent by SBA. The loans were low interest (1 percent) and fully forgivable if certain conditions were met. For example, at least 60 percent of the loan forgiveness amount had to be for payroll expenses to qualify for full loan forgiveness.

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<sup>5</sup>GAO, *Small Business Administration: Disaster Loan Processing Was Timelier, but Planning Improvements and Pilot Program Evaluation Needed*, [GAO-20-168](#) (Washington, D.C.: Feb. 7, 2020); *Disaster Recovery: Additional Actions Needed to Identify and Address Potential Recovery Barriers*, [GAO-22-104039](#) (Washington, D.C.: Dec. 15, 2021); *Disaster Loan Program: SBA Should Include Key Issues in Its Review of How the Program Affects Underserved Communities*, [GAO-24-106682](#) (Washington, D.C.: Nov. 30, 2023); *Small Business Administration: Recent Changes to the 8(a) Program's Financial Thresholds Need Evaluation*, [GAO-22-104512](#) (Washington, D.C.: Aug. 30, 2022); *Small Business Research Programs: Reporting on Award Timeliness Could Be Enhanced*, [GAO-23-105591](#) (Washington, D.C.: Oct. 12, 2022); and *Small Business Administration: Procedures for Reporting on Veteran-Owned Businesses Need Improvement*, [GAO-24-106071](#) (Washington, D.C.: Dec. 21, 2023).

<sup>6</sup>The CARES Act established PPP as part of SBA's 7(a) lending program.

<sup>7</sup>American Rescue Plan Act of 2021, Pub. L. No. 117-2, § 5001(d), 135 Stat. 4, 85.

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According to SBA, as of May 31, 2021 (when SBA stopped accepting new applications), lenders had made about 11.8 million PPP loans totaling about \$800 billion.<sup>8</sup>

**COVID-19 Economic Injury Disaster Loan Program.** Congress temporarily expanded eligibility for SBA's EIDL program, which provides low-interest loans of up to \$2 million for expenses that cannot be met because of a disaster. It also created emergency EIDL advances, a new program component.<sup>9</sup> In total, Congress appropriated \$50 billion in loan credit subsidies for the cost of COVID-19 EIDL loans and \$55 billion for advances.<sup>10</sup> The \$50 billion in credit subsidies would enable SBA to provide about \$470 billion in COVID-19 EIDL loans.<sup>11</sup>

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<sup>8</sup>Totals exclude canceled loans. According to SBA, canceled loans may include, but are not limited to, duplicative loans, loans not closed for any reason, and loans fully paid off.

<sup>9</sup>CARES Act, Pub. L. No. 116-136, §§ 1107(a)(6), 1110, 134 Stat. 281, 302, 306. The advances could be used toward payroll, sick leave, and other business obligations. Borrowers did not have to repay them, even if they were subsequently denied the COVID-19 EIDL loan.

<sup>10</sup>SBA provided advances using the \$10 billion that Congress appropriated under the CARES Act. On April 16, 2020, SBA announced that the lending authority for COVID-19 EIDL loans and the funding for EIDL advances had been exhausted. Under the Paycheck Protection Program and Health Care Enhancement Act, Congress appropriated another \$10 billion for advances and \$50 billion in loan credit subsidy for COVID-19 EIDL loans. Additionally, Congress made agricultural enterprises eligible for COVID-19 EIDL loans and advances. SBA began accepting new applications from only agricultural enterprises on May 4, 2020. On June 15, 2020, SBA reopened the application portal to all eligible applicants. In the Consolidated Appropriations Act, 2021, Congress appropriated an additional \$20 billion for targeted EIDL advances to eligible entities located in low-income communities with 300 or fewer employees that experienced an economic loss of greater than 30 percent. Qualifying entities could receive up to \$10,000 in targeted advances. The American Rescue Plan Act of 2021 appropriated an additional \$10 billion for the targeted EIDL advances. It also appropriated \$5 billion for a newly created EIDL advance program that provided up to \$5,000 to business entities that qualified for the targeted EIDL advances but also met smaller (employs less than 10 employees) and more economically harmed (economic loss greater than 50 percent) criteria than the original targeted EIDL advances. The act also appropriated \$70 million for COVID-19 EIDL loans.

<sup>11</sup>The distributed amount for COVID-19 EIDL is higher than the net appropriated funding due to the COVID-19 EIDL loan credit subsidy. The loan credit subsidy covers the government's cost of extending or guaranteeing credit and represents the estimated long-term cost of providing loans and takes into account expected future performance, including loan repayments, prepayments, and defaults. The loan credit subsidy amount was about one-seventh of the cost of each disaster loan in fiscal year 2020 and one-eleventh in fiscal year 2021.

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As of April 2022, SBA had approved about 3.9 million loans totaling about \$378 billion. SBA also approved about 6.8 million advances totaling about \$27.5 billion.

**Restaurant Revitalization Fund.** The Restaurant Revitalization Fund (RRF) provided awards (which did not need to be repaid) to assist small businesses in the food service industry affected by the pandemic.<sup>12</sup> Recipients could use the awards on eligible expenses such as payroll, business debt, maintenance, or construction of outdoor seating. RRF accepted applications from May 3, 2021, through June 30, 2021.<sup>13</sup>

As of June 30, 2021, RRF had provided \$28.6 billion in awards to assist about 101,000 small businesses.

**Shuttered Venue Operators Grants.** The Shuttered Venue Operators Grant (SVOG) program provided grants to small businesses in the live performing arts and entertainment industry affected by the pandemic.<sup>14</sup> Recipients could use the funds for eligible expenses such as payroll, rent or mortgage, and utility payments. SVOG accepted applications from April 26, 2021, through August 20, 2021.<sup>15</sup>

As of July 5, 2022, SVOG had provided about \$14.6 billion in grants to about 23,000 small businesses.

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## Disaster Loan Program

SBA's Disaster Loan Program generally offers low-interest loans for physical and economic damage to businesses, nonprofits, homeowners, and renters to help repair, rebuild, and recover from economic losses after a declared natural disaster. Most of these loans are made to individuals and households to help repair and replace homes and personal property.

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<sup>12</sup>Pub. L. No. 117-2, § 5003, 135 Stat. 4, 85.

<sup>13</sup>According to SBA, the application portal remained open until July 14, 2021, to allow applicants to check their status, address payment corrections, or ask questions.

<sup>14</sup>Consolidated Appropriations Act, 2021, Pub. L. No. 116-260, § 324, 134 Stat. 1182, 2022.

<sup>15</sup>The application portal initially opened on April 8, 2021, but shut down the same day because of a software problem, reopening on April 26, 2021.

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Small Business Innovation  
Research and Small  
Business Technology  
Transfer Programs

The SBIR and STTR programs were established to enable federal agencies to support research and development (R&D) projects carried out by small businesses.<sup>16</sup> Pursuant to the Small Business Act, federal agencies with an extramural budget for research or R&D in excess of \$100 million are required to participate in the SBIR program. Those with such obligations of \$1 billion or more are required to participate in the STTR program.<sup>17</sup> According to SBA, which oversees the programs, 11 federal agencies and their components participate in the SBIR program or in both the SBIR and STTR programs.

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8(a) Business  
Development Program

The 8(a) Business Development Program supports small businesses owned and controlled by socially and economically disadvantaged individuals and entities. The program is SBA's largest program to support contracting. It generally provides up to 9 years of developmental support, such as business counseling and mentoring, contracting guidance, and access to capital and surety bond guarantees.<sup>18</sup> The program also sets aside federal contracting opportunities for participants.

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Veteran-Owned Small  
Business Support

SBA is statutorily required to give special consideration to veterans in carrying out its lending programs.<sup>19</sup> In addition, SBA offers training and counseling to veterans interested in starting or growing a small business through its Veterans Business Outreach Center program. For example, these centers work with military installations to conduct Boots to Business

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<sup>16</sup>The Small Business Innovation Development Act of 1982 established the SBIR program. Pub. L. No. 97-219, 96 Stat. 217 (1982). This act amended section 9 of the Small Business Act, Pub. L. No. 85-536, 72 Stat. 384 (1958), codified as amended at 15 U.S.C. § 638. The Small Business Technology Transfer Act of 1992 established the STTR program. Pub. L. No. 102-564, tit. II, 106 Stat. 4249, 4256 (1992). This act made additional amendments to section 9 of the Small Business Act.

<sup>17</sup>15 U.S.C. § 638(f)(1), (n)(1)(A). Agencies' R&D programs generally include funding for two types of R&D: intramural and extramural. Intramural R&D is conducted by employees of a federal agency in or through government-owned, government-operated facilities. Extramural R&D is generally conducted by nonfederal employees outside of federal facilities.

<sup>18</sup>To assist small businesses adversely affected by the COVID-19 pandemic, Congress allowed businesses in the 8(a) program on or before September 9, 2020, the option to extend their participation in the program for 1 year.

<sup>19</sup>The Small Business Act requires SBA to give special consideration to veterans of the Armed Forces of the United States and their survivors or dependents in carrying out the programs administered by SBA, including its loan and loan guarantee functions. 15 U.S.C. § 633(b)(1).



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entrepreneurial training courses for transitioning service members and military spouses.

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## SBA Improved Its Oversight of Pandemic Relief Programs, but Additional Work Remains

SBA quickly set up its pandemic relief programs—particularly PPP and COVID-19 EIDL—to be able to rapidly respond to the adverse economic conditions small businesses faced. However, this was done at the expense of appropriate financial and other safeguards, which left SBA susceptible to improper payments and fraud.<sup>20</sup> As the programs matured and SBA implemented our recommendations, SBA improved its oversight and incorporated lessons learned from PPP and COVID-19 EIDL into its other relief programs, RRF and SVOG. However, SBA still has opportunities to advance its efforts to prevent and detect fraud using data analytics and to address material weaknesses in internal controls reported by its financial statement auditor.

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## SBA Implemented Most of Our Fraud Risk-Related Recommendations

SBA has implemented most of our recommendations related to identifying pandemic relief improper payments and managing fraud risks. However, it is still in the process of implementing some of our recommendations, particularly those related to enhancing the use of data analytics to prevent and detect fraud.

**Incorporating oversight plans—implemented.** SBA officials said they put limited initial safeguards in place when launching PPP to expedite the loan approval process. This was consistent with a mandate from Congress, reinforced by Treasury, to provide rapid support for small businesses. In June 2020, we found that SBA had not provided details on how it would review loans of more than \$2 million and did not have plans for reviewing loans of less than \$2 million.<sup>21</sup> Therefore, we recommended SBA develop and implement plans to identify and respond to risks in PPP to ensure program integrity, achieve program effectiveness, and address potential fraud.

Consistent with our recommendation, in December 2020, SBA put in place an oversight plan with multiple layers of review. It also hired a contractor with expertise in fraud detection to help implement the reviews. SBA incorporated controls from this plan when it launched RRF and SVOG. As of the end of fiscal year 2023, we had estimated that SBA's

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<sup>20</sup>Improper payments are any payments that should not have been made or that were made in an incorrect amount, which can stem from various causes, including fraud. Fraud involves obtaining something of value through willful misrepresentation.

<sup>21</sup>[GAO-20-625](#).

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controls to monitor PPP loan forgiveness and prevent funding potentially fraudulent PPP and RRF applications saved the government more than \$12 billion.

Similarly, because SBA did not have a plan for responding to COVID-19 EIDL risks, we recommended in March 2021 that SBA implement a comprehensive oversight plan to identify and respond to risks in the COVID-19 EIDL program to help ensure program integrity, achieve program effectiveness, and address potential fraud.<sup>22</sup> In August 2022, SBA provided an oversight plan for the EIDL program that identified controls SBA had implemented or planned to implement for COVID-19 EIDL loans.

**Estimating improper payments—implemented.** The lack of initial safeguards for PPP contributed to the increased risk of improper payments. Developing reliable improper payment estimates is essential for understanding and addressing financial vulnerabilities. Because of concerns about the timely reporting of improper payments, we recommended in November 2020 that SBA expeditiously estimate improper payments and report estimates and error rates for PPP.<sup>23</sup>

In response to our recommendation, SBA began reporting an estimated improper payment rate and amount for PPP in its Fiscal Year 2022 Agency Financial Report. For that year, SBA reported total estimated improper and unknown payments of about \$29 billion for PPP loan approvals.<sup>24</sup>

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<sup>22</sup>[GAO-21-387](#).

<sup>23</sup>[GAO-21-191](#). In contrast, SBA had historically reported improper payment rates for its EIDL program upon which COVID-19 EIDL was based. Agencies are required to treat as improper any payments whose propriety cannot be determined due to lacking or insufficient documentation. Office of Management and Budget guidance refers to such payments as unknown payments and instructs agencies to report the portion of their improper payment estimates attributable to unknown payments separately.

<sup>24</sup>For fiscal year 2022, SBA reported estimated improper payments of about \$7.7 billion for COVID-19 EIDL (loans and advances). For fiscal year 2023, SBA reported total estimated improper and unknown payments of about \$22.8 billion for PPP loan forgiveness and loan guarantee purchases and improper payments of about \$3.2 billion for COVID-19 EIDL (loans and advances). Guarantee purchases occur when lenders ask SBA to honor its guarantee by purchasing the loan if the borrower's business ceases operations or the borrower defaults.

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We have ongoing work examining SBA's process for identifying and recovering PPP and COVID-19 EIDL overpayments (a type of improper payment) and on the effectiveness of these efforts.

**Assessing fraud risks—implemented.** Conducting a fraud risk assessment is a leading practice in strategically managing fraud risks.<sup>25</sup> Such assessments can, for example, help program officials determine whether certain controls are effectively designed and implemented to reduce the likelihood or impact of a fraud risk to a tolerable level. They also can help agencies prioritize risks and allocate resources. Because SBA officials moved quickly to establish PPP and COVID-19 EIDL, they did not conduct formal risk assessments for either program. Consequently, we made two recommendations in March 2021 that SBA conduct a comprehensive fraud risk assessment for each program.<sup>26</sup>

In response, SBA hired a contractor to conduct a fraud risk assessment for both PPP and COVID-19 EIDL in October 2021. The assessment found that SBA implemented additional fraud prevention controls over the course of the programs. These controls included cross-referencing applicant information with Treasury's Do Not Pay List and introducing a set of automated screening rules.<sup>27</sup> However, the assessment also noted that the programs continued to be susceptible to fraud risks that required enhancements to the current mitigation strategies. The contractor identified 25 active fraud risks in PPP and 21 in COVID-19 EIDL. It made four recommendations to SBA to aid the agency in establishing a fraud governance process and inform the agency's fraud tolerance approach.

In addition, we reported in March 2021 that SBA had not designated a dedicated entity to lead fraud risk management activities, which contributed to the lack of a timely fraud risk assessment of the

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<sup>25</sup>GAO, *A Framework for Managing Fraud Risks in Federal Programs*, [GAO-15-593SP](#) (Washington, D.C.: July 28, 2015). The Fraud Risk Framework provides a comprehensive set of leading practices that serve as a guide for agency managers to use when developing efforts to combat fraud.

<sup>26</sup>[GAO-21-387](#).

<sup>27</sup>Treasury's Do Not Pay service is an analytics tool that helps federal agencies detect and prevent improper payments made to vendors, grantees, loan recipients, and beneficiaries. Agencies can use the service to check multiple data sources to make payment eligibility decisions.

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programs.<sup>28</sup> SBA designated such an entity in February 2022, which is responsible for the oversight and coordination of SBA’s fraud risk prevention, detection, and response activities.<sup>29</sup>

**Strategy for managing fraud risks—implemented.** We made two recommendations in March 2021 that, once SBA completed a comprehensive fraud risk assessment for PPP and COVID-19 EIDL, it should also document an antifraud strategy for each program.<sup>30</sup>

As discussed in leading practices, an antifraud strategy describes the agency’s approach for addressing the prioritized fraud risks identified during a fraud risk assessment.<sup>31</sup> The antifraud strategy describes how the agency will prevent, detect, and respond to fraud, as well as monitor risks. Without an antifraud strategy based on the results of a fraud risk assessment, SBA was not positioned to ensure that it was strategically addressing its most significant fraud risks in either program.

In August 2023, SBA finalized a fraud risk management strategy that identified approaches to prevent, detect, and respond to instances of active and potential fraud in PPP and COVID-19 EIDL. For example, it described data analytic methods for reviewing the PPP loan portfolio to manage fraud risks by reducing false positives, prioritizing identified fraud typologies and behaviors, and uncovering areas of fraud risk not previously identified. For COVID-19 EIDL, the document described SBA’s efforts to use advanced data analytics, machine learning technologies, and cross-program data analytics to screen for potential fraud and ineligibility.

**Portfolio-level data analytics—implemented.** We recommended in January 2021 that SBA develop and implement portfolio-level data

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<sup>28</sup>As discussed in GAO’s Fraud Risk Framework, it is a leading practice to designate an entity to design and oversee fraud risk management activities. In carrying out its role, the antifraud entity, among other things, manages the fraud risk-assessment process.

<sup>29</sup>SBA has since made some changes to its fraud governance structure. According to SBA, the agency created an Office of Enterprise Integrity in January 2024 led by its Chief Risk Officer that is responsible for overseeing the agency’s enterprise risk management and fraud risk-management functions. The Chief Risk Officer will be responsible for ensuring risk management activities across SBA are coordinated, internal controls are designed and implemented to ensure accuracy in SBA’s financial reporting, and SBA is following and in compliance with laws and regulations.

<sup>30</sup>[GAO-21-387](#).

<sup>31</sup>[GAO-15-593SP](#).

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analytics across COVID-19 EIDL program loans and advances to detect potentially ineligible and fraudulent applications.<sup>32</sup> SBA fully implemented this recommendation by developing and implementing data analytics. For example, SBA identified applications with foreign area codes, which is an indicator of ineligibility.

In addition, in July 2022, we found that SBA had not proactively used data analytics or information from enforcement entities to identify potentially fraudulent RRF award recipients.<sup>33</sup> Therefore, we recommended that SBA develop and implement data analytics across RRF awards. SBA has fully addressed this recommendation. It conducted data analytics for the RRF program that included cross-checking recipient identifiers (such as address and tax identification number) against recipients flagged for fraud or identity theft.

**Use of enforcement data—open.** We recommended in July 2022 that SBA develop, document, and implement procedures to use enforcement data on suspected fraud in other SBA programs, such as PPP, to identify potential fraud by RRF recipients.<sup>34</sup> SBA disagreed with this recommendation, indicating its current process already addressed the intent of the recommendation. However, SBA told us in January 2023 that it was reviewing 10 percent of RRF awards to confirm eligibility and use of funds compliance. This recommendation will remain open until SBA provides documentation of using enforcement data (e.g., information on suspicious borrowers provided by the Department of Justice or SBA's Office of Inspector General) on suspected fraud in other SBA programs to identify potential fraud in RRF recipients.

**Response to improper awards—open.** In July 2022, we recommended that SBA develop and implement a plan to respond to potentially fraudulent and ineligible RRF awards in a prompt and consistent manner.<sup>35</sup> SBA disagreed with this recommendation, stating that its planned efforts were sufficient. However, in September 2023, SBA stated that it would prioritize reviewing all awards flagged for potential fraud and provide supporting documentation. This recommendation will remain open until SBA provides documentation showing it is prioritizing the

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<sup>32</sup>[GAO-21-265](#).

<sup>33</sup>[GAO-22-105442](#).

<sup>34</sup>[GAO-22-105442](#).

<sup>35</sup>[GAO-22-105442](#).

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review of potentially fraudulent and ineligible awards in its post-award reviews.

**Identifying fraud across multiple programs—open.** We found in May 2023 that SBA had used data analytics to facilitate fraud detection for PPP and COVID-19 EIDL.<sup>36</sup> However, it had not fully leveraged information to help prevent fraud and identify applicants who tried to defraud multiple programs. Consequently, we recommended that SBA (1) develop and use mechanisms to facilitate cross-program data analytics and (2) identify external data sources that can facilitate the verification of applicant information and the detection of potential fraud across its programs. SBA agreed with these two recommendations.

SBA officials told us in November 2023 that they had started a comprehensive review of fraud prevention and mitigation analytics within SBA. The review is looking at SBA's collection of information on internal and external data used for fraud mitigation, any internally developed or externally procured tools, and any data-driven fraud controls in place or planned. SBA officials also told us the agency has procured third-party services to help validate customer identity. In addition, they said they had engaged with other federal agencies regarding data sharing to improve SBA's fraud risk management capabilities. We will continue to monitor SBA's efforts to complete these efforts in response to our recommendations.

Also, as discussed in our May 2023 report, SBA has developed oversight plans for PPP and COVID-19 EIDL that include automated and manual reviews to help identify and refer potentially fraudulent loans and advances to the SBA Office of Inspector General. This four-step approach involves (1) initial automated screening that compares each file with several public and private sector databases, (2) data analytics to examine anomalies, (3) human-led review of files not cleared through data analytics, and (4) referral of files that are identified as likely fraudulent to the Inspector General. SBA incorporated this approach into its oversight for RRF and SVOG. We have recently begun an assessment of SBA's implementation of this four-step approach.

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<sup>36</sup>[GAO-23-105331](#).

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## SBA's Financial Statement Auditor Has Raised Concerns

In November 2023, SBA's independent financial statement auditor issued a disclaimer of opinion on SBA's fiscal year 2023 financial statements.<sup>37</sup> SBA was unable to provide adequate evidence to support a significant number of transactions and account balances related to its pandemic relief programs because of inadequate processes and controls. The auditor identified six material weaknesses in internal controls over financial reporting, including that controls over PPP loan guarantees, COVID-19 EIDL loans, and monitoring of RRF and SVOG need improvement.

The fiscal year 2023 financial statement audit included 55 recommendations to SBA, including 38 directly related to its pandemic relief programs. For example, the auditor found that SBA did not sufficiently design the PPP loan forgiveness review process. The auditor also found that SBA did not adequately design and implement controls to ensure that COVID-19 EIDL loans were provided to eligible borrowers and accurately recorded. Similarly, the auditor identified shortcomings in SBA's monitoring of RRF and the SVOG program. In response, SBA stated that it continues to work toward improving its audit outcomes through collaborative partnerships across the agency along with a strategy that prioritizes the most critical corrective action needs and optimizes resources.

We support the recommendations the financial statement auditor provided to address control weaknesses related to PPP, COVID-19 EIDL, RRF, and SVOG. We encourage SBA to develop and implement a corrective action plan to address the material weaknesses and continue to work to improve its controls over the programs.

Our recent audit of the U.S. government's consolidated financial statements noted that SBA's internal control deficiencies significantly increase the risk of fraud and other improper payments.<sup>38</sup> These deficiencies also contribute to the federal government's inability to reasonably estimate the value of receivables and liabilities associated with lending programs.

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<sup>37</sup>Small Business Administration, Office of Performance, Planning, and the Chief Financial Officer, *Agency Financial Report: Fiscal Year 2023* (Washington, D.C.: Nov. 15, 2023). SBA's auditor also had issued a disclaimer of opinion on SBA's fiscal year 2020, 2021, and 2022 financial statements.

<sup>38</sup>GAO, *Financial Audit: FY 2023 and FY 2022 Consolidated Financial Statements of the U.S. Government*, [GAO-24-106660](#) (Washington, D.C.: Feb. 15, 2024).

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## SBA Can Improve Risk Assessment in and Access to Its Disaster Loan Program

Disasters affect numerous American communities and cause billions of dollars of damage. SBA addressed one recommendation for its Disaster Loan Program related to identifying critical elements of disaster response. Several other recommendations we have made have not yet been fully implemented.

**Identifying critical elements of disaster response—implemented.** We found in February 2020 that SBA’s response plans for Hurricanes Harvey, Irma, and Maria varied and, in some cases, did not discuss certain resource requirements for responding to the disaster, such as equipment needs.<sup>39</sup> We recommended that SBA identify the key elements of a disaster action plan and provide guidance to staff on how to incorporate those elements into future plans. In December 2022, SBA provided a revised template for its disaster action plans that requires officials to identify critical information, such as the projected resource needs and outreach strategy.

**Identifying potential risks—open.** We found in February 2020 that SBA’s major disaster planning documentation following Hurricanes Harvey, Irma, and Maria lacked in-depth discussions of risks SBA could face when responding to disasters, such as extended power outages.<sup>40</sup> We recommended SBA identify and document risks associated with its disaster response and plans to mitigate these risks in its disaster planning documentation. SBA agreed with this recommendation and provided an updated Disaster Preparedness and Recovery Plan in February 2024. The updated plan includes an appendix that presents the results of regional risk assessments and identifies hazards most likely to affect SBA disaster recovery operations. Before we can determine if SBA has fully addressed our recommendation, we will need to obtain and review internal agency documentation cited in the plan and discuss with SBA officials the efforts to mitigate the risks identified in the plan.

**Communicating with applicants—open.** In July 2021, we found that SBA’s initial communication with potential applicants excluded key information about the program, such as program terms.<sup>41</sup> In addition, applicants did not receive clear information about their application status. We recommended that SBA develop a comprehensive strategy for

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<sup>39</sup>[GAO-20-168](#).

<sup>40</sup>[GAO-20-168](#).

<sup>41</sup>[GAO-21-589](#).



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communicating with potential and actual program applicants in the event of a disaster. SBA agreed with the recommendation and told us in February 2023 that it had started developing a new disaster loan application portal that would include improved messaging features, such as immediate status updates. SBA did not provide a time frame for implementing the new portal.

**Addressing access barriers—open.** In December 2021, we reported on what was known about the impact of six federal disaster recovery programs, including SBA’s Disaster Loan Program, on various socioeconomic and demographic groups.<sup>42</sup> We found the programs lacked key data and analysis that would allow them to examine patterns and indicators of potential access barriers and disparate recovery outcomes. We recommended SBA work with two other agencies to (1) develop and implement an interagency plan to help ensure the availability and use of quality information to aid in identifying access barriers or disparate outcomes and (2) design and establish routine processes to address identified access barriers and disparate outcomes. SBA agreed with these two recommendations.

SBA officials told us in February 2024 that they have been working with the other agencies to develop an interagency plan for data collection, sharing, and analysis to identify potential equity issues. SBA officials said the plan would describe processes the agencies would use to address any identified equity issues. According to the officials, the plan should be developed by June 2024.

In November 2023, we found that SBA had identified the lending criteria for its Disaster Loan Program as a barrier for underserved communities but had not assessed whether changes were needed.<sup>43</sup> Thus, we recommended SBA assess its lending criteria as part of an internal review of the Disaster Loan Program. SBA agreed with the recommendation and said it would assess its lending criteria and evaluate any relevant gaps in loan outcomes.

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<sup>42</sup>[GAO-22-104039](#). The other recovery programs were the Federal Emergency Management Agency’s Individual Assistance and Public Assistance programs, National Flood Insurance Program, and Hazard Mitigation Grant Program and the Department of Housing and Urban Development’s Community Development Block Grant-Disaster Recovery program.

<sup>43</sup>[GAO-24-106682](#).

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We will continue to monitor SBA's actions to complete these efforts.

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## SBA Can Provide More Timely Reporting and Better Access for Some Programs

SBA has periodic reporting requirements designed to ensure that Congress and other parties have timely information on SBA programs. SBA also has requirements to target veterans in its lending programs. SBA has not yet fully implemented recommendations we made related to these issues.

**Ensuring reporting requirements are met—open.** SBA must report annually to Congress on the 8(a) Business Development Program. In August 2022, we reported that the agency had not submitted the 2016–2021 reports when they were due (April 30 of the following year).<sup>44</sup> SBA had submitted the 2016 and 2017 reports in February 2020 and expected to complete the remaining reports by December 2022. We recommended SBA assess the report process and develop a plan to address report delays. SBA agreed with the recommendation and told us in March 2023 that it had assessed its process and begun drafting the late reports. However, as of February 2024, it had published reports only through fiscal year 2017.

SBA is also required to report annually agency award timeliness data to Congress along with other information about participating agencies' implementation of the SBIR and STTR programs. In October 2022, we reported that SBA had been consistently late with its annual reports from fiscal year 2016 to fiscal year 2021.<sup>45</sup> We recommended that SBA develop, document, and execute a plan to identify actions that could improve timely publication of its annual report to Congress and implement the actions identified. SBA agreed with this recommendation and told us in August 2023 that it had taken some steps to implement it such as reviewing all parts of the process and convening an annual meeting with agency representatives to discuss opportunities to streamline the annual report. As of February 2024, the most recent report that SBA had completed was for fiscal year 2019.

Similarly, we found in December 2023 that SBA could not demonstrate compliance with its statutory responsibility to report annually to congressional committees on the needs of veteran-owned small

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<sup>44</sup>[GAO-22-104512](#).

<sup>45</sup>[GAO-23-105591](#).

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businesses.<sup>46</sup> We recommended SBA develop and implement policies and procedures to ensure compliance. SBA agreed with the recommendation and said it would implement policies and procedures to submit an annual report to congressional committees.

We will continue to monitor SBA's efforts to provide the reports in a timely manner.

**Ensuring access for target populations—open.** We found in December 2023 that SBA did not have procedures to ensure it was giving special consideration to veterans in carrying out its lending programs, as required by the Small Business Act.<sup>47</sup> Consequently, we recommended SBA implement policies and procedures to ensure veterans receive such consideration. SBA agreed with the recommendation and said it would work to incorporate specific guidance on special consideration to veterans in its lending platform and standard operating procedures.

We will continue to monitor SBA's efforts to update its procedures.

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Chairman Williams, Ranking Member Velázquez, and Members of the Committee, this concludes my statement. I would be pleased to respond to any questions you may have.

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## GAO Contact and Staff Acknowledgments

If you or your staff have any questions about this testimony, please contact Courtney LaFountain, Acting Director, Financial Markets and Community Investment, at (202) 512-8678 or [lafountainc@gao.gov](mailto:lafountainc@gao.gov). Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this statement. GAO staff who made key contributions to this testimony are Paige Smith (Assistant Director), Daniel Newman (Analyst in Charge), Johana Ayers, Marcia Carlsen, Irina Carnevale, Dan Flavin, Garrett Hillyer, and Jessica Sandler. Key contributors to the previous work discussed in this statement are listed in each of the cited reports.

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<sup>46</sup>[GAO-24-106071](#).

<sup>47</sup>[GAO-24-106071](#). 15 U.S.C. § 633(b)(1).

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