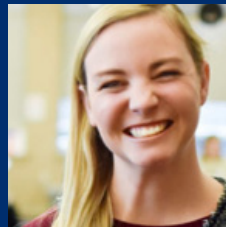




SMALL BUSINESS
ADMINISTRATION

AGENCY FINANCIAL REPORT

FISCAL YEAR 2020



— start

— grow



— expand

— recover

ABOUT THIS REPORT

The U.S. Small Business Administration's Agency Financial Report (AFR) for FY 2020 provides an overview of the Agency's financial and performance data to help Congress, the President, and the public assess the SBA's stewardship over the resources entrusted to it. The AFR is the first of two required annual reports for federal agencies. The *FY 2020 Annual Performance Report (APR)* is the other report and is part of the *FY 2022 Congressional Justification (CJ)*. The CJ/APR is scheduled for publication in February 2021. The reports can be found at: www.sba.gov/performance.

ON THE COVER

The pictures presented on the front cover represent SBA success stories. Their stories can be found on the following pages of this report. From top left to bottom right, Timothy Porter (page 4), Brian Geisel (page 36), Charissa Rubey (page 114), Kelsey Raymond (page 4), Anton Bizzell (page 114), Vera Hall (page 36), and Terry and Hope Bourque (page 170).

FY 2020 HIGHLIGHTS

<i>(Dollars in Thousands)</i>	FY 2017	FY 2018	FY 2019	FY 2020
Principal Program Portfolio ⁽¹⁾	\$ 131,814,718	\$ 142,315,295	\$ 143,516,446	\$ 835,987,031
Total Assets	\$ 13,215,919	\$ 16,988,497	\$ 16,718,652	\$ 897,533,990
Total Liabilities	\$ 11,703,589	\$ 14,915,340	\$ 15,085,044	\$ 718,056,018
Total Net Position	\$ 1,512,330	\$ 2,073,157	\$ 1,633,608	\$ 179,477,972
Total Net Cost of Operations	\$ 3,910	\$ 621,675	\$ 136,526	\$ 554,231,547
Total Budgetary Resources	\$ 12,243,154	\$ 17,114,677	\$ 12,342,598	\$ 1,518,667,904

(1) The total portfolio consists of guaranteed business loans outstanding, guaranteed debentures, direct business loans and direct disaster loans. The data include all performing loans and defaulted loans that have not been charged off.

FOR MORE INFORMATION

Information about the SBA's programs is available at:
www.sba.gov

SBA's plans and reports are available at:
www.sba.gov/performance

Para información acerca de los programas de la SBA:
www.sba.gov → "Translate" → "Select Language"

Questions and comments regarding the content, presentation and usefulness of this report are welcome and may be addressed to:
performance.management@sba.gov

Or, you may write to:

U.S. SMALL BUSINESS ADMINISTRATION

Office of Performance Management
and the Chief Financial Officer
409 Third Street, S.W.
Washington, DC 20416

Or, you may call:

JASON BOSSIE, Director
Office of Program Performance,
Analysis, and Evaluation
(202) 205-6449

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SBA'S MISSION

Maintain and strengthen the nation's economy by enabling the establishment and vitality of small businesses and by assisting in the economic recovery of communities after disasters.

HOW THIS REPORT IS ORGANIZED

The U.S. Small Business Administration's *FY 2020 Agency Financial Report* (AFR) provides financial and performance information for the fiscal year beginning October 1, 2019 and ending September 30, 2020. This report presents the SBA's operations, accomplishments, and challenges. Following a message from the SBA Administrator are four principal sections: Management's Discussion and Analysis, Financial Reporting, Other Information, and Appendices. "Success Stories" appear throughout the report highlighting a small business entrepreneur.

Management's Discussion and Analysis

The Management's Discussion and Analysis section provides a report of the Agency's overall financial position, program performance, and results of operations. It presents the SBA's history, organization, and principal programs. This section highlights financial results and analysis; performance results and analysis; and analysis of systems, controls, and legal compliance.

Financial Reporting

The Financial Reporting section provides a detailed report of the SBA's finances. It includes the message from the Chief Financial Officer, the audit transmittal memorandum from the Inspector General, the Independent Auditors' report, and the financial statements and notes. The required supplementary information provides a combined statement of budgetary resources, and the required supplementary stewardship information provides a report on stewardship investments in human capital.

Other Information

The Other Information section includes the Inspector General's report on the Agency's top management and performance challenges along with recommended actions. This section also includes a summary of the financial statement audit and management assurances.

Appendices

The Appendices provide supporting information—a contact list of useful websites and telephone numbers, a glossary, and a detailed report on audit follow-up activity.

MESSAGE FROM THE ADMINISTRATOR



December 18, 2020

After what has emerged as the most extraordinary year in the Agency's 67-year history, I am pleased to present the U.S. Small Business Administration's FY 2020 Agency Financial Report.

This year's report highlights the SBA's key achievements in helping our nation's entrepreneurs recover from an unprecedented global pandemic and a number of natural disasters, while continuing to help small businesses start, grow, and expand. The financial and performance data published in this report are reliable, complete, and in accordance with the U.S. Office of Management and Budget Circulars A-136 and A-11.

The SBA made significant progress to expeditiously implement the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) of 2020 and subsequent legislation, comprised of nearly \$1 trillion in Agency economic assistance programs, to stabilize the nation's economy. While the SBA established new, major programs in short time, the SBA's independent auditor has issued a disclaimer of opinion and identified material weaknesses in internal controls over financial reporting due to lack of sufficient documentation and controls in the year of implementation. Although the agency communicated its disagreement with some of the analysis and conclusions drawn by the auditors, the recommendations to address the material weaknesses will be considered by management and addressed accordingly.

America's resilient small business owners and entrepreneurs are driving our current economic recovery. Responsible for employing half the private sector workforce and creating two-thirds of all net new jobs, our nation's small businesses have contributed significantly to the great economic comeback we are experiencing.

In FY 2020, SBA approved more loans—by both value and volume—than it has in all of the years combined since the Agency was founded in 1953. To help the small business sector stay viable during the economic shutdowns, the SBA, in coordination with the Treasury Department, launched the Paycheck Protection Program. In just over four months, the program approved more than \$525 billion in forgivable loans to more than five million small businesses and nonprofits.

I have had the privilege of traveling all across the country, meeting with numerous and diverse small businesses, and I have seen firsthand how they have successfully adapted to a changing economic environment. Small businesses are uplifting their communities and providing hope during a difficult time for our country. I am proud of the work our Agency and resource partners do to support them.

The SBA continues to be focused on ensuring that each of the Agency's 68 district offices are aligned with the vision, momentum, and outreach of its headquarters in Washington, D.C. We are committed to speaking with one voice and working together to meet the mission of helping small businesses thrive and succeed.

As the SBA Administrator, I have personally seen the dedication, energy, and initiative that our employees bring to their jobs—especially this year, as small business recovery has been so critical. We are fortunate to have so many tremendous public servants working for the Agency. Their dedication to the SBA's mission is remarkable.

Since I was sworn in as SBA Administrator, I have prioritized helping underserved entrepreneurs—including women, minorities, veterans, and military spouses. Access to capital is a vital aspect of economic development. At the SBA, we work with approved lenders and community development organizations to guarantee loans to small businesses that are unable to obtain credit in the conventional lending marketplace. In FY 2020, the SBA approved more than 49,000 loans in the 7(a) and 504 loan programs, providing more than \$28 billion to small businesses and supporting over half a million American jobs in the process.

Minority business owners received \$7.5 billion in combined 7(a) and 504 lending, or 27 percent of the SBA's loan portfolio. The SBA's 7(a) lending to women-owned businesses was nearly \$2.7 billion in FY 2020. Lending from the 504 loan program to women-owned businesses was over \$522 million. Lenders reported that loans to veterans totaled nearly \$835 million for the 7(a) and 504 programs. The Small Business Investment Company program, in which the SBA partners with private investors to finance small businesses through professionally managed investment funds, supported over 1,000 small businesses with approximately \$4.9 billion in financing.

Additionally, the SBA's microloan program, which offers loans up to \$50,000, achieved another record-breaking year, underscoring our commitment to helping the small businesses and start-ups that need assistance.

Entrepreneurship is a team effort, and the SBA ensures that our nation's small business owners have the resources to tackle the challenges they face every day. These efforts are powered by our district offices and strong resource partner network made up of Small Business Development Centers, Women's Business Centers, Veterans Business Outreach Centers, and SCORE chapters.

Our combined SBA network offers free or low-cost programs to help entrepreneurs plan their business, research market trends, expand their customer base, and secure funding. In FY 2020, hundreds of thousands of American small businesses took advantage of counseling, mentoring, and training assistance through the SBA network.

Thanks to the SBA's efforts, federal agencies collectively exceeded the federal small business contracting goal for FY 2019, the latest year of data available, by awarding nearly 26 percent of federal contracts to small businesses totaling nearly \$130 billion—an over \$9 billion increase from the previous fiscal year. This achievement marks the seventh consecutive year in a row that the Federal Government has exceeded this goal. Women-owned small businesses achieved their highest amount of eligible contracting dollars ever at \$25 billion—exceeding the 5 percent federal goal for only the second time in history.

When disaster strikes, the SBA joins with our federal partners to respond by helping businesses, nonprofits, homeowners, and renters recover from declared disaster events. Low-interest loans from the SBA have enabled borrowers to replace or repair uninsured losses, whether through physical damage or economic injury. The SBA is working with federal, state, and local partners to continually improve the disaster response and ensure we are assisting the economic recovery as expediently as possible.

Disaster loan activity in response to natural disasters, such as hurricanes, fires, and floods, in FY 2020 was below normal as compared to recent years. The SBA approved just under 11,000 disaster loans for \$582.6 million. However, for the first time in Agency history, the SBA had the statutory authority to respond to a pandemic. During FY 2020, the SBA approved 3.6 million Economic Injury Disaster Loans (EIDL COVID) for \$194 billion. Additionally, SBA approved 5.8 million EIDL advance grants for \$20 billion. The amount of disaster funds provided through the EIDL COVID program is more than three times the amount of disaster loan funds approved for all disasters combined since the SBA was created in 1953.

American entrepreneurs are in a league of their own, and it is the honor of a lifetime to serve as their advocate in President Donald Trump's Cabinet. In this Administration, small businesses are front-and-center, and the SBA remains committed to being a responsible steward of taxpayer dollars and the public's trust.

The SBA is working to ensure that we are functioning as efficiently and effectively as possible for America's entrepreneurs while using modern technology and streamlined operations to eliminate waste and redundancy. As we look toward FY 2021 and a new decade of possibilities, the SBA is devoted to delivering results and the best possible service to America's small businesses.

Sincerely,



Jovita Carranza
Administrator

MANAGEMENT'S DISCUSSION AND ANALYSIS



start

grow



expand

recover

★ TOP RECOGNITION

TIMOTHY PORTER
SUCCESS STORY



2020 SMALL BUSINESS PERSON OF THE YEAR

Appdiction Studio, LLC,
San Antonio, TX

TIMOTHY PORTER, an Army veteran with a passion for technology and information technology (IT), taught himself to develop mobile applications, and in 2011 he formed Appdiction Studio, LLC. Timothy received his initial start-up assistance and guidance from the local Procurement Technical Assistance Center and received support and assistance from SBA’s Small Business Development Center at the University of Texas at San Antonio. The San Antonio based company is part of SBA’s 8(a) Business Development Program and a Service-Disabled Veteran-Owned Small Business with a national presence. It provides premier and innovative IT transformations by successfully implementing state of the art agile framework and methodologies.

In 2016, the company received an SBA loan that was paid in full within two years. From 2017 to 2018, the company experienced a 254 percent increase in revenue due to the successful procurement of contracts for software development and project management through the Department of Defense (DoD). Appdiction Studio has established itself as the go-to small business for DoD to support new and existing enterprise transformations for DoD clients and was highlighted on the USA Network television channel as one of their USA Character Unite Award winners for developing an award-winning anti-bully mobile application for use in K-12 schools.

top recognition

grow

↗ GROW

KELSEY RAYMOND
SUCCESS STORY



Influence & Co.
Columbia, MO

KELSEY RAYMOND co-founded Influence & Co. right out of college. She started with only a 6 percent share of the business. From the beginning, her drive was to be the majority owner of the company. In her quest to achieve this goal, she has published 270 articles, achieved 107,000 social media shares, and built a social reach of 153 million — all this in addition to successfully leading the company to rapid success.

One of the challenges Kelsey faced was financial and this is where SBA was able to assist her. When Kelsey first started negotiations with former majority owner about buying out his 94 percent share of the business, she wasn’t sure how she would get the capital. They ultimately agreed on a purchase price of \$4.3 million. To finance the buy, she researched SBA loan processes and interviewed eight different banks before she decided to apply for a \$4.1 million 7(a) loan with American Bank of Missouri. The loan enabled her to reach her goal of total ownership and she hasn’t looked back since.

expand

start

grow

recover

THE SBA'S HISTORY, GOALS, AND ORGANIZATION

In 1953, Congress created the SBA to aid, counsel, assist, and protect the interests of small business. As the nation's only go-to resource and voice for small businesses, the SBA provides programs and services that help small businesses confidently start, grow, expand, or recover. The SBA is backed by the strength of the federal government and is the only cabinet-level federal agency fully dedicated to small business. The SBA's headquarters is located in Washington, D.C., while its business products and services are delivered through field personnel and a network of private sector and nonprofit partners in every U.S. state and territory. Major SBA offices fall under one of four Agency-wide strategic goals as outlined in SBA's [FY 2018-2022 Strategic Plan](#):



STRATEGIC GOAL ONE

Support small business revenue and job growth

Strategic Goal One focuses on business formation, job growth, and economic expansion through capital, contracting, exporting, and innovation.

The *Office of Capital Access* assists small businesses with obtaining capital via the 7(a), 504, and Microloan programs, and bonds through the Surety Bond Guarantee program.

The *Office of Investments and Innovation* assists small businesses through initiatives such as the Small Business Investment Company, Small Business Innovation Research, Small Business Technology Transfer, and other tailored programs that drive innovation and competitiveness.

The *Office of International Trade* enhances the ability of small businesses to export and compete in the global marketplace by facilitating access to capital, providing technical assistance, ensuring the consideration of small business interests in trade negotiations, and contributing to the U.S. government's international commercial and economic agenda.

The *Office of Government Contracting and Business Development* assists small businesses in competing for federal contracting opportunities through the government-wide prime and subcontracting programs. The office also sets size standards for small businesses, which determine the size a business must be to be considered a small business.

STRATEGIC GOAL TWO

Build healthy entrepreneurial ecosystems and create business friendly environments

Strategic Goal Two focuses on business startups, growth, and expansion through technical assistance, SBA resource partners, and creating a business-friendly environment to reduce regulatory burdens.

The *Office of Government Contracting and Business Development* provides business development assistance to small businesses seeking federal contracts. This assistance includes the HUBZone, 8(a) business development, 7(j) management and technical assistance, and All Small Mentor-Protégé programs.

The *Office of Entrepreneurial Development* provides business advising, mentoring, and training assistance through its resource partner network composed of small business development centers, women's business centers, and SCORE, and through Entrepreneurship Education programs.

The *Office of Veterans Business Development* ensures the applicability and usability of all the Agency's small business programs for veterans, service-disabled veterans, reserve component members, and their dependents or survivors through veterans' business outreach centers, Boots to Business, and other grant programs.

The *Office of the National Ombudsman* works with all federal agencies that regulate small businesses to provide a means for businesses to comment on federal government enforcement activity. The SBA also maintains a five-member Regulatory Fairness Board in each of the 10 regions to hold public hearings on small business concerns.

STRATEGIC GOAL THREE

Restore small businesses and communities after disasters

Strategic Goal Three focuses on helping restore communities and return businesses to normal operations through direct loans to repair, rebuild, and recover from physical damage and economic losses.

The *Office of Disaster Assistance* provides affordable, timely, and accessible financial assistance to homeowners, renters, and businesses following a disaster. The Disaster Loan program is the only form of SBA assistance that is not limited to small businesses.

STRATEGIC GOAL FOUR

Strengthen SBA's ability to serve small businesses

Strategic Goal Four focuses on streamlining business processes and decision-making at all levels to ensure efficiency and effectiveness.

The *Office of Performance Management and the Chief Financial Officer* leads the Agency's performance management, program evaluation, financial management, and acquisition management functions.

The *Office of Executive Management, Installations and Support Services* supports resource and core administrative functions, including grant management, facilities, records management, and personnel security.

The *Office of Human Resources Solutions* provides strategic human capital solutions to workforce issues and strives to create a work environment that attracts and retains a talented and high-performing workforce.

The *Office of the Chief Information Officer* provides information technology leadership, product services, and operational support for the SBA in order to maximize internal efficiency and responsiveness to small businesses.

Other offices that support the strategic goals and objectives include the *Office of Field Operations*; *Office of Diversity, Inclusion, and Civil Rights*; *Office of Communications and Public Liaison*; *Office of Congressional and Legislative Affairs*; *Office of General Counsel*; and *Office of Hearings and Appeals*.

EXECUTIVE SUMMARY

America's 30 million small businesses play a critical role in job creation and retention. During the last two decades, small businesses have been responsible for creating two out of every three net new jobs. In turn, the U.S. Small Business Administration's assistance to those firms and entrepreneurs helps drive a healthy economy.

The SBA employs a variety of methods to support America's small businesses. These methods include promoting access to capital, federal contracting, counseling, and disaster assistance.

Throughout FY 2020, four goals from the SBA's *FY 2018-2022 Strategic Plan* guided the Agency's actions:

1. *Supporting small business revenue and job growth*
2. *Building healthy entrepreneurial ecosystems and creating business friendly environments*
3. *Restoring small businesses and communities after disasters*
4. *Strengthening SBA's ability to serve small businesses*

The following sections highlight financial and performance results for the Agency, including the four Agency Priority Goals. An in-depth analysis can be found in the Analysis of Financial Results and Analysis of Performance Results sections. The complete set of performance results will be reported in the Annual Performance Report, released in February 2021.

Financial Results

For FY 2020, the SBA's total budgetary resources used for staffing, operations, and loan subsidy costs were \$590.2 billion. Total nonbudgetary resources for loan financing used to make direct loans and purchase guaranteed loans in default were \$228.8 billion. The SBA's guaranteed portion of the outstanding loan principal rose \$515.9 billion in FY 2020 to \$621.7 billion. During FY 2020, new guaranties disbursed by SBA participating banks were \$538.0 billion, a \$516.8 billion increase from last year. The increase in the SBA's guaranteed portion of outstanding loan principal and new guaranties disbursed is a direct result of the Paycheck Protection Program (PPP) created under the CARES

Act. In FY 2020, purchases of defaulted guaranteed loans decreased from \$1.5 billion last year to \$1.2 billion. The loans receivable portion of the SBA credit program portfolio increased in FY 2020 from \$9.5 billion to \$183.0 billion. The spike in loans receivable was caused by the increase in new disaster direct loan disbursements associated with CARES Act funded loans.

Performance Results

Capital: In FY 2020, the SBA approved \$29 billion or more than 51,300 loans to small businesses. The SBA supported nearly \$6 billion in 504 loans, an increase of nearly \$818 million from FY 2019. The SBA invested more than \$4.8 billion in 1,063 small businesses through the Small Business Investment Company program.

Contracting: The SBA continued to partner with agencies across the Federal Government to expand small business contracting opportunities. From FY 2015 through FY 2019, small businesses were awarded more than \$500 billion in federal contracts (FY 2020 contracting numbers continue to be collected and certified). The Federal Government continues to exceed its small disadvantaged and service-disabled, veteran-owned small business goals but faces challenges with HUBZone and women-owned small business goals.

Counseling: The SBA provided mentoring, business advice, and training assistance to nearly 750,000 entrepreneurs and small businesses this year, which helped them start and grow their businesses, and create or retain jobs. The Agency further strengthened the alignment of performance metrics with its resource partners that will be implemented in future grant agreements.

Disaster Assistance: Disaster loan applications and approvals increased significantly compared to FY 2019 with the ability of the SBA to provide disaster relief to every state and territory during the COVID-19 pandemic. At the end of FY 2020, the Agency is working 275 active disaster assistance declarations and approved disaster loans totaling over \$195 billion during the fiscal year.

Agency Priority Goals

The Government Performance and Results Act Modernization Act of 2010 requires federal agencies to establish a set of two-year Agency Priority Goals that reflect the highest priorities of agency leadership. The SBA has established three APGs. Additional information for each of the APGs action plans and progress here: https://www.performance.gov/SBA/APG_sba_1.html. The goals and outcomes from FY 2020 were as follows:

- **Increase Access to Capital for Small Businesses through Enhancements in Web-Based Technology.**

Goal: *By September 30, 2021, increase the number of lender and small business connections by 8 percent (FY 2019 baseline of 80,000) from baseline through enhanced web-based technology platforms.*

Outcome: The SBA supported 197,961 lender match connections in FY 2020, which exceeds this year's goal. The SBA has been able to upgrade its system and conduct outreach to trade groups and field staff to expand outreach on this important tool to help increase access to capital.

- **Maximize small business participation in government contracting.**

Goal: *By September 30, 2021, maximize the percent of federal contracts by awarding at least 23 percent to small businesses*

Outcome: The Federal Government continued to exceed its small business contracting goal and made significant progress on its small disadvantaged small business contracting goals. The SBA provided support through several mechanisms in the field and through the Small Business Procurement Advisory Council to increase awareness of the importance of small businesses in the federal marketplace.

- **Help Small Business Exporters Succeed in Global Markets Goal.**

Goal: *By September 30, 2021, increase the value of small business export sales to \$4.7 billion in FY 2021 (FY 2018 baseline of \$3.1 billion).*

Outcome: The SBA has been able to support several billion dollars in export loans and provide counseling and training to thousands of small businesses and

lenders on export products. The SBA is awaiting its grant data for the State Trade Expansion Program (STEP) before finalizing its end-of-year results for this year, which will be made available in the FY 2020 Annual Performance Report to be published in February 2021.

Cross-Agency Priority Goals

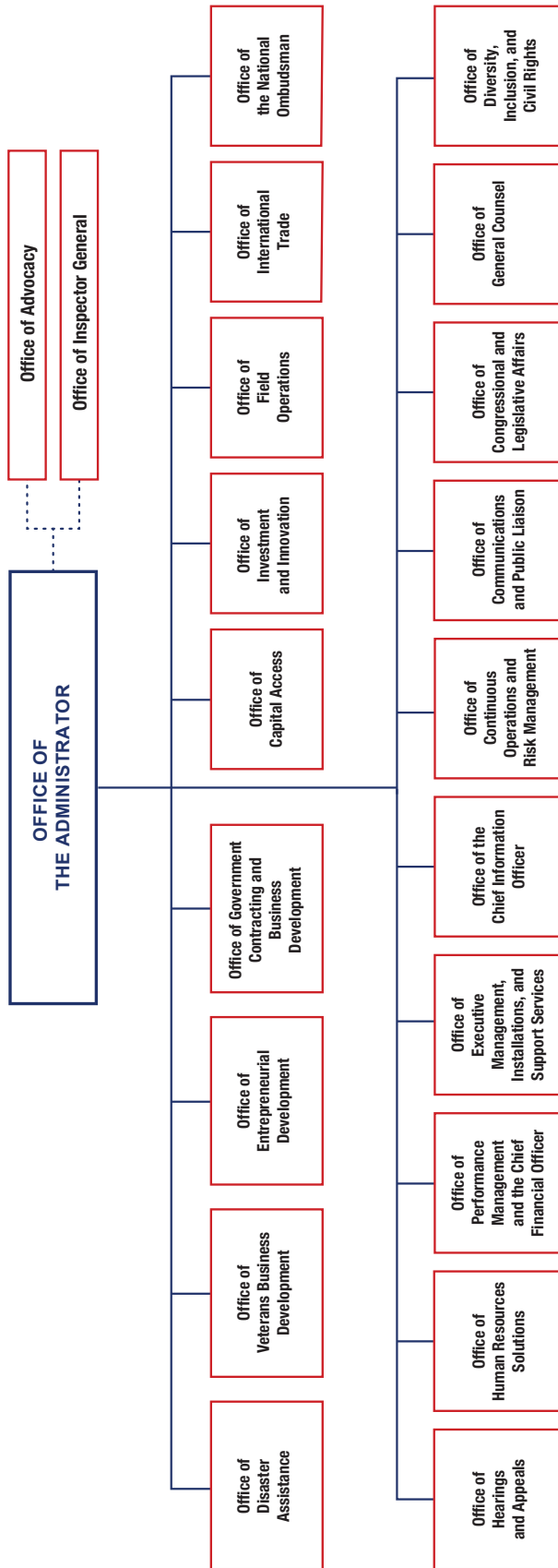
The SBA also supports each of the government-wide federal Cross-Agency Priority Goals. The CAP goals are Presidential priorities and are complemented by other cross-agency coordination and goal-setting efforts. The SBA serves as the co-lead for the Data, Accountability, and Transparency CAP goal.

Per the GPRA Modernization Act requirement to address Cross-Agency Priority Goals in the Agency strategic plan, the annual performance plan, and the annual performance report, please also refer to www.Performance.gov for more on the Agency's contributions to those goals and progress. A summary of each CAP goal follows:

- **IT Modernization:** Build and maintain more modern, secure, and resilient information technology (IT) to enhance mission delivery and productivity.
- **Data, Accountability, and Transparency:** Leverage data as a strategic asset to grow the economy, increase the effectiveness of the Federal Government, facilitate oversight, and promote transparency.
- **Developing a Workforce for the 21st Century:** Ensure effective and efficient mission achievement and improved service to America through enhanced alignment and strategic management of the Federal workforce.
- **Improving Customer Experience:** Transform the customer experience by improving the usability and reliability of our Federal Government's most critical digital services.
- **Sharing Quality Services:** Deliver technology and process improvements that will improve citizen services.
- **Shifting from Low-Value to High-Value Work:** Eliminate low-value, unnecessary, and outdated policies and requirements issued by central management agencies.
- **Category Management:** Leverage common contracts to buy common goods and services as an enterprise.

- **Results-Oriented Accountability for Grants:** Rebalance compliance efforts with a focus on results for the American taxpayer.
- **Getting Payments Right:** Reduce the amount of cash lost to the taxpayer through incorrect payments.
- **Federal IT Spending Transparency:** Improve business, financial, and acquisition outcomes.
- **Frictionless Acquisition:** Deliver commercial items at the same speed as the marketplace and manage customers' delivery expectations by breaking down barriers to entry using modern business practices and technologies.
- **Modernize Infrastructure Permitting:** Improve the Federal environmental review and authorization process to enable infrastructure project sponsors to start construction sooner, create jobs earlier, and fix our Nation's infrastructure faster while also ensuring that a project's potential impacts on environmental and community resources are considered and managed throughout the planning process.
- **Security Clearance, Suitability, and Credentialing Reform:** Advance security through a trusted workforce; modern clearance process; secure, modern, and mission-capable information technology; and continuous performance improvement.
- **Lab-to-Market:** Improve the transition of federally funded innovations from the laboratory to the marketplace by reducing the administrative and regulatory burdens for technology transfer and increasing private sector investment in later-stage R&D.

SBA Organization Chart



SBA Regions and Field Offices



PRIMER OF THE SBA'S PRINCIPAL PROGRAMS

Capital

7(a) Loans — The SBA offers government guaranties on loans (up to \$5 million) made by lenders to help expand access to capital for business owners who face challenges getting approved for financing. The SBA guaranties a portion of 7(a) loans made and administered by commercial lending institutions. Loans can be guarantied for a variety of general business purposes.

504 Certified Development Company Loans — The SBA works with CDCs, which are private nonprofit corporations, and private lenders to provide long-term financing (up to \$5.5 million) to support investment in major assets, such as real estate and heavy equipment. The SBA guaranties the CDC's portion of these loans.

Microloans — The SBA provides loans to nonprofit intermediary lenders, which are community-based organizations with experience in lending and providing technical assistance, that in turn make these loans (up to \$50,000) to small businesses needing small-scale financing and technical assistance for startup or expansion.

Small Business Investment Companies — SBICs are privately-owned and managed investment funds that use their capital plus funds borrowed, with an SBA guaranty (up to \$175 million), to make equity and debt investments in qualifying small businesses.

Exporting

Export Loans — The SBA provides several types of export loans, including SBA Export Express loans (up to \$500,000), Export Working Capital loans (up to \$5 million), and International Trade loans (up to \$5 million) that provide small businesses with enhanced export financing options to develop foreign markets, fund their export transactions, and/or support business expansion due to exporting success.

U.S. Export Assistance Centers — USEACs are staffed by SBA, Department of Commerce, and Export-Import Bank professionals. Together, their mission is to help small- and medium-sized businesses compete in today's global marketplace by providing export marketing and finance assistance.

State Trade Expansion Program — STEP provides grants to states to assist small businesses with the information and tools they need to succeed in export related activities. These activities include participation in foreign trade missions, foreign market sales trips, international marketing campaigns, export trade shows, and training workshops.

Contracting and Innovation

Procurement Assistance to Small Businesses — Small business contracts represent the largest form of direct monetary support for small business in the Federal Government. Within this goal are four subgoals:

- **Small Disadvantaged Businesses** — This program provides assistance through the 8(a) Business Development program and set-aside contracting for businesses owned and controlled by socially- and economically-disadvantaged individuals. Over the course of nine years, a firm is assisted in gaining resources to compete for federal contracts and for contracts in the private sector.
- **HUBZone Small Businesses** — This program provides sole-source and set-aside contracting for firms located in designated economically disadvantaged geographical areas.
- **Service-Disabled Veteran-Owned Small Businesses** — This program allows federal agencies to set aside contracts for competition only among service-disabled veteran-owned small businesses.
- **Women-Owned Small Businesses** — This program allows federal agencies to set aside certain contracts for competition only among small businesses owned by women.

Surety Bond Guarantees — A surety bond is a type of contract that guarantees the performance of a contractor. If one party does not fulfill its end of the bargain, then the SBG program provides financial compensation to the other party. The SBA guaranties bonds issued by a surety company in order to encourage the surety company to provide bonds to small businesses, up to \$6.5 million for non-federal contracts and up to \$10 million for federal contracts.

Small Business Innovation Research — The SBIR program stimulates high-tech innovation by reserving a specific percentage of federal research and development funds for small businesses.

Small Business Technology Transfer — The STTR program reserves a specific percentage of federal research and development funding to award to small business and nonprofit research institution partners.

Advising, Mentoring, and Training

Small Business Development Centers — SBDCs deliver an array of services to small businesses and prospective business owners using an extensive network of 63 lead centers managing more than 900 service delivery points throughout the United States and the insular territories.

Women's Business Centers — WBCs provide advising and training through more than 110 nonprofit educational centers across the nation. Many WBCs provide multilingual services, and a number offer flexible hours allowing mothers with children to attend training classes.

Boots to Business — B2B is an entrepreneurial education and training program offered by the SBA as part of the Department of Defense Transition Assistance Program (TAP). The course provides an overview of entrepreneurship and applicable business ownership fundamentals. Active Duty Service members (including National Guard and Reserve), veterans of all eras, and spouses are eligible to participate.

Native American Outreach — The program supports American Indians, Alaska Natives, and Native Hawaiians seeking to create, develop, and expand small businesses. It engages in outreach, technical assistance, and education, formulates and administers training programs, and coordinates entrepreneurial development opportunities through co-sponsorship agreements with entities and other federal agencies.

Veterans Business Outreach Centers — The SBA's 22 VBOCs provide counseling and training services to veteran-owned and service-disabled veteran-owned small businesses and entrepreneurs, along with reserve component members who have an interest in either starting a new small business or expanding an established small business.

SCORE — SCORE is a nonprofit association comprising nearly 11,000 volunteer business mentors that serve entrepreneurs with in-person mentoring and local training workshops. As the largest volunteer business mentor network in the Federal Government, SCORE adapts its structure and services to meet the needs of small businesses.

Learning Center — The SBA Learning Center is an online portal that hosts a variety of self-paced online training courses, quick videos, web chats, and other helpful tools to assist small business owners to explore and learn about business ownership.

Disaster Assistance

Disaster Assistance — The SBA is the Federal Government's primary source of financing for the long-term repair and rebuilding of disaster-damaged private property for homeowners, renters, businesses of all sizes, and private nonprofit organizations. It is the only form of SBA assistance that is not limited to small businesses.

Paycheck Protection Program — The CARES Act established this loan of up to \$10 million designed to provide a direct incentive for small businesses to keep their workers on the payroll. The loan may be fully forgiven if the funds are used for payroll costs, interest on mortgages, rent, and utilities.

EIDL COVID Loans and Advance Grants — The CARES Act modified the existing EIDL program within the Disaster Assistance program and created the Advance grant. In response to the COVID-19 pandemic, small businesses owners, including agricultural cooperatives and nonprofit organizations, in all U.S. states, Washington, D.C., and territories can apply for Economic Injury Disaster Loans that must be repaid. EIDL Advance provided grants with EIDL loans. The amount of the grant was determined by the number of employees indicated on the EIDL application: \$1,000 per employee, up to a maximum of \$10,000.

SUMMARY OF COVID-19 FINANCIAL IMPACTS

The SBA's FY 2020 financial and performance position must be explained in the context of the COVID-19 pandemic and subsequent stimulus legislation to mitigate its impact. In March 2020, the substantial growth in COVID-19 cases created a national health emergency, which severely disrupted the national economy. To mitigate the economic impact from business closures as a result of lockdowns across the country, Congress passed and the President signed into law the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), which authorized new programs for the SBA. The CARES Act, and subsequent legislation, provided the SBA with nearly \$752 billion—the largest outlay of capital in the Agency's history. These programs have saved millions of jobs and helped small businesses avert bankruptcies. More information can be found in the financial statements in Note 17: COVID-19 Activity.

Through the Paycheck Protection Program (PPP), a newly established forgivable loan program, the SBA guaranteed 5.2 million PPP loans totaling \$525 billion through 5,460 lenders. The SBA processed 14 years' worth of loans in the first 14 days of the PPP program, and reached the smallest businesses with an average loan of \$101,000. The program expired on August 8, 2020 with nearly \$138 billion in PPP loan subsidy remaining.

The SBA also supported \$7.8 billion in debt relief to 7(a) loan, 504 loan, and Microloan borrowers by paying principal, interest, and fees on existing loans, which offset financial strain on small businesses. With \$17 billion made available to use by September 30, 2021, the SBA maintains nearly \$9.2 billion in funds to cover additional debt relief.

The SBA also received \$50 billion in loan subsidy for disaster assistance loans to remain until expended, which provided \$367.1 billion in loan authority. The Agency approved disaster declarations under new authority for all U.S. states and territories, which allowed small businesses to apply for Economic Injury Disaster Loans (EIDL) and newly established EIDL Advance grants. The SBA approved

more than 3.6 million EIDL COVID loans totaling \$194 billion, which represented more than all combined prior disaster assistance lending supported in the Agency's history. The SBA provided nearly 5.8 million EIDL Advance grants up to \$10,000 per applicant and reached its \$20 billion EIDL Advance grant cap on July 11, 2020.

The SBA also received \$192 million in two-year funds for the Small Business Development Centers (SBDCs) Program with \$0.4 million in funds remaining and \$48 billion for the Women's Business Centers (WBCs) Program with \$1.5 million in funds remaining. Both programs provide counseling and training assistance to small businesses. The SBA also received \$25 million in grants to develop an online platform that provides small businesses with access to a consolidation of COVID-19 related information and resources from multiple federal agencies with \$6.4 million in funds remaining. These platforms have helped tens of thousands of entrepreneurs access resources to help with their recovery.

The SBA received nearly \$3.4 billion in administrative funds in order to implement the program established via the CARES Act and corresponding legislation, to prevent, prepare for, and respond to COVID-19. The SBA has \$1.6 billion available to support administrative expenses through FY 2021.

The addition of CARES Act funds has substantially impacted the FY 2020 financial position of the Agency with an increase of total assets by \$880.8 billion compared to FY 2019 total assets of \$16.7 billion. Total liabilities in FY 2020 were \$718.1 billion compared to FY 2019 total liabilities of \$15.1 billion. As such, the SBA's net position and net cost of operations has substantially changed compared to FY 2019. Total budgetary resources increased from \$12.3 billion in FY 2019 to \$1.5 trillion in FY 2020. More information of the financial impacts can be found in the Analysis of Financial Results section.

ANALYSIS OF PERFORMANCE RESULTS

Analysis of Performance and Agency Priority Goals

The following section presents key FY 2020 performance data including for the three FY 2020-2021 Agency Priority Goals that are important to the success of the SBA's mission. The presentation is organized by strategic objective, which follows the SBA's *FY 2018-2022 Strategic Plan*. Detailed information on all SBA program performance data will be presented, including explanations of variances, in the *FY 2020 Annual Performance Report* to be published in February 2021. Where the SBA established goals in FY 2019, the SBA has displayed two years' worth of data. All other goals include trend data for six years.

STRATEGIC OBJECTIVE 1.1 Expand access to capital

Priority Goal: By September 30, 2021, increase the number of lender and small business connections by 8 percent from baseline through enhanced web-based technology platforms (FY 2019 baseline = 80,000).

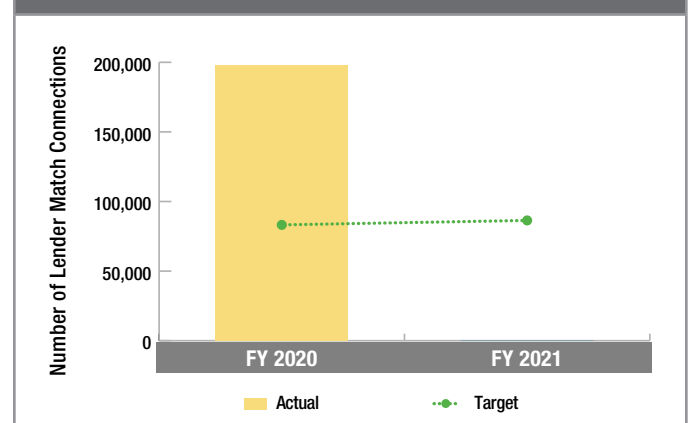
Performance Analysis: The SBA seeks to increase access to capital by matching small businesses and lenders through Lender Match—a free online referral tool that connects small business borrowers with participating SBA lenders. From its inception in 2015, and through FY 2020, Lender Match has connected more than 420,000 lenders and borrowers from nearly 6.5 million inquiries. As the number of brick-and-mortar lenders decline, and with fewer lenders located in geographically isolated areas, Lender Match provides a geographically neutral solution where small business borrowers compete for the best financing option, leveling the playing field for small businesses searching for financing that may not be locally available. Prospective borrowers apply online, and the information is forwarded to participating SBA lenders that operate within the small

business's local county. In FY 2020, the SBA surpassed its first-year goal by supporting 197,961 matches (see **Chart I**). The SBA has implemented system upgrades and tailored outreach through national associations and field offices to increase awareness of this tool.

Performance Goal: Support 796,500 jobs through capital assistance programs in FY 2020.

Performance Analysis:¹ The number of jobs supported—jobs created and retained—is an important outcome measure of the effectiveness of the SBA's programs. This measure tracks the number of jobs supported through the 7(a) loan, 504 loan, Microloan, and Small Business Investment Company (SBIC) programs. The number of jobs supported has decreased from the prior year due to improvements in the economy and the subsequent impacts of the COVID-19 pandemic. However, SBA capital programs supported more than 644,000 jobs in FY 2020 (see **Chart II**). The largest decrease can be attributed to the decline in the number of 7(a) loans. However, with lower interest rates, the 504 loans continued to grow. SBA lenders provided substantial support to help small businesses recover through the Paycheck Protection Program, which began in April 2020. More information on this program can be found in the section on the COVID-19 pandemic.

CHART I: Annual Number of Lender and Small Business Connections



¹ The information provided is derived solely from Agency records that are submitted by the Agency's participant lenders engaged in making SBA loans. This information is collected by the lenders from SBA loan applicants who provide it on a voluntary basis. It is then forwarded by the lenders to the SBA. Since the information is provided by the loan applicants on a voluntary basis, it is not necessarily inclusive of all SBA borrowers, nor can its accuracy be verified by the Agency. Accordingly, the SBA cannot make any representation as to the completeness or accuracy of the information provided. The SBA is working with the U.S. Bureau of the Census to better report job creation and retention data.

CHART II: 7(a), 504 loan, Microloan, and Small Business Investment Company Jobs Supported

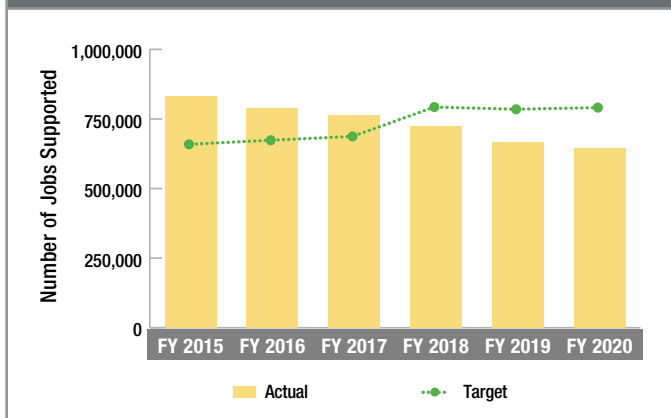
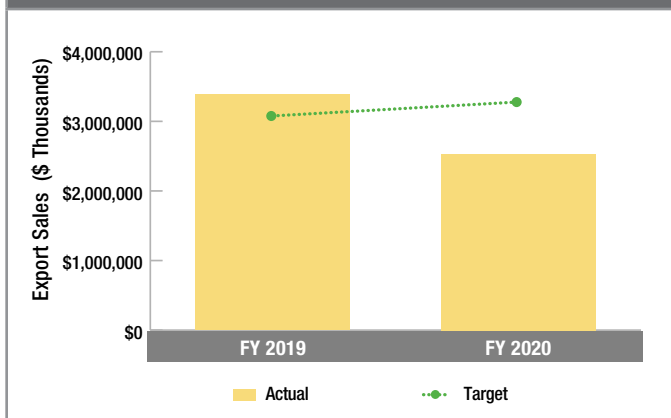


CHART III: Cumulative Value of Export Sales



STRATEGIC OBJECTIVE 1.2
Help small business exporters succeed in global markets

Priority Goal: By September 30, 2021, increase the value of SBA’s small business export sales to \$4.7 billion (FY 2018 baseline = \$3.1 billion).

Performance Analysis: Increasing access to export financing and export trade counseling and training enhances the ability of small business exporters to succeed in the global marketplace. Collectively, the SBA supported nearly \$3.2 billion in small business export sales with more than 300 core export loans for nearly \$600 million in FY 2020² (see **Chart III**). While not all data are available to assess annual progress, the SBA anticipates meeting this year’s goal in spite of the impacts of the COVID-19 pandemic on the

ability of small businesses to export, which may be reflected in performance results in FY 2021. The SBA trained and counseled nearly 3,000 small businesses on export finance, facilitated training for Small Business Development Center counselors, and continued to represent small business interests in trade discussions, including the recently enacted U.S.-Mexico-Canada Agreement. The Agency will monitor and identify ways to help existing small businesses expand and new small businesses enter international markets.

STRATEGIC OBJECTIVE 1.3
Ensure federal contract and innovation set-aside goals are met and/or exceeded

Priority Goal: By September 30, 2021, maximize the percent of federal contracts by exceeding the 23 percent awarded to small businesses.

Performance Analysis: By law, 23 percent of federal prime contracting dollars are set aside for small businesses, which includes 5 percent of prime and subcontracts to small disadvantaged businesses and women-owned small businesses and 3 percent of prime and subcontracts to HUBZone small businesses and service-disabled veteran-owned small businesses. For the seventh consecutive year, in FY 2019 (the latest year of data available due to the data certification process), the Federal Government surpassed its prime contracting goal by awarding small businesses more than \$129 billion or 25.58 percent in contracting dollars (see **Chart IV**). The Federal Government surpassed its goals for service-disabled veterans (FY 2019 result of 4.3 percent), women-owned small businesses (FY 2019 result of 5 percent) and small disadvantaged businesses (FY 2019 result of 10.1 percent). The Federal Government did not meet its goal for HUBZone small businesses (FY 2019 result of 2.2 percent) (see **Chart V**).

To help meet these goals, the SBA deployed a team of highly trained and skilled professional analysts, procurement representatives (PRCs), industrial specialists for size protests (ISS), and certificate of competency and forestry management specialists to actively engage staff across the Federal Government to promote small business contracting awards. The Federal Government continues to face challenges meeting the HUBZone goal; however, the program has implemented new regulations to spur interest in the program. The SBA will continue to monitor and promote these programs in order to ensure more participation of small businesses in this market.

2 The SBA will update these results with FY 2020 STEP data in the Annual Performance Report (APR) to be published in February 2021 as the program currently experiences a data lag of two quarters.

CHART IV: Percent of Federal Prime Contract Dollars Awarded to Small Businesses

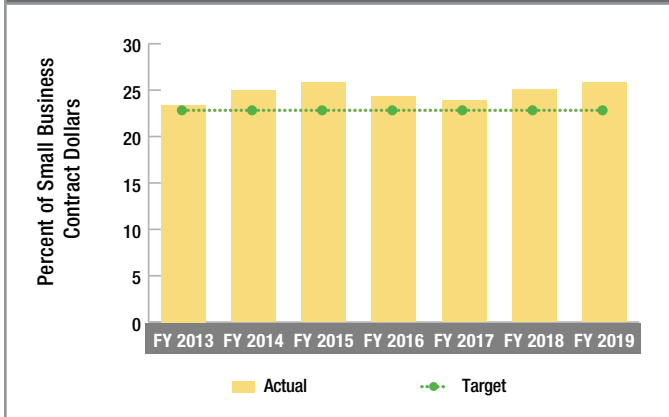


CHART V: Percent of Federal Prime Contract Dollars Awarded to Disadvantaged Small Business Goals

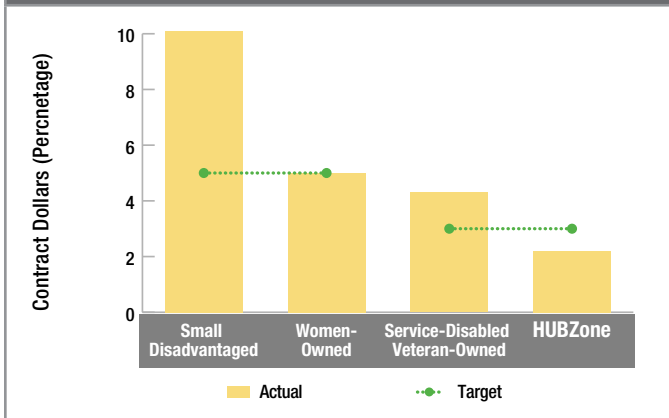
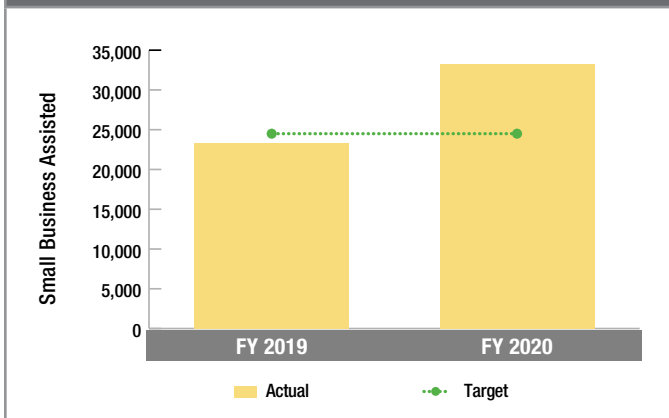


CHART VI: Small Businesses Assisted Through Business Development Programs



STRATEGIC OBJECTIVE 2.1

Develop small businesses through technical assistance

Performance Goal: Assist 24,500 small businesses through business development programs in FY 2020.

Performance Analysis: Through the 8(a) Business Development, HUBZone, 7(j) Technical Assistance, and All Small Mentor-Protégé programs, the Agency supported more than 25,000 small businesses. The SBA continued to implement operational and programmatic changes to the HUBZone Program resulting from two rule changes that took effect in 2020. The Agency continued to streamline the 8(a) application and annual review processes and evaluate its other business development programs. In addition, the SBA finalized its regulations to consolidate all federal small business mentor-protégé programs to streamline delivery to small businesses. In addition, the All Small Mentor-Protégé Program has helped establish more than 1,000 mentor-protégé agreements, which have helped more small businesses seeking to enter the federal contracting market. (see **Chart VI**).

STRATEGIC OBJECTIVE 2.2

Build healthy entrepreneurial ecosystems

Performance Goal: Assist 835,000 entrepreneurs through partnerships, virtual resources, and targeted outreach in FY 2020.

Performance Analysis: The SBA provided mentoring, business advice, and training assistance to nearly 750,000 entrepreneurs and small business owners in FY 2020 (data as of June 30, 2020). Resource partners may input data up to 45 days after the close of the fiscal year, and final data will be made available in the APR publication in February 2021. In FY 2020, the SBA implemented a new methodology for the entrepreneurial ecosystem performance goal to exclude duplicate entries. With this new methodology, historical data prior to FY 2019 are not available for comparison. The SBA continued to sustain and grow the Boots to Business (B2B) entrepreneurship training track in partnership with the U.S. Department of Defense’s (DoD) Transition Assistance Program (TAP), where more than 21,000 veterans, service members, and military spouses benefited from entrepreneurship services.

STRATEGIC OBJECTIVE 2.3
Create a small business friendly environment

Performance Goal: Conduct 50 outreach events through partnerships with federal agencies, trade associations, and resource partners to reduce regulatory burdens on small businesses in FY 2020.

Performance Analysis: The SBA's Office of the National Ombudsman worked with federal agencies and the small businesses they regulate to provide a confidential and impartial channel for small businesses to comment on enforcement activities, audits, on-site inspections, compliance assistance, or other types of issues. The SBA raised awareness of its products and services through direct outreach to small business owners and entrepreneurs, and established relationships with trade association leaders, resource partners, and other federal agencies. In FY 2020, the National Ombudsman completed 41 events, falling short of its target as it refocused outreach events to be more direct and concentrated in addition to the impacts of the COVID-19 pandemic on in-person events (see **Chart VII**). The SBA will continue to identify ways to reach more stakeholders as the Agency adapts to the changing environment because of the pandemic.

STRATEGIC OBJECTIVE 3.1
Deploy disaster assistance effectively and efficiently

Performance Goal: Achieve a 77 percent customer satisfaction rate for disaster loan approvals in FY 2020.

Performance Analysis: The SBA tracks customer satisfaction for its disaster assistance program through an annual survey that uses the American Customer Satisfaction Index methodology. The index summarizes key points in the loan process, including the application, final decision, and closing of the loan. In FY 2020, the SBA achieved a customer satisfaction rate of 78 percent—exceeding the target of 77 percent (see **Chart VIII**). The satisfaction rate is a result of several factors, including improvements to the application process and upgrades to the Disaster Loan Assistance Portal. In addition, the development of the www.DisasterAssistance.gov website made disaster assistance responsive, consistent, and easy for disaster survivors to find resources.

CHART VII: Number of Outreach Events Through Federal Agencies, Trade Associations, and Resource Partners

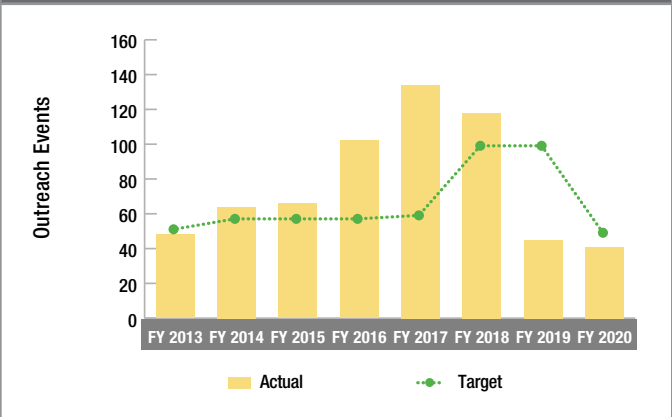
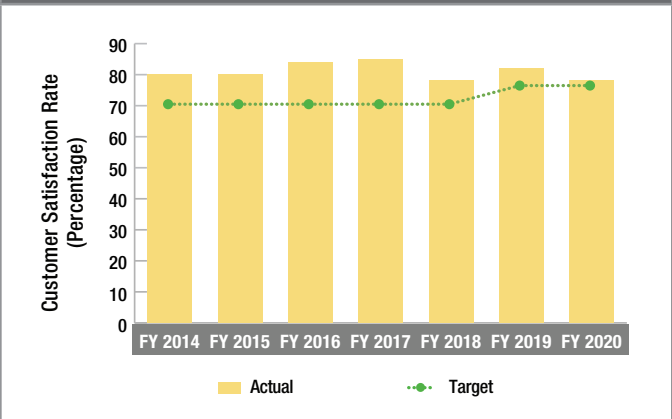


CHART VIII: Customer Satisfaction Rate for Disaster Loan Approvals



STRATEGIC OBJECTIVE 4.1
Ensure effective and efficient management of Agency resources

Performance Goal: Maintain the customer satisfaction rate of financial management services for the SBA's employees at 4.0 (5-point scale) in FY 2020.

Performance Analysis: The SBA exceeded its customer satisfaction goal for its financial management services to SBA employees by achieving an average score of 4.6 on a 5-point scale (see **Chart IX**). The SBA developed the customer satisfaction baseline in FY 2018. A score of four or higher indicates superior satisfaction with financial and performance management services. Through additional outreach and publication of the survey, the SBA reached more internal stakeholders to raise awareness. After presentations and other service delivery, respondents often receive a link to the

CHART IX: Customer Satisfaction Rate for Financial Management Services

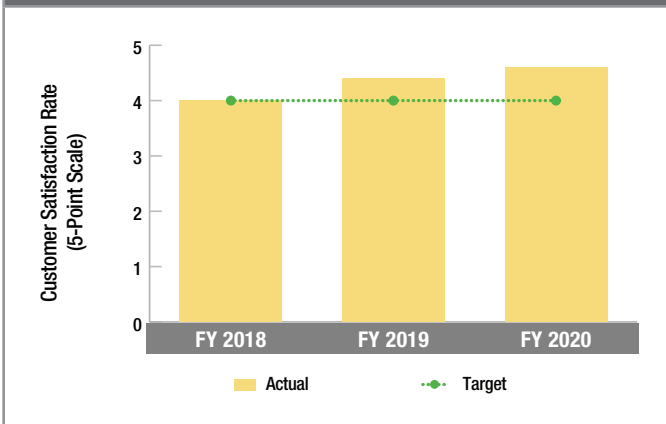


CHART X: Federal Employee Viewpoint Survey Job Satisfaction Rate

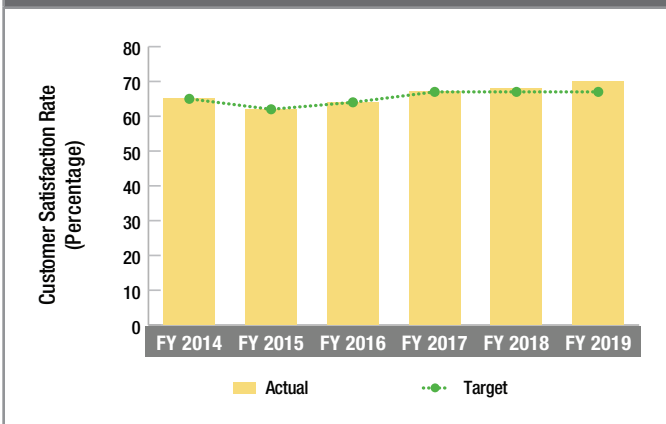
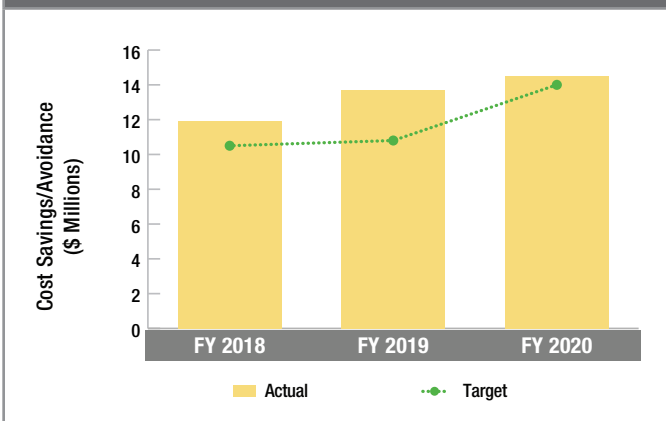


CHART XI: Cumulative Dollars of IT Cost Savings/Avoidance



survey to express their opinion. The SBA will continue to monitor its customer satisfaction score in order to improve service delivery to its program managers and staff who deliver services to the small business community.

STRATEGIC OBJECTIVE 4.2
Build a high-performing workforce

Performance Goal: Achieve a 68 percent SBA employee satisfaction score through the Federal Employee Viewpoint Survey in FY 2020.

Performance Analysis: The SBA achieved a high Federal Employee Survey (FEVS) employee satisfaction score in recent years with an increase to 70 percent in FY 2019 from 68 percent in FY 2018 (see **Chart X**). Data are not yet available for FY 2020 as the FEVS survey was delayed from June to October, and results will be updated when available. In FY 2019, the SBA's response rate of 69.2 percent was especially positive. Through core training and professional development activities and enhanced collaboration, more employees felt satisfied, which is reflected in the data. Furthermore, higher satisfaction scores increase employee retention, which in turn reduces hiring and training costs. The SBA anticipates similar scores in FY 2020 given the continued success of key programs and activities for its employees.

STRATEGIC OBJECTIVE 4.3
Implement enterprise-wide information system modernization and cost-effective technology

Performance Goal: Achieve \$14 million in IT cost savings/avoidance through the streamlining of contracting, category management, and cloud computing in FY 2020.

Performance Analysis: In FY 2020, the SBA made significant progress in technology modernization by adopting cloud-based solutions and consolidating duplicative hardware, software, and services. In addition, through innovation and testing pilots and prototypes, the SBA has achieved cost-savings by creating greater opportunities to leverage new technology. In FY 2020, such cost savings and avoidance totaled \$14.5 million, exceeding the target by \$500,000 (see **Chart XI**). The SBA will continue to monitor IT projects and identify ways to achieve further cost savings on behalf of the taxpayer.

Evidence and Evaluation

The SBA continues to expand the availability and use of evidence and evaluation to understand and make decisions about SBA programs and operations. To support implementation of the Foundations for Evidence-based Policymaking Act (Evidence Act), the SBA appointed a Chief Data Officer, Evaluation Officer, and Statistical Official. The Agency also established a data governance board and began to identify ways to assess and increase staff capacity in this field.

In FY 2020, the SBA oversaw program evaluations for the State Trade Expansion Program (STEP), Small Business Investment Company (SBIC), Field Operations customer experience, Acquisition Management, All Small Mentor-Protégé program (ASMPP), and Surety Bond Guarantees. Additionally, the SBA entered into an agreement with the U.S. Bureau of the Census to assess the impact of various SBA programs using administrative data. SBA program managers will be able to use the results of these evaluations to inform management decisions, identify areas where further evidence is needed, and improve outcomes for small businesses. The SBA's leadership uses evidence in its quarterly deep dives (performance reviews) and has woven evidence into the development of its Strategic Plan, Annual Performance Plan, and Annual Performance Report.

The Agency updated its *FY 2018-FY 2022 Enterprise Learning Agenda* (ELA) which refined key research and evaluation questions for each strategic goal and provided updates on the Agency's evidence building activities. The ELA, developed in partnership with each program office, identifies areas where evaluation could provide insights about program effectiveness, progress toward outcomes, or test pilot initiatives. To address questions in the ELA, the SBA initiated new program evaluations for Microloans, Human Capital Planning, Disaster Loan Mitigation, Women-Owned Small Business (WOSB) Certification, and Small Business Procurement. The results of these evaluations were published in the SBA's first Annual Evaluation Plan.

The SBA continued to increase staff capacity and knowledge of program evaluation through its Evidence and Evaluation Community of Practice. The SBA plans to initiate new program evaluations yearly to continue building a suite of evidence that will better inform decisions. The SBA will publish evaluation results on its website to support transparency and incorporate findings into its performance management framework.

Verification and Validation of Performance Data

Managing for results and integrating performance, financial, and budgetary information requires valid, reliable, and high-quality performance measures and data. Improving data quality continues to be a priority for the SBA. The SBA's performance analysts work with program office leads across the Agency to acquire high-quality data. In addition to using output data internally from its systems, the SBA relies on data from resource partners, other federal agencies, and other government entities to assess its accomplishments and effectiveness. The SBA vigorously pursues the following strategies to ensure data quality:

- *Ensuring the validity of performance measures and data.* The SBA conducts an annual performance measure review to assess the validity of its measures and underlying data. The SBA's performance analysts meet with each office for in-depth discussions about proposed externally reported measures. The meetings help determine whether the proposed measures and underlying data are useful for demonstrating a program office's success, which is defined by the goals and objectives identified in the Agency's FY 2018-2022 Strategic Plan.
- *Fostering organizational commitment and capacity for data quality.* The SBA issues a monthly executive performance dashboard to apprise senior management on progress. The Agency also holds quarterly performance review meetings with the Deputy Administrator, Chief of Staff, Performance Improvement Officer, and program offices. At these meetings, the Agency's leadership reinforces its commitment to the performance metrics and works directly with the program offices to identify best practices and mitigate challenges. Annually, each Associate Administrator must certify their program office's performance data before it is externally reported and published online.
- *Assessing the quality of existing data.* The SBA's performance analysts work with program office staff to reconcile data by creating independent performance reports and analyses and comparing the independently generated data with the data reported by the program offices. These activities verify the data and the underlying processes used for reporting.
- *Responding to data limitations.* The SBA's performance analysts work with program offices to identify data limitations and specify the necessary steps to improve data. In addition, some program offices rely on data

provided by third-party resource partners, who are responsible for collecting, storing, and reporting data to the SBA. The program offices have internal processes for working closely with their resource partners to ensure that data are correctly reported.

Operational Portfolio Analysis

The Operational Portfolio Analysis provides information on the SBA's credit programs and does not reference the financial statements. The SBA is the taxpayers' custodian of small business loan guaranties and manages a direct loans portfolio of more than \$835.9 billion.³ During FY 2020, the portfolio grew by \$692.5 billion, or 483 percent. The largest increase came through the introduction of the Paycheck Protection Program (PPP), a new loan program authorized through the Coronavirus Aid, Relief and Economic Security Act (CARES Act) in response to the COVID-19 pandemic. By program, PPP added \$513.2 billion to the portfolio, the SBA's 7(a) loan portfolio expanded by \$2.2 billion, the 504 loan portfolio increased by \$1.4 billion, and the SBIC portfolio decreased slightly by \$75.6 million. The Agency's disaster loan portfolio increased by \$175.8 billion, chiefly attributable to growth in the Economic Injury Disaster Loans (EIDL) program, while all other portfolios increased slightly by \$7.6 million. (see **Chart XII**).

New Guaranteed Loans

The quarterly average loan volume decreased slightly in FY 2020 with an average of \$7.1 billion. **Chart XIII** demonstrates the trend in loan approvals since FY 2016.

At least three main factors contributed to the loan guaranty portfolio's recent changes:

Continuous Growth in the Economy — Real Gross Domestic Product in the United States contracted in the first two quarters of 2020 due to the COVID-19 pandemic by a combined 36.4 percent.⁴ In reaction to this unprecedented economic crisis, Congress passed the CARES Act which provided significant funding for both the PPP and EIDL loan programs. These two programs account for most of the SBA's portfolio growth in FY 2020.

CHART XII: Makeup of SBA's Outstanding Loan Portfolio

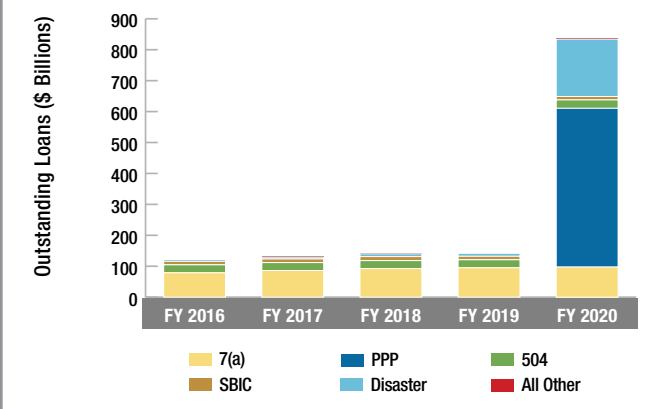
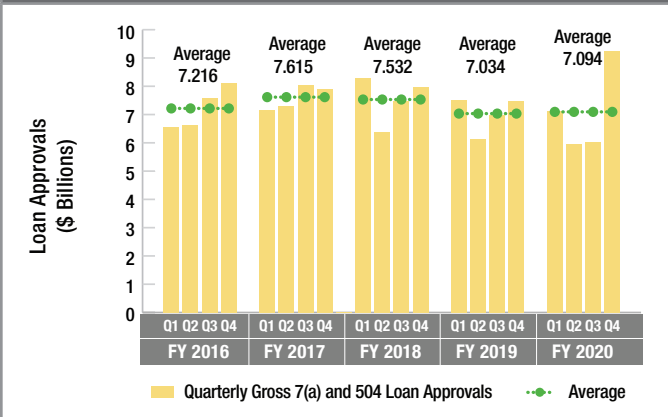


CHART XIII: Quarterly Gross 7(a) and 504 Loan Approvals



Changes in Market Volatility — Inflation continues to remain low (on average 2.2 percent in 2019),⁵ which keeps the cost of consumer goods and services affordable. In addition, the dollar continued to maintain its strength in international exchange markets through the end of 2019,⁶ which also supports the stability of U.S. prices. While the unemployment rate has surged to a peak of 14.7 in April 2020 before decreasing to 7.9 by the end of September 2020, the CARES Act programs helped to stabilize markets in FY 2020.⁷

3 The total portfolio consists of guaranteed business loans outstanding, guaranteed debentures, direct business loans, and direct disaster loans. The data include all performing loans and defaulted loans that have not been charged-off.

4 U.S. Department of Commerce, Bureau of Economic Analysis: www.bea.gov/newsreleases/glance.htm.

5 U.S. Department of Labor, Bureau of Labor Statistics: www.bls.gov/cpi/home.htm.

6 Federal Deposit Insurance Corporation: www.macrotrends.net/1329/us-dollar-index-historical-chart.

7 U.S. Department of Labor, Bureau of Labor Statistics: data.bls.gov/timeseries/LNS14000000.

Market for Small Business Lending — According to data from the Federal Deposit Insurance Corporation, the total market for business loans increased between 2014–2019 by 30 percent (\$836 billion). However, 93 percent (\$781 billion) of this increase is accounted for by loans to nonsmall businesses,⁸ whereas total small business loans increased by nearly \$55 billion. This means the ratio of small business loans compared with the total bank market decreased (see **Chart XIV**). Furthermore, there has been a trend in the banking industry toward consolidation, which is reflected in the reduction of commercial banks between 2014–2019 by 19 percent.⁹ This makes the SBA's guaranty products even more critical for growing small businesses that may be denied credit in the private loan market.

New Direct Loans

In FY 2020, the SBA's annual lending for the Disaster Assistance loan program grew by an unprecedented \$195.7 billion. FY 2020 disaster loan activity increased by 8,736 percent compared with the FY 2019 total of \$2.2 billion. Disaster lending in FY 2020 has exceeded all prior SBA disaster lending combined as a result of the COVID-19 pandemic. **Chart XV** illustrates the relative size of disaster loans in FY 2020 by month, compared with the prior two fiscal years.

Aside from the EIDL loans of FY 2020, most of the Disaster Assistance loan portfolio outstanding balance comprises lending from FY 2006 (hurricanes Katrina, Rita, and Wilma), FY 2013 (hurricane Sandy), and FY 2018 (hurricanes Harvey, Irma, and Maria). The SBA will continue to make disaster loans an important recovery tool for businesses, homeowners, and renters that survive a disaster.

CHART XIV: Outstanding Commercial Loans to Small vs. Nonsmall Businesses

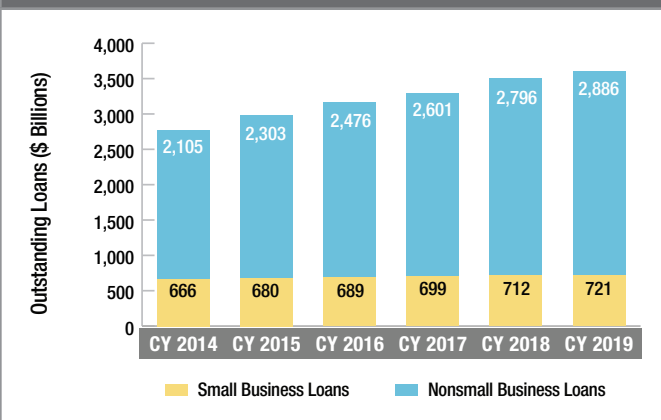
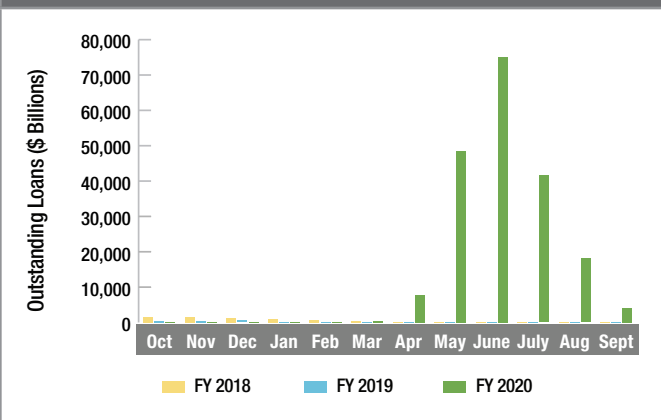


CHART XV: Monthly Gross Disaster Assistance Loan Approvals



⁸ Nonsmall businesses are firms that have more than 500 employees.

⁹ <https://www.fdic.gov/bank/statistical/stats/>

Portfolio Performance — Delinquencies

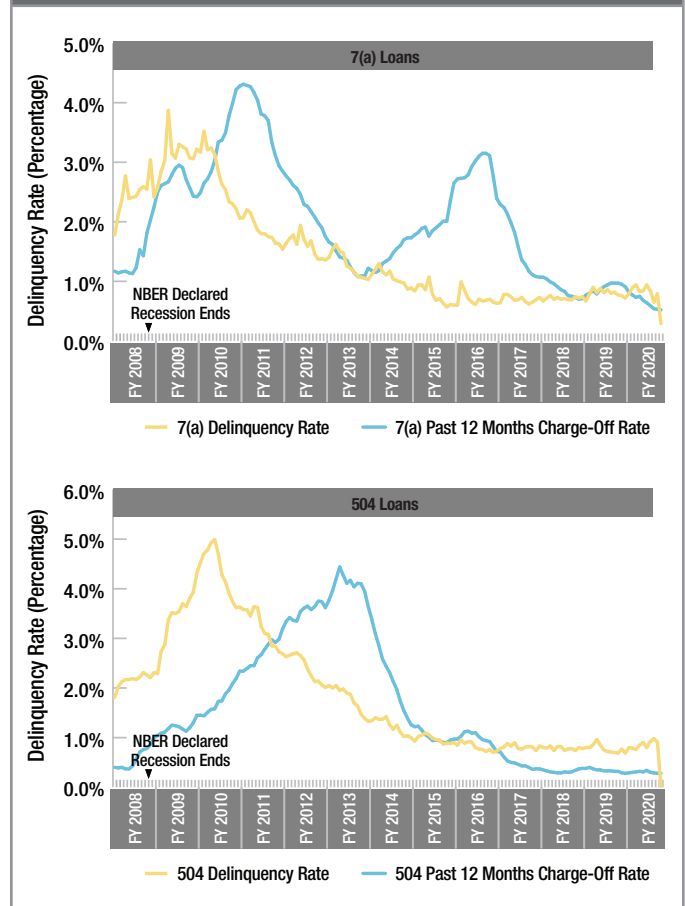
Delinquency rates (i.e., borrowers who are late on their payments) are a leading indicator of the Agency's charge-off rate (i.e., the rate of dollars spent to cover loans that defaulted). Thus, delinquency rates are a general indicator of the Agency's and taxpayers' future liabilities for these programs. A declining delinquency rate (see **Chart XVI**) is a positive indicator for the financial performance of any loan portfolio.

Strong economic growth, strong profit performance, and tighter lending standards by financial institutions during the past several years have reduced delinquency rates for all business loans, which have been steadily declining since reaching cyclical peaks in the latter part of 2009. Delinquency rates for the Agency's major loan programs followed this national downward trend. Delinquency rates for the 7(a) loan program declined from the 3.8 percent peak in January 2009 to 0.3 percent in July 2020. Delinquency rates for the 504 loan program likewise declined from the 5 percent peak in February 2010 to 0.02 percent in July 2020. The CARES Act provided debt relief to current borrowers of 7(a) and 504 loans, which means that the SBA has paid the principal and interest on existing loans. This action has led to a delinquency rate of near 0 percent in the last six months of FY 2020.

Portfolio Performance — Charge-Offs

The 12-month charge-off rate for the 7(a) loan program sharply declined during the FY 2010-2013 period, falling from 4.3 percent during the fourth quarter of 2010 to 1.2 percent in the third quarter of 2013. However, the rate increased thereafter, until decreasing in July 2020 to 0.5 percent (see **Chart XVI**). The 7(a) loans not sold on the secondary market become a charge-off only after all efforts to recover a delinquent balance have been exhausted, such as liquidating the underlying collateral. The latent rise of the 7(a) charge-off rate in 2013 is attributable to recession-era loans that were charged-off after efforts to recover delinquent balances had been exhausted. Now that this effort to charge-off the recession-era loans is complete, the charge-off rate mirrors the delinquency rate in FY 2020.

CHART XVI: Delinquency and Charge-Off Rates for the 7(a) and 504 Loan Programs by Fiscal Year



The 12-month charge-off rate for the 504 loan program continuously increased from FY 2008 to FY 2013, peaking at 4.4 percent in January 2013, but dropping to 0.3 percent in July 2020. This trend is not surprising, since the 504 loan program is an economic development program with a commercial real estate focus. As such, recovery rates of defaulted 504 loans are, with some noticeable time lag, significantly impacted by the pricing trend in this sector.

Quarterly information on the status of the SBA's loan portfolio, including outstanding balances and approvals by loan program and purchase rates, is available on the SBA's website at www.sba.gov/performance.

FORWARD LOOKING ANALYSIS

The SBA maintains and strengthens the nation's economy by helping small businesses start, grow, expand, and recover. The Agency will ensure that it can adapt to a changing environment and deliver programs that meet the needs of America's entrepreneurs. The following areas serve as both challenges and opportunities that will factor into the SBA's strategies for delivering on its outcomes and using taxpayer resources efficiently. The Agency will continue to review these factors as it implements its programs to ensure optimal performance.

Global Pandemic and Business Adaptation

Small businesses have made many rapid changes in production, delivery mode, and operations in response to the COVID-19 pandemic. Partnerships among small businesses have promoted the sharing and bundling of goods and services for sale while delivery service apps have become more common. Some adaptations could lead to long-term changes, such as the maintenance of curbside and delivery services, increased rental of equipment, and online streaming. U.S. cities and states are providing funding for innovations, ensuring access to personal protecting equipment, and exploring mortgage or eviction moratoriums. The pandemic poses challenges to small businesses in underserved markets, and the SBA will continue to seek ways to support this changing landscape.

Technology and Automation

Technology has evolved so that entrepreneurs have greater access to markets and more capabilities to start and expand their businesses. However, not all entrepreneurs have access to adequate markets, and some face challenges connecting to resources. The SBA will continue adapting and developing new platforms to reach entrepreneurs in emerging markets. Virtual training platforms and online tools will allow the SBA to reach more customers. Business partnerships with viable technology companies are the new norm, and small businesses are adjusting to new business models. Technological advancements will continue to shape how small businesses operate and how the Agency responds to the ever-changing environment.

Changing Business Markets

In March 2020, the global and U.S. economies experienced one of the worst economic shocks since the 1930s. Small businesses and American households struggled to adapt to the unprecedented restrictions caused by the COVID-19 pandemic. As the economy strives to recover, small businesses must be nimble to these changes and learn to adapt to new markets. With an ever-expanding global economy, businesses will need to look toward new markets and determine how to reach new consumers. Only 1 percent of small businesses export in the global market, which poses an excellent opportunity for expansion. In the domestic market, interest rates will shape access to capital. The Agency will continue to depend on lenders, including banks, credit unions, and community development financial institutions.

Employment and Labor Market Transformation

The U.S. workforce continues to transform as industries modernize with new technology and market demands. While unemployment continues to fluctuate, a large percentage of rural America does not have the same access to labor markets as urban areas. Small businesses must recruit and retain top talent and often face challenges finding the right candidates for the job. The SBA will continue to expand its programs and services in rural areas through enhanced partnerships with the U.S. Department of Agriculture.

Increasing Natural Disasters

A natural disaster can destroy lives, businesses, and communities. This year's series of natural disasters spans from the active Atlantic hurricane season—the second most active season in recorded history—to the numerous wildfires that crippled communities in the western states. While the SBA has programs that can respond to hurricanes, tornados, forest fires, and floods, the growing threat and number of these occurrences remains a serious concern. Disaster preparedness is a key component of the SBA's Disaster Assistance program and has helped many small businesses prepare for the unexpected. The SBA continues to modernize and respond to these threats through updating technology and streamlining its ability to onboard staff quickly.

A Changing Federal Workforce

As a growing percentage of Agency employees become retirement eligible, the SBA continues to search for ways to recruit and retain the best talent. Competition with private industry and other agencies is strong and retention is challenging. The Agency has identified mission critical occupations and developed workforce plans to address gaps. At the same time, the Agency seeks to ensure that its workforce is representative of the public it serves and that it can effectively communicate with, and meet the needs of, entrepreneurs and small business owners. The SBA has developed and aligned training for its field staff to ensure that they have the tools to help small businesses succeed. By providing SBA employees with the tools and resources they need, the Agency will be able to better deliver resources to America's small businesses.

ANALYSIS AND HIGHLIGHTS OF FINANCIAL STATEMENTS AND RESULTS

Highlights of Financial Results *(as of September 30)*

(Dollars in Thousands)

At End of Fiscal Year

CONDENSED BALANCE SHEET DATA

	2020	2019	\$ Change
Fund Balance with Treasury	\$ 714,400,127	\$ 7,036,675	\$ 707,363,452
Credit Program Receivables and Related Foreclosed Property, Net	182,936,949	9,493,680	173,443,269
All Other Assets	196,914	188,297	8,617
Total Assets	\$ 897,533,990	\$ 16,718,652	\$ 880,815,338
Debt	176,173,660	11,810,241	164,363,419
Downward Reestimate Payable to Treasury	28,541,393	1,028,472	27,512,921
Liability for Loan Guaranties	512,712,498	2,000,420	510,712,078
All Other Liabilities	628,467	245,911	382,556
Total Liabilities	718,056,018	15,085,044	702,970,974
Unexpended Appropriations	183,460,572	1,779,472	181,681,100
Cumulative Results of Operations	(3,982,600)	(145,864)	(3,836,736)
Total Net Position	179,477,972	1,633,608	177,844,364
Total Liabilities and Net Position	\$ 897,533,990	\$ 16,718,652	\$ 880,815,338

For the Fiscal Year

STATEMENT OF NET COST BY STRATEGIC GOAL

	2020	2019	\$ Change
Goal 1: Support Small Business Revenue and Job Growth			
Loan Subsidy Cost Including Reestimates	\$ 526,808,679	\$ (981,405)	\$ 527,790,084
All Other Costs Net of Revenue	(1,543)	209,960	(211,503)
Goal 2: Build Healthy Entrepreneurial Ecosystems and Create Business Friendly Environments	27,523	310,490	(282,967)
Goal 3: Restore Small Businesses and Communities after Disasters			
Loan Subsidy Cost Including Reestimates	5,398,238	94,998	5,303,240
All Other Costs Net of Revenue	21,984,153	329,768	21,654,385
Goal 4: Strengthen SBA's Ability to Serve Small Businesses	11,976	147,190	(135,214)
Costs Not Assigned	2,521	25,525	(23,004)
Net Cost of Operations	\$ 554,231,547	\$ 136,526	\$ 554,095,021

CONDENSED STATEMENT OF NET POSITION

Beginning Unexpended Appropriations	\$ 1,779,472	\$ 2,341,412	\$ (561,940)
Total Budgetary Financing Sources	181,681,100	(561,940)	182,243,040
Ending Unexpended Appropriations	\$ 183,460,572	\$ 1,779,472	\$ 181,681,100
Beginning Cumulative Results of Operations	\$ (145,864)	\$ (268,255)	\$ 122,391
Total Financing Sources	550,394,811	258,917	550,135,894
Less: Net Cost of Operations	554,231,547	136,526	554,095,021
Ending Cumulative Results of Operations	\$ (3,982,600)	\$ (145,864)	\$ (3,836,736)
Ending Net Position	\$ 179,477,972	\$ 1,633,608	\$ 177,844,364

CONDENSED STATEMENT OF BUDGETARY RESOURCES

Unobligated Balance Brought Forward	\$ 5,892,067	\$ 6,667,971	\$ (775,903)
Other Budgetary Resources, Net	(591,758)	(341,751)	(250,008)
Appropriations (discretionary and mandatory)	762,173,214	879,605	761,293,609
Borrowing Authority (discretionary and mandatory)	167,267,294	2,231,792	165,035,502
Spending Authority from Offsetting Collections	583,927,087	2,904,981	581,022,106
Total Budgetary Resources	\$ 1,518,667,904	\$ 12,342,598	\$ 1,506,325,306
Obligations Incurred, Budgetary	\$ 590,232,922	\$ 1,655,874	\$ 588,577,048
Obligations Incurred, Nonbudgetary	228,773,726	4,794,658	223,979,068
Unobligated Balances, Available and Unavailable	699,661,256	5,892,066	693,769,190
Total Status of Budgetary Resources	\$ 1,518,667,904	\$ 12,342,598	\$ 1,506,325,306

Analysis of Financial Results

The principal financial statements have been prepared to report the financial position and results of operations of the entity, pursuant to the requirements of 31 U.S.C. 3515(b). While the statements have been prepared from the records of the entity in accordance with GAAP for federal entities, and the formats prescribed by the OMB, the statements are in addition to the financial reports used to monitor and control budgetary resources, which are prepared from the same records. The statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity.

This Analysis of Financial Results references numbers in the Highlights of Financial Results that were derived from the Financial Statements and Notes in this report. As a result, the definitions of the loan and guaranty balances used in this Analysis of Financial Results may differ somewhat from the balances in the Operational Portfolio Analysis section. For example, for the 7(a) loan program, the total amount of guaranteed loans is used in the Portfolio Analysis, but only SBA's guaranteed portion is used in the Analysis of Financial Results because it ties to balances in the financial statements.

In March 2020, the Coronavirus Aid, Relief, and Economic Security Act (the CARES Act P.L. 116-136) was enacted to provide emergency and immediate national economic relief and assistance across the American economy, including to small businesses, workers, families, and the healthcare system, to alleviate the severe economic hardships and public health threat created by the 2019 Novel Coronavirus pandemic. The Paycheck Protection Program (PPP) was established by the CARES Act and is a loan guaranty program designed to provide a direct incentive for small businesses to retain employees by providing loan forgiveness for amounts used for eligible expenses for payroll and benefit costs, interest on mortgages, rent, and utilities. The Debt Relief program was also established by the CARES Act. As part of the coronavirus debt relief efforts, the SBA pays six months of principal, interest, and any associated fees that borrowers owe for all current 7(a) loans, 504 loans, and Microloans in regular servicing status. Lastly, in response to the pandemic, small business owners were eligible to apply for an Economic Injury Disaster Loan (EIDL) of which up to \$10,000 could be advanced as a grant to provide economic relief to businesses experiencing a temporary loss of revenue. This loan advance will not have to be repaid. The CARES Act is discussed further in Note 17 of the financial statements.

Background

The SBA is a major federal credit reform agency of the U.S. Government. Only \$4.2 billion of the SBA's \$1.5 trillion budgetary resources in FY 2020 were for salaries and expenses, with the rest supporting the SBA's credit programs. When apportioned by the OMB, budgetary resources are available to enter into new obligations and to liquidate them. Budgetary resources are made up of new budget authority and unobligated balances of budget authority provided in previous years. The loan financing funds record all the cash flow activity resulting from post-1991 direct loans and loan guaranties and are not budgetary costs. The financing accounts are reported separately in the *Budget of the United States Government* and are excluded from the budget surplus/deficit totals.

The Federal Credit Reform Act (FCRA) governs the SBA's accounting for direct loans and loan guaranties made in FY 1992 and thereafter. Under FCRA, direct loans outstanding are reported net of an allowance using the present value of forecasted cash flows in subsidy models that are OMB-approved.

A Liability for Loan Guaranties is also reported using subsidy models with forecasted cash flows from user fees and defaulted guaranteed loans. The direct loan allowance and loan guaranty liability for each loan program cohort is adjusted annually under FCRA through the subsidy model reestimate process. The SBA's FCRA accounting is discussed further in this section and in Notes 1 and 6.A of the financial statements.

The credit subsidy cost is the net present value of expected cash inflows and outflows over the life of a guaranteed loan or the difference between the net present value of expected cash flows and the face value of a direct loan. The SBA receives budget authority annually to fund its credit programs. When loans are disbursed, the SBA records subsidy expense for non-zero subsidy loan programs.

In accordance with the FCRA, the subsidy costs are reestimated annually. Reestimates update original loan program cost estimates to reflect actual experience and changes in forecasts of future cash flows for each annual cohort of loans. An upward reestimate occurs when the present value of expected cash outflows exceeds the present value of expected cash inflows. A downward reestimate occurs when the present value of expected cash inflows exceeds the present value of expected cash outflows.

Increased reestimated costs are funded in the following year by permanent indefinite budget authority, while decreased costs are returned by the SBA to a Treasury general fund.

The portion of the outstanding principal guaranteed by the SBA was \$621.7 billion as of September 30, 2020, an increase of \$515.9 billion from the \$105.8 billion guaranteed as of September 30, 2019 (see Note 6.C in the financial statements). As shown in **Chart XVII**, new guaranties disbursed by SBA participating banks during FY 2020 were \$538.0 billion, a \$516.8 billion increase compared to the FY 2019 figure of \$21.2 billion. This net \$516.8 billion increase resulted from a \$517.0 billion increase in PPP loans as a result of the CARES Act combined with a \$1.7 billion increase in 504 loans offset by a decrease of \$1.9 billion in 7(a) loans. This net increase in FY 2020 guaranty disbursements contributed to the \$515.9 billion increase in outstanding guaranteed principal.

Credit program receivables for the SBA comprise business and disaster direct loans and defaulted business loans purchased per the terms of the SBA's loan guaranty programs, which are offset by an allowance for the subsidy. The allowance for the subsidy cost of the gross loans receivable is recorded as a contra asset, and the net asset is reported on the balance sheet. The subsidy allowance is determined by modeling the projected future cash inflows and outflows of SBA credit programs using discounted cash flow methodology. The subsidy allowance for each loan program cohort is reestimated annually. Increases are funded by Treasury, while decreases are returned to Treasury by the Agency. Loan losses, the costs of loan servicing, and loan interest rates are factors that affect the subsidy allowance.

SBA credit program receivables were valued at \$182.9 billion in FY 2020, an increase of \$173.4 billion from FY 2019. The change in the credit program receivables resulted from an increase of \$173.1 billion in direct disaster loans as a direct result CARES Act funded loans. The amount of defaulted guaranteed loans increased by \$0.3 billion as collections and charge-offs fell behind new guaranty purchases. As reflected in **Chart XVIII**, guaranteed loan purchases decreased \$0.2 billion in FY 2020 to \$1.2 billion.

CHART XVII: Guaranteed Loans Disbursed

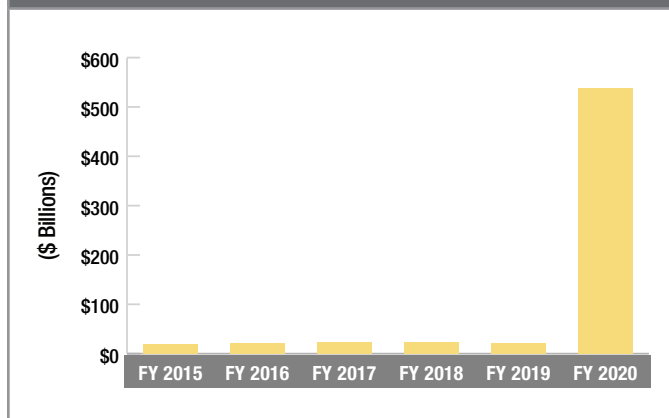
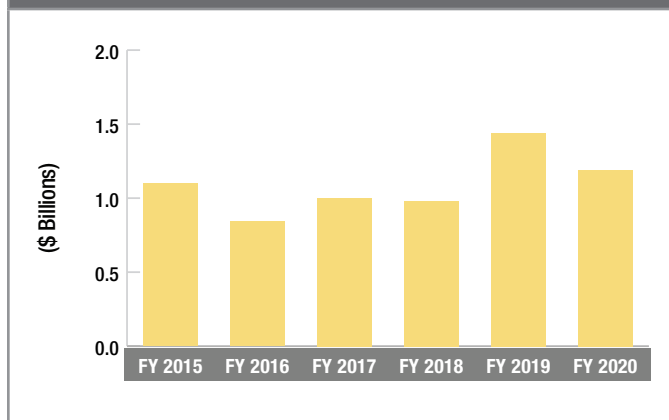


CHART XVIII: Purchases of Guaranteed Loans



Financial Position

Assets

The SBA had total assets of \$897.5 billion at the end of FY 2020, up \$880.8 billion from FY 2019. Total assets increased due to a \$707.4 billion increase in Fund Balance with Treasury combined with a \$173.4 billion increase in Credit Program Receivables and Related Foreclosed Property. The increase in Fund Balance with Treasury is a result of CARES Act funding received in FY 2020 and is primarily associated with PPP subsidies, unused disaster borrowings, and appropriations for administrative funding. The increase in Credit Program Receivables and Related Foreclosed Property was primarily due to the net increase in direct disaster loan disbursements as a result of CARES Act funded loans.

Liabilities

The SBA had total liabilities of \$718.1 billion at the end of FY 2020, up \$703.0 billion from FY 2019. Liabilities consist primarily of the Debt with Treasury, Liability for Loan Guaranties, and Downward Reestimate Payable to Treasury.

Debt with Treasury increased \$164.4 billion in FY 2020 due to net borrowing activity needed to cover disaster loan programs as a direct result of the CARES Act. Note 9 in the financial statements provides additional detail on SBA's Debt with Treasury.

The Liability for Loan Guaranties is the estimate of the net present value of the future amount the SBA will pay, net of fee collections, to liquidate expected purchases of guaranteed loans under its guaranteed loan programs. The Liability for Loan Guaranties for each loan program cohort is reestimated annually. Increases are funded by Treasury while the Agency returns the decreases to Treasury. The Liability for Loan Guaranties increased \$510.7 billion primarily due to an increase in current year subsidy, loan modifications, interest accumulation factor offset by an increase in miscellaneous recoveries and costs as well as subsidy reestimates. These large fluxes are a direct result of the CARES Act, PPP, and Debt Relief programs. Note 6.E in the financial statements provides additional detail.

The Downward Reestimate Payable to Treasury increased \$27.5 billion in FY 2020. The increase was a direct result of the Disaster Assistance program, which had a net downward reestimate of \$18.9 billion. This was the result of updates to the discount rate, which resulted in reduced borrowing costs for FY 2020 lending. In addition, there was a net downward reestimate of \$7.2 billion for PPP as a result of updates to the discount rate for the 2020 cohort. Note 6.I in the financial statements provides additional detail.

Net Position

Cumulative Results of Operations is the accumulative difference between expenditures and financing sources since the inception of the Agency. This negative balance increased \$3.8 billion primarily because unfunded upward subsidy reestimates at year-end for the 7(a) loan, 504 loan and disaster loan programs were higher for FY 2020 compared with FY 2019. Upward subsidy reestimates determined at year-end are funded in the following year when they are received. **Unexpended Appropriations** increased \$181.7 billion this year primarily because the amount of appropriations received was greater than the appropriations

used in FY 2020 for business, disaster, and administrative activities. This affected Budgetary Financing Sources and the Ending Net Position.

Net Costs of Operations

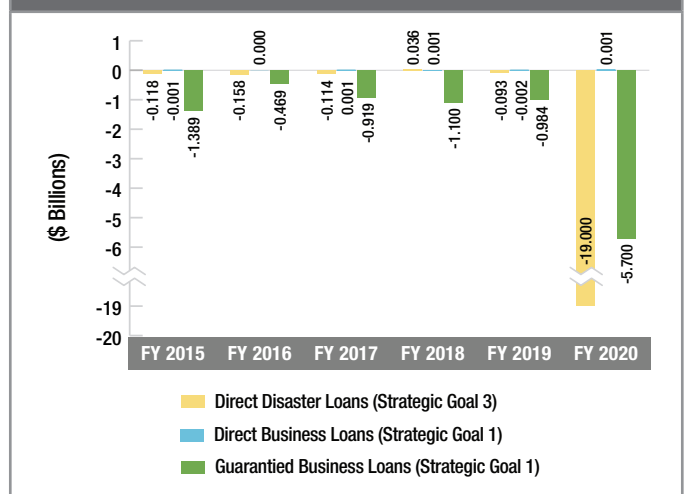
The Net Costs of Operations primarily reflects the costs of SBA credit programs subsidy expenses during the year for new loans and subsidy reestimates at year-end.

The primary driver of the \$554.1 billion increase in net cost is largely attributable to Goal 1, which had an overall \$527.6 billion increase. The increase is attributable to a \$527.8 billion increase in loan subsidy costs, including reestimates combined with a decrease of \$0.2 billion in other non-subsidy related costs. These increased costs in FY 2020 are attributable to the PPP and Debt Relief programs under the CARES Act.

Net downward reestimates for the business loan programs were higher in FY 2020 than last year despite an increase in the amount of upward reestimates, which affected Strategic Goal 1 costs. **Chart XIX** reflects the change in the net subsidy reestimates for the guaranteed business and direct disaster loan programs in FY 2020. The PPP program had a net downward reestimate of \$7.2 billion for FY 2020. The majority of the reestimate amount is attributed to the updates to the discount rate for the 2020 PPP cohort.

The overall increase in net cost is also driven by a \$27.0 billion dollar increase in Goal 3. This increase is attributable to a \$21.7 billion increase in all other costs combined with a \$5.3 billion increase in loan subsidy costs. The increase

CHART XIX: Credit Program Subsidy Reestimates



in all other costs is a result of the FY 2020 CARES Act related Disaster Advance grant program. The increase in loan subsidy is a result of increased subsidy costs associated with CARES Act funded loans offset by a net downward reestimate. The Disaster Assistance program had a net downward reestimate of \$18.9 billion. The downward reestimate is a result of updates to the discount rate which results in reduced borrowing costs for FY 2020 lending. Further detail on subsidy reestimates can be found in Note 6.I of the financial statements in the Financial Reporting section of this report.

Budgetary Resources

For FY 2020, Total Budgetary Resources increased from \$12.3 billion in FY 2019 to \$1.5 trillion in FY 2020. This increase was primarily due to the result of an increase in appropriations, borrowing authority, and spending authority from offsetting collections as well as other factors shown in the Highlights table and following discussion.

Appropriations (discretionary and mandatory) increased \$761.3 billion in FY 2020 as a result of the appropriations to fund CARES Act programs. Borrowing Authority increased \$165.0 billion in FY 2020 due to an increase in borrowing needed to cover disaster loan making. Borrowing authority initially granted to the SBA was \$335.0 billion in FY 2020. The SBA withdrew \$126.5 billion at year-end FY 2020, as the excess authority was not needed to fund future credit program operations.

Spending Authority from Offsetting Collections increased \$581.0 billion in FY 2020. This increase is primarily attributable to an increase in the amount of subsidy collected in both the business and disaster programs as well as an increase in the amount of collections in the Salaries and Expenses fund as a direct result of CARES Act funding.

Status of Budgetary Resources

The Total Status of Budgetary Resources increased \$12.3 billion in FY 2019 to \$1.5 trillion in FY 2020. Nonbudgetary obligations increased by \$224.0 billion, mainly resulting from the increases in direct loan obligations for disaster loan making, PPP fees paid to banks, interest due to Treasury on debt, and Debt Relief Payments as a result of the CARES Act. Budgetary obligations increased \$588.6 billion, largely due to increased subsidy obligations for the business subsidy associated with the PPP program as well as an increase in disaster loan making as a result of the CARES Act.

Unobligated balances as of September 30, 2020 and 2019 were \$699.7 billion and \$5.9 billion, respectively, which included \$9.6 billion and \$4.1 billion of unavailable unobligated balances, respectively. These balances were unavailable because they were unapportioned by the OMB. The SBA accumulates the majority of unobligated balances in its nonbudgetary financing accounts (\$525.3 billion in FY 2020 and \$4.4 billion in FY 2019) from subsidy estimates and reestimates that are used primarily to pay default claims in future years. The unobligated balances in the nonbudgetary accounts in FY 2020 are directly attributable to the CARES Act PPP program and will be used to make future forgiveness and default payments.

ANALYSIS OF SBA'S SYSTEMS, CONTROLS, AND LEGAL COMPLIANCE

Internal Control Environment

The SBA believes that maintaining integrity and accountability in all programs and operations is critical for good government, and demonstrating consistent responsible stewardship over assets and resources is a sign of responsible leadership. The SBA's commitment to integrity, ethical values, and an effective system of internal controls helps to ensure that every employee remains dedicated to the efficient delivery of services to customers and maximizes desired program outcomes. Accordingly, the SBA has developed and implemented management, administrative, and financial system controls to reasonably ensure that:

- programs and operations achieve intended results efficiently and effectively;
- resources are used in accordance with the mission of the Agency;
- programs and resources are protected from waste, fraud, and mismanagement;
- program and operation activities are in compliance with laws and regulations; and
- reliable, complete, and timely data are maintained and used for decision-making at all levels.

Each office within the SBA implements or maintains effective internal controls over operations, reporting, and compliance to achieve programmatic goals. Each year, the SBA conducts an assessment of internal control as required by the Federal Managers' Financial Integrity Act (FMFIA) of 1982 in accordance with the Office of Management and Budget (OMB)'s Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*. The FMFIA requires that the assessment results be reported to the President and Congress in a statement of assurance. The SBA Administrator provides the statement of assurance based on the self-assessment of program managers, internal control reviews, and audits and reviews done by the Government Accountability Office (GAO) and the SBA's Office of the Inspector General (OIG).

The SBA's Office of Internal Controls (OIC) provides training and tools, including checklists designed specifically for program offices and district offices, to aid management in assessing and documenting the effectiveness of internal controls within their respective area of responsibility. These

assessments are performed based on the five components and 17 principles of internal control framework prescribed in GAO's *Standards for Internal Control in the Federal Government* known as the Green Book.

The SBA Senior Management Council (SMC) was established to oversee the Agency's internal control system. The SMC is chaired by the Deputy Chief Financial Officer and comprises SBA managers from the major program offices to provide oversight in the timely planning and execution of internal control assessments. The SMC chair met with the Enterprise Risk Management Board to discuss any material information that needed to be considered for the Administrator's annual statement of assurance.

The OIC continued to perform internal control over financial reporting assessments in FY 2020, adjusting the scope of the reviews to better align with the OMB Circular No. A-123, Appendix A, *Management of Reporting and Data Integrity Risk*, published in 2018. To meet the requirement of the revised guidance, the SBA conducted a pilot and completed its first internal control assessment over reporting (ICOR). Results were reported and shared with the SMC. For FY 2021, the SBA will explore pursuing additional resources to mature the ICOR assessment process.

The OIC is also working to evolve its existing internal control assessment program by adopting a risk-based approach to select the processes and systems for assessments and building connections with the ERM program by providing valuable information to support the SBA's risk profile. Assessments include documenting the process and key controls, evaluating and testing the design and effectiveness of controls, and presenting the results to management. Data quality testing is incorporated into each assessment as appropriate. Each office is responsible for developing and implementing corrective actions for any reported deficiencies.

In FY 2020, the OIC developed an annual assessment plan but revised the schedule due to the COVID-19 pandemic, resulting in adding additional assessments to monitor and ensure compliance with the Coronavirus Aid, Relief, and Economic Security (CARES) Act regulations. OIC initiated several CARES Act assessments that will continue in FY 2021. Based on the evaluation of business processes in FY 2020, the OIC identified a number of deficiencies in the

internal control over financial reporting, including several in the SBA's key business processes. The SMC evaluated the review findings and determined that none of them reached the level of material weakness.

The Agency made progress in FY 2020 in several Enterprise Risk Management (ERM) areas related to governance, processes, and culture. Specifically, the Agency (1) developed and approved a risk appetite statement, (2) created a structured approach to conducting the risk profile annual validation process, (3) completed its first emerging risk interim assessment (COVID-19 pandemic), and (4) increased discussions and training related to fraud risk. In achieving these milestones, the SBA Enterprise Risk Management Board continued to oversee the SBA's ERM implementation efforts. The governance of the SBA ERM Board, led by the Office of Continuous Operations and Risk Management (OCORM), provided the Agency a stronger mechanism for ensuring prioritization of enterprise-wide risks. The Board meets monthly and is chaired by the Deputy Administrator and/or Chief of Staff, and comprises senior leaders from major programs offices.

The SBA further operationalized its cybersecurity strategy during this fiscal year, establishing direction and priorities for cybersecurity across the Agency. The SBA continued in its implementation and maturation of Enterprise Cybersecurity Services (ECS), with the goal of full visibility, consistency of process, rapid response, and resiliency. Focus areas included expansion of Cyber Threat Intelligence (CTI), increased adoption of strong authentication, continued migration to cloud-based solutions, and emphasis on continuous monitoring.

The SBA continued maturing a robust, adaptable, and cost-effective cybersecurity program, strengthening the overall security posture of Agency information technology systems during the SBA's CARES Act implementation and COVID-19 response. The SBA realized significant cost savings and cost avoidance through integration of Agency systems into its enterprise cybersecurity services by eliminating duplicative and unnecessary tools. Finally, the SBA tailored its Risk Management Framework control baseline, eliminating redundant controls, as a leap towards its Ongoing Authorization goals.

Financial Management Systems Strategy

The SBA's financial management systems are designed to support effective internal controls, produce reliable and timely financial information, and ensure cost-effective loan guaranty processing. Management remains focused on robust financial management systems that support the SBA's ability to comply with laws and regulations. SBA systems must also provide timely and accurate data to support management analysis and decision-making, enable the Agency to keep pace with its lending partners, and effectively use automation to achieve operational efficiency. As demonstrated throughout the *FY 2020 Agency Financial Report*, the SBA seeks to comply with all federal financial management system requirements, including the Federal Financial Management Improvement Act of 1996, which requires that the Agency's financial management systems comply with federal financial management systems requirements, applicable federal accounting standards, and the U.S. Standard General Ledger at the transaction level.¹⁰

The SBA has continued to build on incremental improvement projects designed to modernize the financial management system environment, improve financial system controls, reduce sustainment costs, provide additional functionality for external lending partners, and improve system reliability. In FY 2020, the SBA played a key role in the implementation of the CARES Act, which contains emergency relief resources for America's small businesses. SBA systems processed a historic volume of transactions this fiscal year:

- The SBA processed more than 14 years' worth of loans through the Paycheck Protection Program (PPP) in less than 14 days.
- Prior to PPP, the SBA's largest year in lending was \$30 billion, but SBA financial systems processed \$50 billion in a single day in FY 2020.
- General ledger line item transactions increased from 11 million in FY 2019 to more than 262 million in FY 2020.
- Payment volumes increased from 250,000 in FY 2019 to 17.5 million in FY 2020.

¹⁰ The Federal Financial Management Improvement Act of 1996 promotes more effective federal financial management by ensuring that financial management systems provide accurate, reliable, and timely financial management information to the government's managers. Compliance with the FFMA provides the basis for the continuing use of reliable financial management information by program managers, the President, Congress, and the public.

The SBA has taken steps to enhance its financial system controls over lending programs and improve accessibility to common information, financial and budget management, and financial reporting. The SBA's tightly integrated financial systems allow the Agency to respond quickly to both internal and external financial information inquiries and requirements.

The Office of Performance Management and the Chief Financial Officer and the Office of Capital Access oversee the following three core financial management systems:

- *Oracle Federal Financials* — This system, the most current release in its implementation of the Joint Administrative Accounting Management System (JAAMS), supports the SBA's funding and expenditure of administrative funds.
- *Loan Systems* — This SBA-built system supports the lifecycle of loan guarantee processing, loan program funds control, management and accounting for loan servicing, and loan-related expenses.
- *Financial Management System* — This SBA-built system consolidates administrative and loan activity, manages cash and control funds, and supports financial reporting.

Management Assurances: FMFIA and FFMIA Assurance Statement for FY 2020

The Small Business Administration continued to strengthen internal controls over its programs and operations during FY 2020. Creating and sustaining a culture of responsibility and accountability while eliminating and preventing waste, fraud, and abuse is critical to meeting our mission at the SBA. I am pleased to report that the SBA continues to achieve its internal control objectives; however, the SBA's independent auditor has issued a disclaimed opinion on the Agency's FY 2020 financial statements and is reporting material weaknesses in internal controls. The SBA did not concur on the independent auditors' material weaknesses. Our responses, as communicated to KPMG during the audit, detail our concerns with the analysis and conclusions drawn by the auditors.

SBA's management is responsible for managing risks and maintaining effective internal controls and financial management systems to meet the objectives of Sections 2 and 4 of the Federal Managers Financial Integrity Act (FMFIA). The SBA conducted its assessment of risk and internal controls in accordance with OMB Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*. Agency managers have issued assertions to me as to the status of the FY 2020 internal controls in their areas of responsibility. These assertions are supported by internal testing, checklists, and other management reviews. Although a few Agency managers reported operating deficiencies, they were not of a material nature.

Based on the results of the Agency managers' assessments, I can provide reasonable assurance that internal controls over operations, reporting, and compliance with applicable laws and regulations, as of September 30, 2020, were operating effectively. Furthermore, the Agency's financial management systems conform to the principles, standards, and related requirements prescribed by Section 4 of FMFIA.

The Federal Financial Management Improvement Act (FFMIA) requires federal agencies to implement and maintain financial management systems that are in substantial compliance with federal financial management systems requirements, federal accounting standards, and the United States Standard General Ledger. Based on the FFMIA criteria, I can provide reasonable assurance that SBA's financial management systems substantially comply with FFMIA for FY 2020.



Jovita Carranza

Administrator

December 18, 2020

FINANCIAL REPORTING

(FISCAL YEAR 2020 UNAUDITED)



— start

— grow



— expand

— recover

EXPAND

VERA HALL
SUCCESS STORY



WOMAN-OWNED, 8(A) AND HUBZONE-CERTIFIED COMPANY PROVIDING INNOVATIVE CONSTRUCTION EXPERTISE

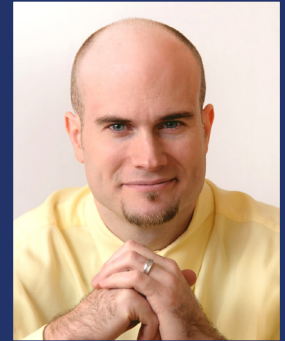
Innovative Performance Construction Co. LLC.
Fayette, MS

VERA D. HALL, Managing Member and Principal of Innovative Performance Construction (IPC) LLC, a woman-owned, 8(a) and HUBZone-certified construction firm, never imagined that the construction projects that she worked on in her vocational education classes in college and painting homes for extra money would lead to a successful business with more than 20 employees. Vera has more than 11 years of construction, construction management, project management and contracting experience. She started IPC from her kitchen table and now oversees the day to day management of the firm which led to its expansion to a second location in Hinds County, Mississippi.

IPC has received assistance from the SBA's Surety Bond Guarantee Program and 7(j) Management and Technical Assistance Program under the SBA's 8(a) Business Development Program. IPC has gone from having zero federal contracts to receiving one contract per year and now has multiple federal contracts. Vera is a graduate of the SBA's Emerging Leaders Program and has maintained a stellar reputation in the construction industry. Some of IPC's clients include Vera's alma mater, Alcorn State University, as well as Jackson State University, the Department of Interior, the National Oceanic Atmospheric Administration, Jackson Municipal Airport Authority, and East Central Community College.

START

BRIAN GEISEL
SUCCESS STORY



SBA'S SMALL BUSINESS PROGRAM IN ACTION

Geisel Software
Worcester, MA

After starting a career in software writing, **BRIAN GEISEL** discovered his passion for helping others solve problems, which led him to start Geisel Software out of a 200 square-foot studio in 2011. In 2016, Brian began scaling his company by hiring a full-time developer and a salesperson. After a period of stagnant growth, the company began taking on larger projects and new clients, since then growing to 16 employees and increasing revenues over 300 percent during the last three years.

In 2018, Brian completed the SBA Emerging Leaders training program and implemented several business development strategies soon after. He started a relationship with the local Procurement Technical Assistance Center and the Small Business Development Center, and later prepared several Small Business Innovation Research proposals. Brian has also taken out SBA loans to grow the business and hire more employees. Geisel Software has landed contracts with the U.S. Army, the Department of Veterans Affairs, the U.S. Air Force, and NASA.

MESSAGE FROM THE CHIEF FINANCIAL OFFICER



TAMI PERRIELLO

December 18, 2020

I am honored to issue the SBA's *FY 2020 Agency Financial Report* as of September 30, 2020. The Agency developed its financial statements in accordance with U.S. Office of Management and Budget guidance and within Generally Accepted Accounting Principles. As a result of the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) of 2020 and subsequent legislation, the U.S. Office of Management and Budget granted the SBA an extension in the delivery of this report.

As a result of the establishment of new, major programs executed in record time to stabilize the nation's economy, the SBA's independent auditor has issued a disclaimer of opinion and identified material weaknesses in internal controls. These material weaknesses cover accounting and reporting for programs implemented under the CARES Act and related legislation; evaluation and monitoring of service organization controls; and entity level controls. The SBA did not concur on the independent auditors' material weaknesses and believes that the financial statements and related disclosures are materially correct.

We do recognize that significant events occurring after fiscal year end but not completed before the date of this report, such as processing forgiveness applications under the PPP program and loan file reviews, may result in necessary adjustments to estimates for subsidy costs recorded in FY 2020. These adjustments are part of the normal Federal Credit Reform Act (FCRA) process for updating original subsidy cost estimates. FCRA requires estimation of lifetime expected subsidy costs at program implementation and does provide for annual adjustment to original subsidy cost estimates in future periods as new information becomes available.

In the case of the PPP program, the estimate includes components for forgiveness as well as purchase of the guaranty and other costs. For the expanded direct loan program for EIDL COVID, the estimate includes losses for uncollectible amounts along with other costs. Due to the high volume, dollar amount and unique conditions in these programs there is greater uncertainty about the reestimates that will resolve over time.

We further recognize that documentation of the processes and controls over these two CARES Act programs was not sufficiently well developed in the year of program implementation to support the financial statement audit. The SBA is working diligently to complete its reviews and to correct any shortcomings for future audits.

This year has been especially challenging for the Agency and America's small businesses due to the COVID-19 pandemic. With new programs to implement with the passage of the CARES Act and subsequent legislation, the SBA has risen to the challenge to help support America's small businesses by infusing nearly \$1 trillion into the economy through the Paycheck Protection Program, Economic Injury Disaster Loans, debt relief, and grant programs. These programs have helped protect tens of millions of American jobs while small businesses and communities adapt to this changing environment.

Within days of Congress passing and the President signing this economic relief package, the SBA established new processes and transformed existing systems to accommodate the influx of funds. The SBA, which historically has processed \$30 billion in annual lending, processed nearly \$50 billion in a single day in FY 2020. The Agency aggressively worked to ensure that loans and grants were distributed timely to provide economic relief to every part of this country. The SBA successfully executed the programs under pandemic conditions and in record time, but more work remains in the management of loan servicing and forgiveness that will continue throughout FY 2021 and beyond. This effort will require continuous financial oversight to ensure the effective use of taxpayer funds.

The Agency will continue to help small businesses survive the pandemic and become more resilient for the future. In support of that effort, the SBA will continue to strengthen its management of programs and operations and will embark on the development of its *FY 2022-2026 Strategic Plan* with a focus on how the Agency can continue to adapt to the changing needs of small businesses. With renewed attention on data and evidence, the SBA will continue to deliver on programs and policies that have the greatest impacts—reaching more small businesses—with special attention on entrepreneurs in underserved markets. This endeavor will require prudent attention to the continued collaboration between financial management and performance management, and I look forward to sharing those continued successes next year.

Additionally, I am proud of the SBA for winning its 14th Association of Government Accountants Certificate of Excellence in Accountability Reporting award this year. This award, made to agencies following a thorough and independent review, has been a tremendous honor and reflects the dedication of SBA employees to transparency, accountability, and a mission to help America's small businesses.

Sincerely,



Tami Perriello

Associate Administrator for Performance and Planning
and Chief Financial Officer


INSPECTOR GENERAL'S AUDIT REPORT



**U.S. Small Business Administration
Office of Inspector General
Washington, D.C. 20416**

DATE: December 18, 2020

TO: Jovita Carranza
Administrator

FROM: Hannibal "Mike" Ware 
Inspector General

SUBJECT: Independent Auditors' Report on SBA's FY 2020 Financial Statements

I am pleased to present the attached independent auditors' report on the U.S. Small Business Administration's (SBA's) consolidated financial statements for fiscal years 2020 and 2019, as required annually by the Chief Financial Officers Act of 1990, as amended.

We contracted with the independent certified public accounting firm KPMG LLP to conduct an audit of the SBA's consolidated financial statements for the fiscal years ended September 30, 2020, and September 30, 2019. KPMG was engaged to conduct the audit in accordance with U.S. generally accepted auditing standards. The audit also complied with the applicable standards for financial audits in Government Auditing Standards issued by the Comptroller General of the United States and Office of Management and Budget Bulletin No. 19-03, Audit Requirements for Federal Financial Statements.

In the report, KPMG auditors found significant matters for which they were unable to obtain sufficient, appropriate audit evidence to provide a basis for an audit opinion on SBA's consolidated financial statements for the year ended September 30, 2020. Accordingly, KPMG issued a disclaimer of opinion on the consolidated financial statements as of and for the year ended September 30, 2020. The following paragraph describes the basis for the disclaimer of opinion related to the implementation of new programs under the Coronavirus Aid, Relief, and Economic Security Act of 2020 and related legislation, most notably the Paycheck Protection Program and the expanded Economic Injury Disaster Loan program.

SBA was unable to provide adequate evidential matter in support of a significant number of transactions and account balances related to these programs because of inadequate processes and controls. As a result, KPMG was unable to determine whether any adjustments might have been necessary with respect to Credit Program Receivables and Related Foreclosed Property, Downward Reestimate Payable to Treasury, Liability for Loan Guarantees, and the related elements in the consolidated statements of net cost and changes in net position, the combined statement of budgetary resources, and related notes to the consolidated financial statements.

SBA's 2019 consolidated financial statements present fairly, in all material respects, the financial position of the SBA as of September 30, 2019.

However, for the year ended September 30, 2020, KPMG identified seven material weaknesses, two significant deficiencies in internal controls over financial reporting, and two instances of reportable noncompliance with provisions of applicable laws, regulations, contracts, and grant agreements. Details of KPMG's conclusions about the material weaknesses and significant deficiencies are described in attachments I and II of this report. Instances of noncompliance or other matters required to be reported under Government Auditing Standards or OMB Bulletin No. 19-03 are described in attachment III.

We reviewed KPMG’s report and related documentation and inquired of its representatives. Our review, as differentiated from an audit of the financial statements in accordance with U.S. generally accepted government auditing standards, was not intended to enable us to express—and we do not express—opinions on SBA’s financial statements or internal control over financial reporting or conclusions on SBA’s compliance with applicable laws and other matters.

KPMG is responsible for the attached auditors’ report dated December 18, 2020, and the conclusions expressed. However, the OIG provides negative assurance of this audit. 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 U.S. generally accepted government auditing standards.

We provided a draft of KPMG’s audit report to SBA’s Chief Financial Officer, who did not agree with five material weaknesses included in the report under “Accounting and Reporting for Programs Implemented Under the CARES Act and Related Legislation” and “Entity Level Controls.” The Chief Financial Officer partially agreed with the remaining two material weaknesses, grouped in the report under “Evaluation and Monitoring of Service Organization Controls.”

SBA’s responses, as communicated to KPMG during the audit, detail the agency’s concerns with the analysis and conclusions drawn by KPMG. The Chief Financial Officer’s response is included in attachment IV, and KPMG’s response to the Chief Financial Officer’s response is included in attachment V of this report.

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.

cc: William Manger, Chief of Staff and Associate Administrator, Office of Capital Access
 Christopher Gray, Deputy Chief of Staff
 Stephen Kong, Acting Chief Operating Officer
 Patricia Gibson, Senior Advisor
 Tami Perriello, Chief Financial Officer
 Brittany Biles, General Counsel
 Martin Conrey, Attorney Advisor, Legislation and Appropriations
 Tonia Butler, Director, Office of Internal Controls
 Rafaela Monchek, Director, Office of Continuous Operations and Risk Management

Attachment

INDEPENDENT AUDITORS' REPORT ON FY 2020 FINANCIAL STATEMENTS



KPMG LLP
Suite 12000
1801 K Street, NW
Washington, DC 20006

Independent Auditors' Report

Inspector General
U.S. Small Business Administration

Administrator
U.S. Small Business Administration

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the United States (U.S.) Small Business Administration (SBA), which comprise the consolidated balance sheet as of September 30, 2019, and the related consolidated statements of net cost and changes in net position, and combined statement of budgetary resources for the year then ended, and the related notes to the consolidated financial statements. Further, we were engaged to audit the accompanying consolidated financial statements of the SBA, which comprise the consolidated balance sheet as of September 30, 2020, and the related consolidated statements of net cost and changes in net position, and combined statement of budgetary resources for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. Except as explained in the Basis for Disclaimer of Opinion paragraph, we conducted our audits in accordance with auditing standards generally accepted in the United States of America, in accordance with the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and in accordance with Office of Management and Budget (OMB) Bulletin No. 19-03, *Audit Requirements for Federal Financial Statements*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion on the 2019 consolidated financial statements.

KPMG LLP, a Delaware limited liability partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee.



Basis for Disclaimer of Opinion

During fiscal year 2020, the *Coronavirus Aid, Relief, and Economic Security Act of 2020* and related legislation authorized funding for SBA to implement the Paycheck Protection Program and the expanded Economic Injury Disaster Loan program. SBA was unable to provide adequate evidential matter in support of a significant number of transactions and account balances related to these programs due to inadequate processes and controls. As a result of these matters, we were unable to determine whether any adjustments might have been necessary with respect to Credit Program Receivables and Related Foreclosed Property, Downward Reestimate Payable to Treasury, Liability for Loan Guarantees, and the related elements in the consolidated statements of net cost and changes in net position, the combined statement of budgetary resources, and related notes to the consolidated financial statements.

Disclaimer of Opinion on the Fiscal Year 2020 Financial Statements

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the consolidated financial statements as of and for the year ended September 30, 2020. Accordingly, we do not express an opinion on these consolidated financial statements.

Opinion on the Fiscal Year 2019 Financial Statements

In our opinion, the 2019 consolidated financial statements referred to above present fairly, in all material respects, the financial position of the United States Small Business Administration as of September 30, 2019, and its net costs, changes in net position, and budgetary resources for the year then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Interactive Data

Management has elected to reference to information on websites or other forms of interactive data outside the *U.S. Small Business Administration's Agency Financial Report for FY 2020* to provide additional information for the users of its financial statements. Such information is not a required part of the basic consolidated financial statements or supplementary information required by the Federal Accounting Standards Advisory Board. The information on these websites or the other interactive data has not been subjected to any of our auditing procedures, and accordingly we do not express an opinion or provide any assurance on it.

Required Supplementary Information

U.S. generally accepted accounting principles require that the information in the Management's Discussion and Analysis and Required Supplementary Information sections be presented to supplement the basic consolidated financial statements. Such information, although not a part of the basic consolidated financial statements, is required by the Federal Accounting Standards Advisory Board who considers it to be an essential part of financial reporting for placing the basic consolidated financial statements in an appropriate operational, economic, or historical context. We were unable to apply certain limited procedures to such information in accordance with auditing standards generally accepted in the United States of America because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraph. We do not express an opinion or provide any assurance on the information.

Other Information

We were engaged to audit the basic consolidated financial statements as a whole. The Table of Contents, How this Report is Organized, Message from the Administrator, Message from the Chief Financial Officer, Other Information, and the Appendices in the *U.S. Small Business Administration's Agency Financial Report for FY 2020* are presented for purposes of additional analysis and are not a required part of the basic consolidated financial statements. Such information has not been subjected to the procedures applied in our engagement to audit the basic consolidated financial statements, and accordingly, we do not express an opinion or provide any assurance on it.



Other Reporting Required by Government Auditing Standards

Internal Control over Financial Reporting

In connection with our engagement to audit the consolidated financial statements as of and for the year ended September 30, 2020, we considered SBA's internal control over financial reporting (internal control) as a basis for designing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of SBA's internal control. Accordingly, we do not express an opinion on the effectiveness of SBA's internal control. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying Attachments I and II, we did identify certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in Attachment I to be material weaknesses.

SBA management did not report these material weaknesses in its *Management Assurances: FMFIA and FFMIA Assurance Statement for FY 2020*, included in the Management's Discussion and Analysis section of the FY 2020 Agency Financial Report.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in Attachment II, to be significant deficiencies.

Compliance and Other Matters

In connection with our engagement to audit SBA's consolidated financial statements as of and for the year ended September 30, 2020, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 19-03 and which are described in Attachment III. Additionally, if the scope of our work had been sufficient to enable us to express an opinion on the basic fiscal year 2020 consolidated financial statements, other instances of noncompliance or other matters may have been identified and reported herein.

We also performed tests of SBA's compliance with certain provisions referred to in Section 803(a) of the *Federal Financial Management Improvement Act of 1996* (FFMIA). Providing an opinion on compliance with FFMIA was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances, described in Attachment III, in which SBA's financial management systems did not substantially comply with (1) Federal financial management systems requirements and (2) applicable Federal accounting standards. The results of our tests disclosed no instances in which SBA's financial management systems did not substantially comply with the United States Standard General Ledger at the transaction level. Additionally, if the scope of our work had been sufficient to enable us to express an opinion on the basic fiscal year 2020 consolidated financial statements, other instances of substantial noncompliance with FFMIA may have been identified and reported herein.



SBA's Response to Findings

SBA's response to the findings identified in our engagement is described in Attachment IV. SBA's response was not subjected to the procedures applied in the engagement to audit the consolidated financial statements and, accordingly, we express no opinion on the response.

Our response to SBA's response is included in Attachment V.

Purpose of the Other Reporting Required by Government Auditing Standards

The purpose of the communication described in the Other Reporting Required by *Government Auditing Standards* section is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the SBA's internal control or compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Washington, DC
December 18, 2020

Attachment I

U.S. Small Business Administration

Material Weaknesses

The following deficiencies are considered to be material weaknesses in internal controls over financial reporting.

1. **Approval of PPP Loan Guarantees**
2. **Reporting of PPP Loan Guarantees**
3. **Subsidy Reestimate of PPP Loan Guarantees**
4. **Approval of COVID-19 EIDLs and Grants**
5. **Service Organization Used for COVID-19 EIDLs and Grants**
6. **Service Organizations Used for Loan Guarantee Programs**
7. **Entity Level Controls**

For purposes of presentation and as described below, material weaknesses (1) through (4) are grouped into (A) *Accounting and Reporting for Programs Implemented under the Coronavirus Aid, Relief, and Economic Security Act of 2020 (CARES Act) and Related Legislation*; material weakness (5) and (6) are grouped into (B) *Evaluation and Monitoring of Service Organization Controls*; and material weakness (7) is under (C) *Entity Level Controls*.

A. Accounting and Reporting for Programs Implemented under the CARES Act and Related Legislation

On March 27, 2020, Congress passed the CARES Act to provide emergency assistance in response to the extensive effects of the public health and economic crisis arising from the Coronavirus Disease 2019 (COVID-19) pandemic. This law was followed by the Paycheck Protection Program and Health Care Enhancement Act passed by Congress on April 24, 2020. The largest component of these laws was the Paycheck Protection Program (PPP), which provided funding of \$670 billion. The PPP is a loan guarantee program whereby third-party lenders issue loans that are fully guaranteed by SBA. In addition, the two rounds of legislation provided a total funding of \$20 billion for COVID-19 Economic Injury Disaster Loan (EIDL) grants and an additional \$50 billion of funding for SBA to issue up to approximately \$367 billion in COVID-19 EIDLs. COVID-19 EIDLs are direct loans that SBA issues to eligible borrowers. These laws from this point forward are collectively referred to as the CARES Act and related legislation.

1. Approval of PPP Loan Guarantees

Due to the volume of loans being processed as a result of the PPP, the Office of Capital Access developed a one-time process to accept bulk loan files from lenders. The lenders sent batch files to the Office of Capital Access and direct uploads of PPP loans were made in SBA's loan repository system. As of August 8, 2020 (expiration of the program), SBA had approved over 5.2 million loan guarantees for an approximate total of \$525 billion.

Management did not adequately design and implement controls to ensure PPP loan guarantees were accurate to enable the fair presentation of the Liability for Loan Guarantees and related elements in the fiscal year 2020 consolidated financial statements. Specifically, management identified approved loans disbursed by its third-party lenders that, in numerous cases, were not accurate and potentially not in conformance with the CARES Act and related legislation. In addition, there were over 2 million approved PPP loan guarantees (with an approximate total value of \$189 billion) flagged by management within the loan repository system that are potentially not in conformance with the CARES Act and related legislation.

The loans were flagged for one or more of 35 reasons (e.g., Business in Operation After February 15, 2020; Mismatch of Taxpayer Identification Number/Employer Identification Number/Social Security Number; Criminal Record; Mismatch of Individual or Company Entity Name; Aggregate Data Mismatch; Potential Multiple Data Universal Numbering System Issue; or Inactive Business).

The deficiencies were caused by an inadequate entity wide control environment to implement processes and procedures to account for new and expanded programs under the CARES Act and related legislation with sufficiently designed, implemented, and effectively operating controls.

The following criteria were considered with respect to the matters described in the preceding paragraphs:

- The Government Accountability Office's (GAO's) *Standards for Internal Control in the Federal Government* ("Green Book"), Principle 3, *Establish Structure, Responsibility, and Authority*; and Principle 10, *Design Control Activities*
- Office of Management and Budget (OMB) Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*

The deficiencies noted above may result in material misstatements to the Liability for Loan Guarantees, Downward Reestimate Payable to Treasury line items, and related elements in the consolidated financial statements.

Recommendations – Approval of PPP Loan Guarantees

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

1. Finalize the review plan and execute the loan review process for all loans in the PPP portfolio to determine whether loans were or not in conformance with the CARES Act and related legislation.
2. Determine the impact on the outstanding guarantee and eligibility for forgiveness of loans determined to be not in conformance with the CARES Act and related legislation.
3. Implement adequate controls to prevent loans from being approved that are potentially not in conformance with the legislation and program terms.
4. Develop and enforce a policy that requires the adequate training and monitoring of PPP lenders to execute their responsibilities in the loan origination process.

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

5. Assess the accounting considerations, including the impact on the consolidated financial statements, from the results of the loan review process for PPP loans and record any necessary adjustments for loans determined to not be in conformance with the CARES Act and related legislation.

2. Reporting of PPP Loan Guarantees

As part of the PPP, lenders must report any PPP loans that have been fully disbursed or cancelled to SBA through the SBA Form 1502 (1502 report) or the loan repository system. SBA records the Liability for Loan Guarantee and related accounting entries once the lender reports the loan disbursement. Lenders were required to electronically submit the 1502 report to SBA by the latter of (1) May 29, 2020 or (2) 10 calendar days after disbursement or cancellation of a PPP loan. After reporting the initial disbursement, lenders are responsible for reporting on the status of each loan by submitting a monthly 1502 report until the lender notifies SBA that the loan has been paid in full. Through the 1502 reporting process, the outstanding loan principal balance and ultimately the liability for loan guarantees balances are updated.

The portfolio of PPP loans with an outstanding loan principal balance is also used as an input into the subsidy estimation cash flow models.

Management did not adequately design and implement controls to determine that the status of PPP loan guarantees was complete and accurate to enable the fair presentation of the Liability for Loan Guarantees and related elements in the consolidated financial statements. Specifically, management did not have processes and controls in place to review the status of PPP loans where:

- 1502 reports have not been submitted.
- 1502 reports may have been submitted incorrectly.
- 1502 reports were not processed.

As of September 30, 2020, SBA reported approximately \$6 billion of PPP loans approved but not disbursed due to unreported or unprocessed 1502 reports from lenders. In addition, there were over 896,000 errors from 1502 reports that were not reviewed or processed to update the outstanding loan principal balance. The affected PPP loans comprised of 63 distinct 1502 report error codes (e.g., PPP loans must be fully disbursed; Loan is in inactive status; Invalid Guarantee Service Status Code; Outstanding balance plus Total Amount Undisbursed cannot exceed Loan Approval Amount; Outstanding Balance must be less than or equal to Current Loan Approval Amount).

The deficiencies were caused by an inadequate entity wide control environment to implement processes, and procedures to account for new and expanded programs under the CARES Act and related legislation with sufficiently designed, implemented, and effectively operating controls.

The following criteria were considered with respect to the matters described in the preceding paragraphs:

- GAO's Green Book, Principle 3, *Establish Structure, Responsibility, and Authority*; and Principle 10, *Design Control Activities*
- OMB Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*

The deficiencies noted above may result in material misstatements to the Liability for Loan Guarantees, Downward Reestimate Payable to Treasury line items, and related elements in the consolidated financial statements.

Recommendations – Reporting of PPP Loan Guarantees

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

6. Identify and review PPP loans with incomplete or inaccurate 1502 reports.
7. Determine and update the loan repository system with correct PPP loan related balances.
8. Develop and enforce a policy that requires the adequate training and monitoring of lenders to execute their responsibilities in the PPP loan servicing process.
9. Develop and enforce a policy to monitor incomplete or inaccurate PPP 1502 reports on an ongoing basis.

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

10. Assess the accounting considerations, including the impact on the consolidated financial

statements, from the results of the loan review process for PPP loans and record any necessary adjustments for loans determined to not be in conformance with the CARES Act and related legislation.

3. Subsidy Reestimate of PPP Loan Guarantees

PPP loans can be forgiven up to the full principal amount of the loan plus any accrued interest if certain criteria are met by the borrower. In general, if the borrower uses 60 percent of the loan amount on payroll costs, the full principal amount of the loan plus any accrued interest can be forgiven. As of September 30, 2020, SBA had received over 128,000 (or approximately 2.5% of total loan guarantees approved) forgiveness applications from lenders. SBA began remitting forgiveness payments to lenders on October 2, 2020.

Statement of Federal Financial Accounting Standards (SFFAS) No. 2, *Accounting for Direct Loans and Loan Guarantees*, requires that loan guarantees committed after September 30, 1991, be recorded on a present value basis consistent with the intent of the Federal Credit Reform Act of 1990. As such, SBA developed an estimation methodology to reestimate the future net cash inflows and outflows for the PPP loan portfolio as of September 30, 2020.

Management did not adequately design and implement controls over the review of the data inputs and assumptions used in the subsidy reestimate to determine that the portfolio of PPP loans was complete and accurate. Specifically, management did not consider and document the effects on the reestimate methodology for more than:

- 2 million approved PPP loan guarantees with a total approximate value of \$189 billion that are flagged as potentially not in conformance with the CARES Act and related legislation, which may affect the accuracy of such loan guarantees, within the loan repository system. Management did not evaluate and document the impact of these loan guarantees on the key assumptions such as the Forgiveness Rate and Forgiveness Curve, and on the methodology of the overall PPP loan portfolio.
- 896,000 errors in 1502 reports that were not reviewed or processed to update the outstanding loan principal balance. This includes 1502 reports that were not submitted, submitted incorrectly, or did not process due to an error.

In addition, management did not adequately design and implement controls to verify the completeness and accuracy of relevant loan characteristics that are used in the development of key assumptions. Specifically, the North American Industry Classification System code is the data attribute used for each loan to develop key assumptions related to loan forgiveness. However, the code was not a field included on the borrower's application form and the reestimate methodology relies on this data attribute being accurately reported by lenders.

Additionally, management did not adequately design and implement controls over the development and support of the Forgiveness Rate assumption. The methodology did not include documentation regarding how the Forgiveness Rates for the 'High' and 'Very High' Risk Group categories were determined. Further, management did not consider and document the availability of actual loan forgiveness applications received from the lenders to address the potential existence of disconfirming evidence related to the assumption.

The deficiencies were caused by an inadequate entity wide control environment to implement processes, and procedures to account for new and expanded programs under the CARES Act and related legislation with sufficiently designed, implemented, and effectively operating controls.

The following criteria were considered with respect to the matter described in the preceding paragraphs:

- GAO's Green Book, Principle 3, *Establish Structure, Responsibility, and Authority*; Principle 10, *Design Control Activities*; and Principle 13, *Use Quality Information*
- OMB Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*
- Federal Accounting Standards Advisory Board (FASAB) Technical Release 6, *Preparing Estimates for Direct Loan and Loan Guarantee Subsidies under the Federal Credit Reform Act – Amendments to Technical Release No. 3 Preparing and Auditing Direct Loan and Loan Guarantee Subsidies under the Federal Credit Reform Act*

The deficiencies noted above may result in a material misstatement to the Liability for Loan Guarantees and Downward Reestimate Payable to Treasury line items, and the related elements in the consolidated financial statements.

Recommendations – Subsidy Reestimate of PPP Loan Guarantees

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

11. Document the development of significant assumptions used in the PPP reestimate, including the consideration of the most recent, best available data to address the potential existence of disconfirming evidence.
12. Accumulate relevant, complete, and accurate data to develop and support the PPP reestimate.
13. Design and implement review and approval controls of the PPP reestimate by appropriate levels of management, including review of sources of relevant data inputs, development of assumptions, and reasonableness of assumptions and resulting estimates.

4. Approval of COVID-19 EIDLs and Grants

The authority to lend up to \$367 billion in COVID-19 EIDLs and \$20 billion in COVID-19 EIDL emergency advance grants represents more disaster loan funding than all of the previous years combined in SBA's history. To receive, review, and process applications for COVID-19 EIDLs and grants, SBA contracted with a service organization to create a portal for borrowers and grant recipients to submit applications. The portal intakes and processes applications, and it supports the disaster assistance loan officer's decisions of whether to approve or reject an application.

Applicants are subjected to certain identity, fraud, and credit checks within the portal. For COVID-19 EIDLs and grants, the portal may perform an automatic approval function for borrowers and grant recipients based on the data elements entered. If no further research is required by a loan officer, the application is sent directly to a supervisory loan officer for approval and obligation. If an automatic approval is not performed, the portal provides alerts for the loan officer to address before a loan or grant can be routed to the senior loan officer for review, approval, and obligation of funds.

Management did not adequately design and implement controls to ensure approved COVID-19 EIDLs and grants were provided to eligible borrowers and accurately recorded. Specifically, SBA approved and disbursed EIDLs and grants in the following instances:

- More than one COVID-19 EIDL or grant was approved and disbursed to the same borrower;
- Loans and grants were issued to borrowers with inaccurate or invalid Tax Identification Numbers, Employee Identification Numbers, or Social Security Numbers;
- Loans were issued that management flagged to be potentially fraudulent; and

- Loans were issued to borrowers that management flagged because the borrowers were excluded from doing business with the government.

For loans approved as of September 30, 2020, there were a total of over 6,000 approved and disbursed COVID-19 EIDLs (with a total value of over \$212 million) flagged within the loan repository system that were issued to potentially ineligible borrowers.

In addition, management noted as part of an improper payment review that adequate controls were not designed and implemented to determine that fraud alerts raised by the portal related to applications submitted by borrowers were sufficiently addressed before loans were approved. The fraud alerts noted include: Large number of applications with other lenders; Suspicious online behavior; Fraud alert detected on credit report; Owner/client information failed validation; Owner/client information failed online identity verification; or Fraud found on related deals. Management also noted instances where the applicant indicated the business was a franchise or indicated a potential issue with their character that management had not adequately addressed in accordance with its procedures.

Management did not have adequate procedures and controls implemented to address certain alerts within the portal. Specifically, the portal Reference Guide does not have adequate procedures to address the following alerts: Public records search did not find business; Bank account or routing number could not be verified; and Bank account could not be confirmed to be associated with the business.

The deficiencies were caused by an inadequate entity wide control environment to implement processes and procedures to account for new and expanded programs under the CARES Act and related legislation with sufficiently designed, implemented, and effectively operating controls.

The following criteria were considered with respect to the matter described in the preceding paragraphs:

- GAO's Green Book, Principle 3, *Establish Structure, Responsibility, and Authority*; and Principle 10, *Design Control Activities*
- OMB Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*

The deficiencies noted above may result in a material misstatement of the Credit Program Receivables and Related Foreclosed Property, Net and Downward Reestimate Payable to Treasury line items, and related elements in the consolidated financial statements.

Recommendations – Approval of COVID-19 EIDLs and Grants

We recommend the Administrator coordinate with the Associate Administrator of Office of Disaster Assistance to:

14. Perform a thorough review of the COVID-19 EIDLs and grants portfolio and determine which transactions were made to ineligible recipients and not in conformance with the CARES Act and related legislation.
15. Implement controls that prevent or detect loans from being approved that are not in conformance with the related legislation and program's eligibility terms.
16. Update the Reference Guide to require a more thorough review to clear certain alerts and enforce the actions recommended by the Reference Guide to adequately address and mitigate the alerts prior to loan approval.
17. Provide training of loan officers and supervisory loan officers to execute their responsibilities in accordance with established guidance and standard operating procedures.

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

18. Assess the accounting considerations, including the impact on the consolidated financial statements, from the results of the loan review process for PPP and record any necessary adjustments for loans determined not to be in conformance with the CARES Act and related legislation.

B. Evaluation and Monitoring of Service Organization Controls

Management did not adequately design and implement internal controls with respect to the evaluation and monitoring of service organization controls. Adequate controls were not implemented related to the evaluation and monitoring of the service organization controls used to process COVID-19 EIDLs and emergency advance grants and for the service organization controls used for SBA loan guarantee programs.

5. Service Organization Used for COVID-19 EIDLs and Grants

SBA contracted with a service organization to develop and use a portal for COVID-19 EIDL and grant processing. The portal intakes and processes applications, and it supports the disaster assistance loan officer's decisions of whether to approve or reject an application. Approved loan applications are ultimately disbursed as COVID-19 EIDLs or grants, which are a part of the consolidated financial statements. As part of processing, the portal transmits application data to various external databases and sources to perform numerous fraud and validation checks, among which include the duplicate application check, business owner identity check, and bank account verification.

Management did not obtain reasonable assurance on the operating effectiveness of internal controls in the service organization's control environment relevant to the processing of SBA's COVID-19 EIDL transactions, which do not enable the fair presentation of the Credit Program Receivables and Related Foreclosed Property line item and related elements in the consolidated financial statements. The relevant control environment at the service organization includes the operation of the portal and the application controls within the portal. In addition, the relevant control environment includes the data transmissions over the Internet between the portal and various third-party organizations.

In addition, management did not provide evidence of adequate monitoring activities performed over the relevant internal control environment at the service organization, such as obtaining and reviewing an attestation report on the design, implementation, and operating effectiveness of controls at the service organization. Management also did not provide evidence whether adequate user entity controls that are designed, implemented, and operating effectively to complement the service organization's controls. Management's assessment of internal controls over financial reporting is not complete without the sufficient consideration of existing and non-existing controls at relevant service organizations and the effectiveness of those controls.

The deficiencies were caused by an inadequate entity wide control environment to implement the provisions of the CARES Act and related legislation with sufficiently designed and implemented controls resulting from the urgent need to provide financial assistance to the public. In addition, management did not hold the service organization accountable for the assigned internal control responsibilities by obtaining reasonable assurance on the operating effectiveness of internal controls in the service organization's control environment (e.g., requiring a service organization control (SOC) 1 Type 2 report for the control environment relevant to the processing of SBA's COVID-19 EIDL transactions).

The following criteria were considered with respect to the matters described in the preceding paragraphs:

- GAO's Green Book, Section 4, *Additional Considerations: Service Organizations*; Principle 5, *Enforce Accountability*; Principle 10, *Design Control Activities*; and Principle 16, *Perform Monitoring Activities*
- OMB Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*

The deficiencies noted above prevented SBA from obtaining an understanding of relevant service organization controls and any weaknesses that increase risks of misstatements in the Credit Program Receivables and Related Foreclosed Property line item and related elements in the consolidated financial statements and potential noncompliance with provisions of laws or regulations.

Recommendations – Service Organization Used for COVID-19 EIDLs and Grants

We recommend the Administrator coordinate with the Associate Administrator of Office of Disaster Assistance to:

19. Develop and implement a policy requiring new service organizations to provide a SOC 1 report over the control environment that is relevant and significant to the processing and recording of SBA's transactions. If a SOC 1 report cannot be obtained, identify and evaluate relevant controls at the service organizations that have an impact on SBA's internal controls over financial reporting.
20. Assess the risk posed by the service organization's control environment and obtain sufficient assurance over the operating effectiveness of relevant and significant controls to determine the integrity of transactions processed on behalf of and recorded by SBA. If a SOC 1 report is obtained for the relevant control environment at the service organization, determine and document the following:
 - SOC 1 report is sufficiently scoped to cover transaction processing and related control activities performed by the service organization on behalf of SBA (e.g., that services, business applications and other information technology, service organization departments and locations, control objectives and activities, and other aspects of scope that are relevant to SBA's internal controls over financial reporting are included in the scope of SOC 1 reports).
 - All exceptions noted in the SOC 1 report – not just those described in the independent service auditor's report – are evaluated to determine applicability to SBA's internal controls over financial reporting, the potential impact to SBA's financial statements, and mitigating controls other considerations made during their risk assessment.
 - All complementary user entity controls described in the SOC 1 reports are evaluated using current information and with consideration to their applicability to SBA's internal controls over financial reporting.
 - Evaluation procedures include an assessment of whether complementary user entity controls and other SBA-performed controls were tested and found effective and, if they are not, the impact of such deficiencies on SBA's internal controls over financial reporting.
 - All complementary subservice organization controls described in SOC 1 reports are evaluated to determine whether they provided services and performed controls considered relevant to SBA's internal controls over financial reporting and, if relevant subservice organizations were identified, an evaluation is performed to obtain an understanding of the subservice organization(s) and their controls.
 - SOC 1 reports cover the appropriate period or corresponding gap letters provide sufficient coverage to assess impacts on SBA's internal controls over financial reporting.

6. Service Organizations Used for Loan Guarantee Programs

The use of service organizations is integral to the servicing and reporting of SBA's loan guarantee programs. To facilitate the collection of the 1502 reports from lenders, SBA uses a contracted fiscal transfer agent to collect the 7(a) and PPP loan data from lenders. The loan data collected from 7(a) Program and PPP lenders affect the Liability for Loan Guarantees line item and related elements in the consolidated

financial statements. The fiscal transfer agent also sells loans into the secondary market. SBA guarantees the timely payment, as well as a default guarantee, to 7(a) secondary market investors. The payments are made from the Master Reserve Fund that is administered by the fiscal transfer agent. SBA discloses the balances in the Master Reserve Fund in the notes to the financial statements. For the 504 program, SBA uses a financial service provider to support the central servicing agent. The financial service provider manages the day-to-day operations of the program including funding and servicing loans and managing associated payouts to third-party investors.

Management's evaluations of SOC 1 reports over the fiscal transfer agent and the financial service provider were not sufficient or properly documented to aid in management's assessment of internal controls over financial reporting and do not enable the fair presentation of the Liability for Loan Guarantees line item and related elements in the consolidated financial statements. Specifically, management did not:

1. Determine the potential impact of control deficiencies on internal controls over financial reporting and implement compensating mitigating controls for such deficiencies.
2. Evaluate and address the complementary user entity controls identified within the SOC 1 reports.
3. Evaluate relevant subservice organizations such as the fiscal transfer agent's information technology infrastructure support provider.
4. Obtain bridge letters that cover the appropriate gap period to provide sufficient coverage to assess impacts on SBA's internal controls over financial reporting.

The deficiencies were caused by inadequate policies and procedures in place to evaluate SOC 1 reports. Specifically, management did not sufficiently review the fiscal transfer agent and financial service provider SOC 1 reports because management did not consider and document all relevant aspects of the SOC 1 reports and its impact on the consolidated financial statements.

The following criteria were considered with respect to the matters described in the preceding paragraphs:

- GAO's Green Book, Section 4, *Additional Considerations: Service Organizations*
- OMB Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*

The deficiencies noted above increased the risk that management does not make key observations regarding the sufficiency of coverage provided by SOC 1 reports and the results that are relevant to SBA's internal controls over financial reporting. This in turn could result in a failure to identify and obtain an understanding of relevant service organization controls and weaknesses that increase risks of misstatements in the Liability for Loan Guarantees and related elements in the consolidated financial statements.

Recommendations – Service Organizations Used for SBA Loan Guarantee Programs

We recommend the Administrator coordinate with the Associate Administrator of Office of Capital Access to enhance management's review and evaluation of SOC 1 reports for the fiscal transfer agent and financial service provider to include their performance and documentation of the following:

21. Consideration of all exceptions noted in the SOC 1 reports and determination of the applicability to SBA's internal controls over financial reporting. Management should determine the potential impact on internal controls over financial reporting and if mitigating controls exist.
22. Evaluation of each complementary user entity control identified within the SOC 1 reports. Management should determine that complementary user entity controls have been appropriately designed and implemented and are operating effectively.

23. Evaluation of the SOC 1 reports for all relevant subservice organizations to include an understanding of its role, their controls, and its effect on SBA's processes.
24. Assessment of SOC 1 reports to determine whether coverage was provided for the entire fiscal year. Management should determine the time period covered by the report, assess the significance of the gap, and obtain bridge letters for reports that do not extend through September 30 to provide sufficient coverage to assess impacts on SBA's internal controls over financial reporting.

C. Entity Level Controls

The urgent need to implement the CARES Act and related legislation presented a number of challenges for management which resulted in a deficiency in entity level controls.

7. Entity Level Controls

Management did not properly design and implement entity level controls to establish an internal control system that produces reliable and accurate financial reporting. The significance of the internal control matters indicated several entity level control categories. We noted the following conditions.

Control Environment: Management did not fully design and implement an effective control environment. For example, the following matters were noted:

1. There was not sufficient prioritization for individuals to fulfill their internal control responsibilities. The rapid response and execution of the CARES Act and related legislation was the primary objective, and not the implementation or maintenance of an effective internal control system.
2. Management did not assess control considerations over significant service organizations and their impact on financial reporting.
3. There was not adequate training of disaster assistance staff involved in the review of COVID-19 EIDL transactions resulting in inadequate documentation of how fraud alerts raised by the new custom-built portal were addressed prior to loan approval.
4. There was not sufficient training of the lenders that have delegated authority to originate, approve, disburse, and service PPP loans.
5. There was not adequate documentation of the internal control system and processes related to the implementation of the CARES Act and related legislation.

Risk Assessment: Management did not design and implement an effective risk assessment process. For example, the following matters were noted:

6. The initial risk assessment prepared was not properly amended after the enactment of the CARES Act and related legislation.
7. Management did not identify risks from the implementation of new and expanded programs under the CARES Act and related legislation that could significantly impact SBA's internal control system and the ability to achieve financial reporting objectives.

Control Activities: Management did not have effective control activities. For example, the following matters were noted:

8. Established processes and control protocols were not followed due to the volume of new users or required urgency leading to general information technology control deficiencies.
9. Existing systems did not have the capability to implement the PPP and COVID-19 EIDLs and grants in accordance with the CARES Act and related legislation.

10. To allow PPP loans to process in the loan repository system, certain edit checks were changed without evidence of testing or review and approval of such changes.

Information and Communication: Management did not have effective information and communication processes. For example, the following matters were noted:

11. There was not timely communication of necessary, quality information to achieve reporting objectives internally within the agency.
12. External information received was not evaluated against the characteristics of quality information.

Monitoring: Management did not design and implement effective monitoring processes. Specifically, the following matters were noted:

13. There was not an adequate monitoring plan developed and implemented for lenders participating in the PPP program.
14. There was not effective monitoring of the effectiveness of internal control over processes performed by service organizations.

The deficiencies were primarily caused by the prioritization and the urgent need to implement the provisions of the CARES Act and related legislation as quickly and efficiently as possible over internal control processes. Further, these deficiencies were primarily caused by the inherent challenges with the implementation of a new program that does not have any historical precedence. In the case of PPP, the challenges included implementing a program with evolving and complex guidance, inadequate systems to implement such large-scale programs, and an insufficient number of personnel to assist in the implementation of the CARES Act and related legislation. Finally, these deficiencies were primarily caused by the lack of prioritization to achieve internal control responsibilities, such as in the areas of information technology and monitoring of service organizations.

The following criteria were considered with respect to the matter described in the preceding paragraphs:

- GAO's Green Book, Principle 3, *Establish Structure, Responsibility, and Authority*; Principle 4, *Demonstrate Commitment to Competence*; Principle 5, *Enforce Accountability*; Principle 6, *Define Objectives and Risk Tolerances*; Principle 7, *Identify, Analyze, and Respond to Risks*; Principle 9, *Identify, Analyze, and Respond to Change*; Principle 10, *Design Control Activities*; Principle 11, *Design Activities for the Information System*; Principle 12, *Implement Control Activities*; Principle 13, *Use of Quality Information*; Principle 14, *Communicate Internally*; Principle 15, *Communicate Externally*; and Principle 16, *Perform Monitoring Activities*
- OMB Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*

As a result of the deficiencies noted above, PPP loans were approved that were not in conformance with the CARES Act and related legislation, risks that impacted the materially significant financial statement line items were not considered, the Office of Chief Financial Officer did not adequately consider the impact of the flagged PPP loans and the 1502 report errors on the relevant financial reporting processes, and PPP and COVID-19 EIDL transactions were approved and in certain cases disbursed to potentially ineligible entities. Without the proper level of entity level controls in place and operating effectively, there is an increased risk that a material misstatement in the consolidated financial statements and noncompliance with the relevant laws and regulations would not be prevented or detected and timely corrected.

Recommendations – Entity Level Controls

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

25. Assign and hold accountable individuals responsible for overseeing management's design,

implementation, and operation of SBA's internal control system.

26. Document the internal control system and processes related to the implementation of the CARES Act and related legislation.
27. Perform and document a thorough risk assessment at the financial statement assertion level to identify process level risks and assess the effectiveness of key process level controls to respond to the risks.
28. Develop and implement monitoring controls to ensure implementation of an effective internal control environment.
29. Recruit additional qualified personnel, implement a formal training program, and train appropriate SBA personnel and contractors on internal control matters that affect financial reporting and compliance with relevant laws and regulations.

Attachment II

U.S. Small Business Administration

Significant Deficiencies

The following deficiencies are considered to be significant deficiencies in internal controls over financial reporting.

1. **Payments for Covered Loans under Section 1112 of the CARES Act**
2. **General Information Technology Controls**

1. **Payments for Covered Loans under Section 1112 of the CARES Act**

Section 1112 of the CARES Act appropriated \$17 billion for SBA to make 6 months of payments on loans in good standing on behalf of borrowers in existing 7(a), 504, or Microloan programs. These loans in good standing are referred to as covered loans. For the 7(a) and 504 programs, the minimum payments of these loans were made directly to lenders and applied to the borrower's outstanding balance. Covered loans that were already under deferment would receive 6 months of payment beginning with the first payment due after the deferral period. Loans initiated within 6 months after the enactment of the legislation (by September 27, 2020) will also receive a full 6 months of loan payments by SBA.

Management did not adequately design and implement controls to determine that payments made to lenders for covered loans under Section 1112 of the CARES Act were accurate, reviewed, and approved prior to payment to enable the fair presentation of the Liability for Loan Guarantees. Specifically, management did not have a documented process and sufficient controls in place to substantiate the accuracy of the payments made to lenders.

The deficiency was caused by an inadequate entity wide control environment to implement processes, and procedures to account for new and expanded programs under the CARES Act and related legislation with sufficiently designed, implemented, and effectively operating controls.

The following criteria were considered with respect to the matter described in the preceding paragraphs:

- GAO's Green Book, Principle 3, *Establish Structure, Responsibility, and Authority*; and Principle 10, *Design Control Activities*
- Section 1112 of the CARES Act

The deficiency noted above may result in misstatements of the Liability for Loan Guarantees line item and related elements in the consolidated financial statements. In addition, the deficiency noted above may result in a potential noncompliance with the CARES Act.

Recommendations – Payments for Covered Loans under Section 1112 of the CARES Act

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

30. Update and enforce the existing Procedural Notice 5000-20049 to require the adequate review and approval of Section 1112 payments made to lenders and to determine that the necessary documentation is maintained to substantiate the payment amount.

2. General Information Technology Controls

Management had several control deficiencies that limited SBA's ability to effectively manage its information system risks. Collectively, these conditions increase the risk of unauthorized use, modification, or destruction of financial data, which may impact the integrity of information used to prepare the financial statements.

In the sections below, we have omitted some technical details from the conditions and recommendations due to the sensitivity of the information. These details were communicated to management in notices of findings and recommendations.

The following criteria were considered with respect to the matter described in the preceding paragraph:

- GAO's Green Book, Principle 5, *Enforce Accountability*; Principle 11, *Design Activities for the Information System*; Principle 12, *Implement Control Activities*; and Principle 16, *Perform Monitoring Activities*
- National Institute of Standards and Technology (NIST) Special Publication (SP) 800-53, Revision 4, *Security and Privacy Controls for Federal Information Systems and Organizations*
- Federal Information Processing Standards Publication (FIPS) 200, *Minimum Security Requirements for Federal Information and Information Systems*
- SBA Standard Operating Procedure (SOP) 90 47 5, *Cybersecurity and Privacy Policy*
- SBA System Configuration Management Plan
- SBA System Access Management Plan

We have summarized the information technology control deficiencies by the following general information technology control objectives: logical access controls and system configuration management.

Logical Access Controls

An integral part of the effectiveness of an organization's security program management efforts should be to determine that logical access controls provide reasonable assurance that information technology resources, such as data files, application programs, and information technology-related facilities and equipment, are protected against unauthorized modification, disclosure, loss, or impairment. Management did not always follow established policy and procedures for the account management, authorization, and recertification processes.

Recommendations – Logical Access Controls

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

31. Review the automated portion of their account management process to determine what caused the process to create multiple accounts for individual users.
32. Update and test the account management process to ensure that multiple accounts will not be created when changes are applied to the production environment.

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

33. Validate that new users identified in the notification of findings and recommendations are assigned appropriate access to SBA's information system and the supporting environment.
34. Periodically train personnel who are responsible for the approval and provisioning of accounts to emphasize the importance of documenting and approving user access requests prior to and

provisioning access to SBA's information systems and their supporting environments.

In addition, we recommend the Administrator coordinate with the Associate Administrator of Office of Disaster Assistance to:

35. Analyze and validate the users identified in the notification of findings and recommendations were granted appropriate access.
36. Periodically train personnel who are responsible for the approval and provisioning of accounts to emphasize the importance of documenting and approving user access requests prior to and provisioning access to SBA's information systems and their supporting environments.
37. Validate the accounts that are to be reviewed and recertified are performed by the appropriate or designated personnel before performing the existing recertification process.

System Configuration Management

An integral part of the effectiveness of an organization's security program management efforts should be to determine that application change management controls provide reasonable assurance that program changes implemented to the applications are appropriate and authorized. Management did not maintain supporting evidence to show patches to a database and an operating system were tested before being pushed to the production environment. In addition, management migrated application changes into the production environment without appropriate approval.

Recommendations – System Configuration Management

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

38. Validate that the patches applied to the database and operating system are appropriately implemented and do not negatively affect the performance of the application.
39. Periodically train personnel involved with the implementation of database and operating system patches to follow the requirements of the patch management process in accordance with existing policies.
40. Design and implement a quality check process to ensure that approvals for application changes are timely and accurate prior to migrating changes into the production environment.
41. Periodically train personnel involved with the review and approval of application changes to follow the requirements of the application change management process in accordance with existing policy.

Attachment III

U.S. Small Business Administration

Compliance and Other Matters

A. Federal Managers' Financial Integrity Act of 1982 (FMFIA)

Management performed an internal control assessment as required under the FMFIA; however, management's assessment did not substantially comply with FMFIA and the related OMB Circular No. A-123 requirements. Specifically, management did not:

1. Sufficiently identify or define risks related to new programs established by the CARES Act and related legislation.
2. Perform, document, or demonstrate that they completed an internal control over financial reporting evaluation regarding these new programs.
3. Fully evaluate and consider the risks and controls of significant service organizations.
4. Report the material weaknesses identified in Attachment I – Material Weaknesses.

Management did not substantially meet FMFIA requirements due to the urgent need to implement the provisions of the CARES Act and related legislation as quickly and efficiently as possible, the lack of historical precedence, and other inherent challenges faced in implementing and expanding programs. In addition, management did not consider all FMFIA and OMB Circular No. A-123 requirements when performing their evaluation over internal controls.

The following criteria were considered with respect to the matter described in the preceding paragraphs:

- Section 2 of FMFIA
- OMB Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*

Management did not substantially comply with FMFIA and the related OMB Circular No. A-123 requirements, which may lead to not identifying the appropriate risks and key controls, and not detecting internal control or compliance deficiencies. The risk of not detecting and correcting control deficiencies could result in misstatements to the consolidated financial statements.

Recommendations – FMFIA

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

42. Update the enterprise risk management approach over the evaluation of internal controls to ensure it includes all significant programs, key processes, and other material line items on the consolidated financial statements.
43. Perform and document the internal control evaluation performed over all programs. This should include entity level controls, manual controls, general information technology controls, and system application controls covering key financial statement line items and risks.
44. Work with service providers to assess service organization risks and controls and monitor the service providers to determine that they properly design, implement and effectively operate controls impacting SBA's control environment.

B. Federal Financial Management Improvement Act of 1996 (FFMIA)

Management did not establish and maintain financial management systems that substantially comply with the following FFMIA requirements:

1. **Federal Financial Management Systems Requirements.** As discussed in Attachment I – Material Weaknesses, control deficiencies over transactions arising from the implementation of the CARES Act and related legislation do not enable reliable and accurate financial reporting and do not ensure budgetary resources are safeguarded against waste, loss, and misuse. In addition, the deficiencies may not support compliance objectives related to ensuring financial transactions are in conformance with the CARES Act and related legislation are achieved.

In addition, as discussed in Attachment II – Significant Deficiencies, management did not implement sufficient general information technology controls for SBA systems critical to financial reporting. Sufficient and effective general information technology controls were not implemented to protect the financial accounting and reporting data.

2. **Federal Accounting Standards.** The deficiencies identified and reported in Attachment I – Material Weaknesses, provide an indication that SBA's financial management systems were substantially non-compliant with Federal accounting standards.

Management did not substantially meet FFMIA requirements because of the reasons discussed in Attachment I – Material Weaknesses and Attachment II – Significant Deficiencies and due to an inadequate entity wide control environment to implement the provisions of the CARES Act and related legislation with sufficiently designed and implemented controls.

The following criteria were considered with respect to the matter described in the preceding paragraphs:

- Section 803(a) of FFMIA
- GAO's Green Book, Section 2, *Establishing an Effective Internal Control System*
- Appendix D to OMB Circular No. A-123, *Compliance with the Federal Financial Management Improvement Act of 1996*

Management did not substantially comply with FFMIA increasing the risk that transactions are incorrectly recorded to the general ledger, impacting the completeness, existence, and accuracy of the balances in the consolidated financial statements.

Recommendations – FFMIA

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

45. Address the control deficiencies over transactions arising from the implementation of the CARES Act and related legislation by working with the Office of Capital Access and the Office of Disaster Assistance to implement the recommendations in Attachment I – Material Weaknesses.

We also recommend the Administrator coordinate with the Chief Information Officer to:

46. Address the deficiencies in general information technology controls for SBA systems critical to financial reporting by working with the relevant system owners to implement the recommendations in Attachment II – Significant Deficiencies.

Attachment IV



CFO Response to Audit Report on FY 2020 Financial Statements

DATE: December 18, 2020

TO: Hannibal M. Ware, Inspector General

FROM: Tami Perriello, Associate Administrator for Performance and Planning
and Chief Financial Officer *Tami Perriello*

SUBJECT: FY 2020 Financial Statement Audit

The Small Business Administration has reviewed the Independent Auditors' Report from KPMG that includes the auditors' disclaimer of opinion on the financial statements and its review of the Agency's internal control over financial reporting and compliance with laws and regulations. The independent audit of the Agency's financial statements and related processes is a core component of SBA's financial management program, and we are disappointed by this outcome.

The FY 2020 Agency Financial Report includes the programs funded under the CARES Act and subsequent legislation, which provided funding for new and expanded loan programs. The scope and scale of these programs and the speed with which the SBA responded were unprecedented in its history. The largest CARES Act loan programs executed by the SBA are governed by the Federal Credit Reform Act (FCRA), which requires estimation of lifetime expected subsidy costs at program implementation and does provide for annual adjustment to original subsidy cost estimates in future periods. The SBA believes the FY 2020 presentation of financial information is materially correct.

We recognize that documentation of the processes and controls over two CARES Act programs, the Paycheck Protection Program (PPP) and EIDL-COVID Program, was not sufficiently detailed to support the financial statement audit. The SBA fully supports the requirements for auditability of its financial statements and understands its obligations for providing accountability and transparency. The SBA is working diligently to complete its reviews and to correct these shortcomings for future audits.

The auditors identified material weaknesses related to the internal controls over seven areas related to the execution and reporting for the PPP and EIDL-COVID programs. The SBA has reviewed the identified material weaknesses and does not agree with five weaknesses included in the report under *Accounting and Reporting for Programs Implemented under the CARES Act and Related Legislation* and *Entity Level Controls*. The SBA partially agrees with two others, grouped in the audit report under *Evaluation and Monitoring of Service Organization Controls*. Our responses, as communicated to KPMG during the audit, detail our concerns with the analysis and conclusions drawn by the auditors.

We appreciate your efforts and those of your colleagues in the Office of the Inspector General, as well as those of KPMG. The independent audit process continues to provide us with new insights and valuable recommendations that directly support our efforts to further enhance the SBA's financial management practices. We remain committed to excellence in financial management and look forward to making more progress in the coming year.

Attachment V**Auditors' Response to Management's Response**

We acknowledge SBA management's response to our Independent Auditors' Report, presented in Attachment IV, and commend their commitment to financial management and the accountability for and transparency of their programs. SBA management did not agree with the five material weaknesses included in our report under *Accounting and Reporting for Programs Implemented under the CARES Act and Related Legislation* and *Entity Level Controls*. We evaluated the validity of management's responses communicated to us during the engagement and have determined that the material weaknesses in internal control over financial reporting are appropriate.

FINANCIAL STATEMENTS AND NOTES (FISCAL YEAR 2020 UNAUDITED)

The U.S. Small Business Administration prepares its financial statements as a critical aspect of ensuring accountability and stewardship for the public resources entrusted to the SBA. Preparation of these statements is also an important part of SBA's financial management goal of providing accurate and reliable information that may be used to assess performance and allocate resources.

SBA's management is responsible for the accuracy and propriety of the information contained in the principal financial statements and the quality of internal controls. The SBA prepares these financial statements from its records in accordance with generally accepted accounting principles in the United States as well as formats prescribed by the Office of Management and Budget. While these statements have been prepared from SBA's records in accordance with generally accepted accounting principles for federal entities and the formats prescribed by the OMB, they are in addition to the financial reports used to monitor and control budgetary resources, which are prepared from the same records. The statements should be read with the realization that they are a component of the U.S. Government, a sovereign entity.

The financial statements include the following reports.

The **Consolidated Balance Sheet** summarizes the assets, liabilities and net position by major category as of the reporting date. Intragovernmental assets and liabilities resulting from transactions between federal agencies are presented separately from assets and liabilities resulting from transactions with the public.

The **Consolidated Statement of Net Cost** shows, by strategic goal, the net cost of operations for the reporting period. Net cost of operations consists of full program costs incurred by the SBA less the exchange revenues earned by those programs.

The **Consolidated Statement of Changes in Net Position** presents SBA's beginning and ending net position by two components—Cumulative Results of Operations and Unexpended Appropriations. It summarizes the change in net position by major transaction category. The ending balances of both components of net position are also reported on the Balance Sheet.

The **Combined Statement of Budgetary Resources** provides information about funding and availability of budgetary resources, and the status of those resources at the end of the reporting period. Data on the Combined Statement of Budgetary Resources is consistent with information reflected on the Report on Budget Execution and Budgetary Resources (SF 133), with the one exception of offsetting receipts. Offsetting receipts offset budget authority and outlays at the agency level in the Budget of the United States Government but are not reflected in the SF 133. The SBA includes offsetting receipts in this statement for the purpose of reconciling outlay information presented in the Budget of the United States Government.

Based on updated guidance in OMB Circular A-136, a new line titled "Disbursements, net" has been added to the SBR. Net disbursements are derived by reducing gross disbursements by actual offsetting collections. This line applies only to credit financing accounts.

The **Notes to the Financial Statements** provide information to explain the basis of the accounting and presentation used to prepare the statements and to explain specific items in the statements. They also provide information to support how particular accounts have been valued and computed.

FY 2020 OMB Circular A-136 guidance changes the presentation of the reconciliation of net cost to net outlays from FY 2019 (Note 16). The FY 2019 presentation has been updated to reflect the change in guidance. Net cost should be reconciled to net outlays, which should exclude financing account activity. As shown on the SBR, net outlays represent net budgetary outlays and do not include net disbursements of credit financing accounts.

The **Required Supplementary Information** presents a Combining Statement of Budgetary Resources report by principal functional area.

U.S. SMALL BUSINESS ADMINISTRATION
CONSOLIDATED BALANCE SHEET

As of September 30, 2020 and 2019

(Dollars in Thousands)

	2020 (Unaudited)	2019
ASSETS		
Intragovernmental Assets		
Fund Balance with Treasury (Note 2)	\$ 714,400,127	\$ 7,036,675
Advances (Note 1)	2,301	18,476
Total Intragovernmental Assets	714,402,428	7,055,151
Assets - Public		
Cash (Note 3)	10,572	3,030
Accounts Receivable, Net (Note 5)	112,082	163,827
Credit Program Receivables and Related Foreclosed Property, Net (Note 6)	182,936,949	9,493,680
General Property and Equipment, Net (Note 7)	27,503	203
Advances (Note 1)	44,456	2,761
Total Assets - Public	183,131,562	9,663,501
Total Assets	\$ 897,533,990	\$ 16,718,652
LIABILITIES		
Intragovernmental Liabilities		
Accounts Payable (Note 1)	\$ 14,905	\$ 4,816
Debt (Note 9)	176,173,660	11,810,241
Net Assets of Liquidating Funds Due to Treasury (Note 10)	15,922	8,732
Downward Reestimate Payable to Treasury (Note 1, Note 13)	28,541,393	1,028,472
Other (Note 11)	16,370	16,481
Total Intragovernmental Liabilities	204,762,250	12,868,742
Liabilities - Public		
Accounts Payable (Note 1)	337,528	14,130
Accrued Grant Liability (Note 1)	66,496	66,502
Liability for Loan Guaranties (Note 6)	512,712,498	2,000,420
Federal Employees' Compensation Act Actuarial Liability (Note 1, Note 8)	30,576	28,794
Surety Bond Guarantee Program Future Claims (Note 8)	60,060	57,255
Other (Note 11)	86,610	49,201
Total Liabilities - Public	513,293,768	2,216,302
Total Liabilities	718,056,018	15,085,044
NET POSITION		
Unexpended Appropriations (Note 1)	183,460,572	1,779,472
Cumulative Results of Operations (Note 1)	(3,982,600)	(145,864)
Total Net Position	179,477,972	1,633,608
Total Liabilities and Net Position	\$ 897,533,990	\$ 16,718,652

The accompanying notes are an integral part of these statements.

U.S. SMALL BUSINESS ADMINISTRATION
CONSOLIDATED STATEMENT OF NET COST

For the Years Ended September 30, 2020 and 2019

(Dollars in Thousands)

	2020 (Unaudited)	2019
STRATEGIC GOAL 1:		
Support Small Business Revenue and Job Growth		
Gross Cost	\$ 534,872,629	\$ (559,864)
Less: Earned Revenue	8,065,493	211,581
Net Cost of Strategic Goal 1	526,807,136	(771,445)
STRATEGIC GOAL 2:		
Build Healthy Entrepreneurial Ecosystems and Create Business Friendly Environments		
Gross Cost	27,523	310,490
Net Cost of Strategic Goal 2	27,523	310,490
STRATEGIC GOAL 3:		
Restore Small Businesses and Communities after Disasters		
Gross Cost	34,993,696	757,683
Less: Earned Revenue	7,611,305	332,917
Net Cost of Strategic Goal 3	27,382,391	424,766
STRATEGIC GOAL 4:		
Strengthen SBA's Ability to Serve Small Businesses		
Gross Cost	11,976	147,190
Net Cost of Strategic Goal 4	11,976	147,190
COST NOT ASSIGNED TO STRATEGIC GOALS		
Gross Cost	2,521	25,525
Net Cost Not Assigned to Strategic Goals	2,521	25,525
Net Cost of Operations	\$ 554,231,547	\$ 136,526

The accompanying notes are an integral part of these statements.
See Note 14.

U.S. SMALL BUSINESS ADMINISTRATION
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION

For the Years Ended September 30, 2020 and 2019

(Dollars in Thousands)

	2020 (Unaudited)	2019
Beginning Unexpended Appropriations	\$ 1,779,472	\$ 2,341,412
Budgetary Financing Sources		
Appropriations Received	762,191,631	932,917
Rescissions	(16,369)	(50,000)
Adjustment - Cancelled Authority	(11,135)	(21,640)
Return of Unrequired Liquidating Fund Appropriation	(2,048)	(3,312)
Other Adjustments	(197)	(253)
Appropriations Used	(580,480,782)	(1,419,652)
Total Budgetary Financing Sources	181,681,100	(561,940)
Ending Unexpended Appropriations	\$ 183,460,572	\$ 1,779,472
Beginning Cumulative Results of Operations	\$ (145,864)	\$ (268,255)
Budgetary Financing Sources		
Transfers-Out Without Reimbursement	(57,862)	-
Appropriations Used	580,480,782	1,419,652
Other - Current Year Liquidating Equity Activity	(9,406)	(6,324)
Donations of Cash and Cash Equivalents	12	112
Other Financing Sources		
Transfers-In Without Reimbursement	57,862	-
Imputed Financing from Costs Absorbed by Others	19,508	21,503
Other - Non-entity Activity	(30,096,085)	(1,176,026)
Total Financing Sources	550,394,811	258,917
Less: Net Cost of Operations	554,231,547	136,526
Net Change	(3,836,736)	122,391
Ending Cumulative Results of Operations	\$ (3,982,600)	\$ (145,864)
Ending Net Position	\$ 179,477,972	\$ 1,633,608

The accompanying notes are an integral part of these statements.

U.S. SMALL BUSINESS ADMINISTRATION
COMBINED STATEMENT OF BUDGETARY RESOURCES

For the Years Ended September 30, 2020 and 2019

(Dollars in Thousands)

	September 30, 2020 (Unaudited)		
	Budgetary	Nonbudgetary Financing	Total
BUDGETARY RESOURCES			
Unobligated Balance from Prior Year Budget Authority, net (discretionary and mandatory)	\$ 1,529,176	\$ 3,771,133	\$ 5,300,309
Appropriations (discretionary and mandatory)	762,084,837	88,377	762,173,214
Borrowing Authority (discretionary and mandatory)	–	167,267,294	167,267,294
Spending Authority from Offsetting Collections	957,307	582,969,780	583,927,087
Total Budgetary Resources	\$ 764,571,320	\$ 754,096,584	\$ 1,518,667,904
STATUS OF BUDGETARY RESOURCES			
New Obligations and Upward Adjustments (total)	\$ 590,232,922	\$ 228,773,726	\$ 819,006,648
Unobligated Balance, end of year:			
Apportioned, unexpired accounts	174,209,293	515,801,872	690,011,165
Unapportioned, unexpired accounts	77,908	9,520,986	9,598,894
Unexpired Unobligated Balance, end of year	174,287,201	525,322,858	699,610,059
Expired Unobligated Balance, end of year	51,197	–	51,197
Unobligated Balance, end of year (total)	174,338,398	525,322,858	699,661,256
Total Status of Budgetary Resources	\$ 764,571,320	\$ 754,096,584	\$ 1,518,667,904
OUTLAYS, NET			
Net Outlays (discretionary and mandatory)	\$ 579,936,314		\$ 579,936,314
Distributed Offsetting Receipts	(2,523,844)		(2,523,844)
Agency Outlays, net (discretionary and mandatory)	\$ 577,412,470		\$ 577,412,470
Disbursements, net (total) (mandatory)		\$ (360,836,171)	

The accompanying notes are an integral part of these statements.
 Note 15

U.S. SMALL BUSINESS ADMINISTRATION
COMBINED STATEMENT OF BUDGETARY RESOURCES

For the Years Ended September 30, 2020 and 2019

(Dollars in Thousands)

	September 30, 2019		
	Budgetary	Nonbudgetary Financing	Total
BUDGETARY RESOURCES			
Unobligated Balance from Prior Year Budget Authority, net (discretionary and mandatory)	\$ 2,035,305	\$ 4,290,915	\$ 6,326,220
Appropriations (discretionary and mandatory)	879,605	-	879,605
Borrowing Authority (discretionary and mandatory)	-	2,231,792	2,231,792
Spending Authority from Offsetting Collections	207,470	2,697,511	2,904,981
Total Budgetary Resources	\$ 3,122,380	\$ 9,220,218	\$ 12,342,598
STATUS OF BUDGETARY RESOURCES			
New Obligations and Upward Adjustments (total)	\$ 1,655,874	\$ 4,794,658	\$ 6,450,532
Unobligated Balance, end of year:			
Apportioned, unexpired accounts	393,225	1,401,684	1,794,909
Unapportioned, unexpired accounts	1,024,370	3,023,876	4,048,246
Unexpired Unobligated Balance, end of year	1,417,595	4,425,560	5,843,155
Expired Unobligated Balance, end of year	48,911	-	48,911
Unobligated Balance, end of year (total)	1,466,506	4,425,560	5,892,066
Total Status of Budgetary Resources	\$ 3,122,380	\$ 9,220,218	\$ 12,342,598
OUTLAYS, NET			
Net Outlays (discretionary and mandatory)	\$ 1,402,893		\$ 1,402,893
Distributed Offsetting Receipts	(946,587)		(946,587)
Agency Outlays, net (discretionary and mandatory)	\$ 456,306		\$ 456,306
Disbursements, net (total) (mandatory)		\$ 1,152,612	

The accompanying notes are an integral part of these statements.
Note 15

Note 1 Significant Accounting Policies

Reporting Entity

The Small Business Act of 1953 created the Small Business Administration as an independent federal agency. SBA's mission is to maintain and strengthen the nation's economy by enabling the establishment and vitality of small businesses and by assisting in the economic recovery of communities after disasters. The SBA operates through the execution of a congressionally approved budget that funds its programs.

The SBA is a component of the U.S. Government. For this reason, some of the assets and liabilities reported by the entity may be eliminated for Government-wide reporting because they are offset by assets and liabilities of another U.S. Government entity. These financial statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity.

Basis of Accounting and Presentation

The SBA prepares financial statements to report its financial position, and results of its operations, as required by the Chief Financial Officers Act of 1990 and the Government Management Reform Act of 1994. The financial statements are prepared from the Agency's records in accordance with generally accepted accounting principles using formats prescribed by the Office of Management and Budget. As a federal agency, the SBA cannot incur obligations without authority from the Congress and an apportionment by the OMB.

These financial statements reflect transactions recorded on both a proprietary accrual accounting basis and a budgetary obligation basis in accordance with concepts and guidance provided by the OMB, the Federal Accounting Standards Advisory Board, and the Department of the Treasury. Under the accrual method of accounting, revenues are recognized when earned and expenses are recognized when incurred, without regard to receipt or payment of cash. Budgetary accounting recognizes the legal commitment or obligation of funds in advance of the proprietary accruals and facilitates compliance with legal constraints and controls over the use of federal funds.

The Federal Credit Reform Act of 1990 governs SBA's accounting for direct loans and loan guaranties made in FY 1992 and thereafter. Under the FCRA, the liability for loan guaranties is determined as the summarized discounted present value of the estimated future net cash inflows and outflows for each fiscal year's cohort of guaranties. For direct loans, the allowance is the current outstanding FCRA loans receivable balance less the discounted present value of the estimated future net cash flows for all the loan cohorts. A cohort of loans receivable or guarantied loans is all the direct loans obligated, or loan guaranties committed, in a given fiscal year. Increases to individual loans in a cohort that are made in a subsequent fiscal year are accounted for in the subsequent year's loan cohort. Cohort cash flows include loan repayments, recoveries on defaulted guaranties and loan fees received by the SBA that are due from the lenders and borrowers when the loan is made and during the life of the loan cohort, as well as expenditures by the SBA for defaulted guaranties, loan servicing expenses, and other required SBA expenditures. An initial allowance or liability for loan guaranties is established in the original year of the loan cohort. The initial amount of the allowance and liability for each cohort is reestimated annually at fiscal year-end, and the adjusted amount is included in SBA's annual financial statements. Note 6 further describes FCRA accounting.

Use of Estimates

SBA's management makes assumptions and uses estimates to prepare the financial statements based upon the facts that exist when the statements are prepared. The SBA typically uses economic assumptions provided by the Office of Management and Budget in preparing the estimates. However, in FY 2020, the OMB did not prepare the Mid-Session Review Economic assumptions. The SBA selected Moody's Analytics to meet this requirement as it provides a single source for all assumptions and has been used at other agencies for components of their credit models. Actual results may differ from those assumptions and estimates. The most significant differences between actual results and these estimates may occur in the valuation of credit program receivables and liabilities for loan guaranties under guidelines in FCRA. The SBA recognizes the sensitivity of

credit reform modeling to slight changes in some model assumptions and therefore continually reviews its model factors and statistical modeling techniques to reflect the most accurate credit program costs possible in its annual financial statements.

Budgets and Budgetary Accounting for Loan Programs

SBA's loan disbursements are financed by appropriations for long-term loan subsidy cost and borrowings from the Treasury's Bureau of the Fiscal Service for the remaining nonsubsidized portion of the loans. The Congress may provide one-year, multi-year, or no year appropriations to cover the estimated long-term costs of the loan programs. The non-subsidized portion of each loan disbursement, financed initially under permanent indefinite authority to borrow funds from the Treasury, is repaid from collections of loan fees, repayments, and default recoveries. The Congress authorizes the dollar amount of obligations that can be made for the cost of direct loans and loan guaranties and establishes the maximum amount of loans the SBA can guarantee in its annual Appropriation Act.

A permanent indefinite authority is available to fund any reestimated increase of subsidy costs that occurs after the year in which a loan is disbursed. Reestimated reductions of subsidy costs are returned to the Treasury and are unavailable to the SBA. As required by the FCRA, the SBA uses budgetary "program accounts" to account for appropriations in its credit programs and nonbudgetary "financing accounts" to account for credit program cash flow. Estimates and reestimates of credit program subsidy expenses are recorded in SBA's program accounts. Financing accounts are used to account for Treasury borrowings, the collection of loan fees, repayments and default recoveries, and the disbursement of loans and loan expenses.

As a component of the Government-wide reporting entity, the SBA is subject to the Federal budget process, which involves appropriations that are provided annually and appropriations that are provided on a permanent basis. The financial transactions that are supported by budgetary resources, which include appropriations, are generally the same transactions reflected in agency and the Government-wide financial reports.

SBA's budgetary resources reflect past congressional action and enable the entity to incur budgetary obligations, but they do not reflect assets to the Government as a whole. Budgetary obligations are legal obligations for goods, services, or amounts to be paid based on statutory provisions. After budgetary obligations are incurred, the Treasury will make disbursements certified by the SBA to liquidate the budgetary obligations and finance those disbursements in the same way it finances all disbursements, which, is to borrow from the public if there is a budget deficit.

Advances

The SBA has both intragovernmental advances and advances to the public. Intragovernmental advances are primarily to the Interior Business Center of the Department of the Interior for contracting assistance on work not yet performed. Advances to the public represent prepaid grants to counseling and training partners.

Accounts Payable

Accounts Payable are amounts that will be liquidated during the next operating cycle. Included in the liability are payables to SBA lenders for their share of loan collections and to vendors for goods and services.

Accrued Grant Liability

Disbursements of grant funds are recognized as expenses at the time of disbursement. However, some grant recipients incur expenditures prior to initiating a request for disbursement based on the nature of the expenditures. The SBA accrues a liability for expenditures incurred by grantees prior to receiving grant funds for the expenditures. The accrual is determined through an analysis of historic grant expenditures. The Small Business Development Center program and several other grant programs are subject to this treatment.

Contingencies

The SBA is a party in various administrative proceedings, legal actions, environmental suits, and claims brought against the Agency. In the opinion of SBA's management and legal counsel, the ultimate resolution of these proceedings, actions, suits, and claims will not materially affect the financial position or results of SBA's operations.

Cumulative Results of Operations

The Cumulative Results of Operations, presented on the Balance Sheet and on the Statement of Changes in Net Position, is the accumulated difference between expenses and financing sources since the inception of the Agency. The amounts reported reflect timing differences between the recording of expenses and the recognition of resources. Most of this timing difference results from subsidy reestimates which are funded in the following year.

Unexpended Appropriations

Unexpended Appropriations is the portion of SBA's appropriations received which are either undelivered or unobligated. Delivered orders result in expended appropriations and reduce the total reported as Unexpended Appropriations. Undelivered orders are the amount of orders of goods or services which have not been actually or constructively received.

Other Financing Sources

The Statement of Changes in Net Position contains a line item under Other Financing Sources titled Other - Non-entity Activity. This amount is the offset to non-entity collections to the general fund of the Treasury for downward subsidy reestimates that are payable to the Treasury under Federal Credit Reform requirements.

Classified Activities

Accounting standards require all reporting entities to disclose that accounting standards allow certain presentations and disclosures to be modified, if needed, to prevent the disclosure of classified information.

Fiduciary Activities

Fiduciary activities are the receipt, management, protection, accounting, investment, and disposition by the Federal Government of cash or other assets in which non-federal entities have an ownership interest that the Federal Government must uphold. Fiduciary cash and other assets are not assets of the government, and are not recognized on SBA's proprietary statements, but they are required to be disclosed in the notes to SBA's financial statements. SBA's fiduciary balances are on deposit in commercial banks. SBA's fiduciary activities are discussed in Note 4.

Employee Benefits

Leave

A liability for employee annual leave is accrued as it is earned and reduced as leave is taken. Each year the balance of accrued annual leave is adjusted to reflect current pay rates as well as forfeited "use or lose" leave. Annual leave earned but not taken, within established limits, is funded from future financing sources. Sick leave and other types of non-vested leave are expensed as taken.

Employee Health and Life Insurance Benefits

SBA employees may choose to participate in the contributory Federal Employees Health Benefits and the Federal Employees Group Life Insurance programs. The SBA matches a portion of the employee contributions to each program. Such matching contributions are recognized as current operating expenses.

Employee Pension Benefits

SBA employees participate in either the Civil Service Retirement System or the Federal Employees Retirement System and Social Security. These systems provide benefits upon retirement and in the event of death, disability or other termination of employment and may also provide pre-retirement benefits. They may also include benefits to survivors and their dependents, and they may contain early retirement or other special features. SBA's contributions to both retirement plans, as well as to the government-wide Federal Insurance Contribution Act administered by the Social Security Administration, are recognized on the Consolidated Statement of Net Cost as current operating expenses.

Federal employee benefits also include the Thrift Savings Plan. For FERS employees the SBA matches employee contributions to the plan, subject to limitations. The matching contributions are recognized as current operating expenses.

Imputed Financing Costs

The SBA recognizes the full cost of providing all employee benefits and future retirement benefits, including life and health insurance, at the time employee services are rendered. Eligible retired SBA employees can continue to participate in health and life insurance plans. The cost of these benefits is funded through Agency contributions, employee compensation to the extent withheld from employee and retiree pay, from matching of employee withholding for Thrift Savings Plan and FICA, and by the Office of Personnel Management, which administers the retirement programs for SBA employees.

The OPM calculates imputed costs as the actuarial present value of future benefits attributed to services rendered by covered employees and eligible retired SBA employees during the accounting period, net of the amounts contributed by employees, retirees, and the Agency. The SBA recognizes these imputed costs in the Statement of Net Cost and imputed financing in determining SBA's net position.

Federal Employees' Compensation Act

The Federal Employees' Compensation Act provides income and medical cost protection to covered federal civilian employees injured on the job and to beneficiaries of employees whose deaths are attributable to job-related injury or disease. The FECA program is administered by the Department of Labor.

The DOL pays valid claims as they occur, which are billed to the SBA annually and funded and paid approximately 15 months later. The DOL also calculates an estimated actuarial liability for future benefits based upon historical experience and other economic variables. Projected annual benefit payments are then discounted to present value using the forecasted interest rates for 10-year Treasury notes and bonds published by the OMB in its economic assumptions for the federal budget. The SBA recognizes a current unfunded cost for the actual claims paid and the change in the FECA actuarial liability each year.

Note 2 Fund Balance with Treasury

The Department of the Treasury processes cash receipts and disbursements on SBA's behalf to pay liabilities and finance loan program costs. Cash receipts are deposited into SBA's account at the Treasury. SBA's fund balances with the Treasury are available to make expenditures to liquidate allowable obligations, except for the Non-entity Fund Balance which is not available to the SBA to obligate or expend. Records are maintained for SBA's program, financing, liquidating, suspense/budget clearing accounts, and other accounts at the fund level. Fund balances at the Treasury include expired year amounts, which are unavailable for obligation, as well as amounts currently available for new obligations.

FBWT is an asset to the SBA, but not to the Government as a whole, as it is a liability of the General Fund. The amounts represent commitments by the Government to provide resources for programs, but they do not represent net assets to the Government as a whole. When disbursements are made, the Treasury finances those disbursements in the same way it finances all other disbursements, which is to borrow from the public if there is a budget deficit, and to use current receipts if there is a budget surplus.

(Dollars in Thousands)

As of September 30,	2020 (Unaudited)	2019
Appropriated Funds	\$ 184,019,803	\$ 1,886,997
Financing Funds	530,277,121	5,047,017
Liquidating Funds	475	652
Revolving Fund	102,855	100,464
Trust Fund	175	221
Total Entity Fund Balance with Treasury	714,400,429	7,035,351
Budget Clearing Account Balance	(302)	1,324
Total Fund Balance with Treasury	\$ 714,400,127	\$ 7,036,675
Status of Fund Balance with Treasury		
Apportioned, unexpired accounts	\$ 690,011,165	\$ 1,794,909
Unapportioned, unexpired accounts	9,598,894	4,048,246
Obligated Balance Not Yet Disbursed	15,659,061	1,143,285
Expired Unobligated Balance	51,197	48,911
Borrowing Authority Not Converted to Funds	(919,888)	-
Nonbudgetary	(302)	1,324
Total Fund Balance with Treasury	\$ 714,400,127	\$ 7,036,675

Unobligated balances become available when OMB approves SBA's request to apportion funds for obligation in the current fiscal year. Obligated balances not yet disbursed include unpaid obligations offset by uncollected customer payments from other federal government accounts. The unobligated and obligated balances are reflected on the Statement of Budgetary Resources.

The increase in fund balance is attributed to CARES Act funding received in FY 2020.

Note 3 Cash

The SBA field offices deposit collections from borrowers in SBA's account at the Treasury using an electronic deposit system. At the end of the fiscal year, collections temporarily held by SBA field offices pending deposit are recorded as Undeposited Collections - Cash in Transit and totaled \$10.6 million and \$3.0 million as of September 30, 2020 and 2019.

Note 4 Fiduciary Activities: Master Reserve Fund and Master Reserve Account

Fiduciary activities are the receipt, management, protection, accounting, investment, and disposition by the federal government of cash or other assets in which non-federal entities have an ownership interest that the federal government must uphold. Fiduciary cash and other assets are not assets of the government, and are not recognized on SBA's proprietary statements, but are required to be disclosed in the notes to SBA's financial statements. SBA's fiduciary balances are on deposit in commercial banks.

The Master Reserve Fund is a fiduciary activity administered by SBA's fiscal transfer agent, Colson Services Corp., a subsidiary of the Bank of New York Mellon. The balance in the MRF is invested, according to SBA policy, entirely in Treasury securities and repurchase agreements that are backed by Treasury securities. The MRF is an integral part of SBA's 7(a) secondary market program. The MRF was authorized by the Small Business Secondary Market Improvement Act of 1984 to facilitate the pooling of 7(a) guaranteed loans that are purchased by secondary market investors. The MRF receives monthly payments from SBA guaranteed borrowers and disburses monthly to 7(a) secondary market pool investors based on a schedule of amounts due. In FY 2020, the MRF also received \$386 million in transfers from the SBA to support select cohort available balances, which have absorbed an increase in distributions of prepaid principal to pool certificate holders. In FY 2019, the MRF received a \$380 million transfer to support select cohorts. The 7(a) secondary market program includes SBA's guaranty of timely payment, as well as a default guaranty, to 7(a) secondary market investors. The MRF supports \$33.7 billion and \$33.9 billion of outstanding SBA guaranteed 7(a) secondary market pool principal as of September 30, 2020 and 2019.

The Master Reserve Account is an SBA fiduciary activity that is administered for the SBA by PwC. The balance in the MRA is invested entirely in Treasury securities. The MRA facilitates the operation of the 504 Certified Development Company secondary market program. The MRA was authorized by Section 505 of the Small Business Investment Act of 1958 as amended, as a vehicle to receive, temporarily hold, and distribute 504 program cash flows. The MRA receives monthly payments from 504 borrowers and retains the payments until a semi-annual debenture payment is due to secondary market investors. The 504 secondary market program includes SBA's guaranty of timely payment, as well as a default guaranty, to 504 secondary market investors. The MRA supports \$28.0 billion and \$26.5 billion of SBA guaranteed 504 debentures outstanding in the secondary market as of September 30, 2020 and 2019.

The composition of the MRF and MRA and a reconciliation of the changes in the assets are included in the following table.

Master Reserve Fund and Master Reserve Account

(Dollars in Thousands)

FIDUCIARY ASSETS

As of September 30,	2020 (Unaudited)			2019		
	MRF	MRA	Total	MRF	MRA	Total
Cash	\$ 2,475	\$ -	\$ 2,475	\$ 3,060	\$ -	\$ 3,060
Short Term Securities						
Money Market Funds	23,965	542,818	566,783	30,084	722,797	752,881
Treasury Bills	29,977	-	29,977	179,222	-	179,222
Repurchase Agreements	359,108	-	359,108	510,101	-	510,101
Total Cash and Short Term Securities	415,525	542,818	958,343	722,467	722,797	1,445,264
Long Term Securities						
Treasury Notes/Bonds Including Interest	1,655,943	-	1,655,943	2,317,380	-	2,317,380
Total Long Term Securities	1,655,943	-	1,655,943	2,317,380	-	2,317,380
Net Assets	\$ 2,071,468	\$ 542,818	\$ 2,614,286	\$ 3,039,847	\$ 722,797	\$ 3,762,644

RECONCILIATION OF FIDUCIARY ASSETS

For the Years Ended September 30,	2020 (Unaudited)			2019		
	MRF	MRA	Total	MRF	MRA	Total
Beginning Net Assets	\$ 3,039,847	\$ 722,797	\$ 3,762,644	\$ 3,459,427	\$ 673,079	\$ 4,132,506
Receipts						
Earned Income	41,283	8,894	50,177	63,004	19,566	82,570
Contributions	8,274,728	14,882,369	23,157,097	9,501,440	14,522,564	24,024,004
Net Realized Gain (Loss)	9,222	-	9,222	3,015	-	3,015
Total Receipts	8,325,233	14,891,263	23,216,496	9,567,459	14,542,130	24,109,589
Less Disbursements						
Payments to Investors	9,293,612	15,071,242	24,364,854	9,987,039	14,492,412	24,479,451
Total Disbursements	9,293,612	15,071,242	24,364,854	9,987,039	14,492,412	24,479,451
Ending Net Assets	\$ 2,071,468	\$ 542,818	\$ 2,614,286	\$ 3,039,847	\$ 722,797	\$ 3,762,644

Note 5 Accounts Receivable

Accounts receivable include amounts owed by the public for guaranty fees in SBA's loan and surety bond programs, refunds due from employees and others, as well as other amounts owed by lenders for guaranteed loan purchases that lack the required documents. An Allowance for Loss on uncollectible Surety Bond Guaranty fees is based on an aging of delinquent balances. The uncollectible amount for refunds and loan guaranty fees is not significant and no allowance is provided. Amounts over 180 days past due on guaranteed loans purchased by the SBA are written off for financial reporting purposes. The amount shown in "Other" consists primarily of receivables due from lenders and guaranty purchase repairs.

(Dollars in Thousands)

As of September 30,	2020 (Unaudited)	2019
Public		
Guaranty Fees Receivable	\$ 74,243	\$ 78,631
Refunds	1,253	1,002
Other	37,321	84,820
Total Public	112,817	164,453
Allowance For Loss	(735)	(626)
Net Public	\$ 112,082	\$ 163,827

Note 6 Credit Program Receivables and Liability for Loan Guaranties

A. Loan Program Descriptions and Accounting

Loan Program Descriptions

The SBA provides guaranties that help eligible small businesses obtain loans from participating lenders and licensed small business investment companies to make investments in qualifying small businesses. The SBA also makes loans to microloan intermediaries and provides direct loans that assist homeowners, renters, businesses of all sizes, and private nonprofit organizations recover from disasters.

Major Direct Loan and Loan Guaranty Programs

Program group	Program type	Program
Disaster	Direct	Disaster Assistance Loans
Business	Guarantied	7(a) Loan Guaranty
Business	Guarantied	504 Certified Development Company
Business	Guarantied	Small Business Investment Company Debentures
Business	Direct	7(m) Microloan

In March 2020, the Coronavirus Aid, Relief and Economic Security Act (the CARES Act) was enacted to provide emergency and immediate national economic relief and assistance across the American economy, including to small businesses, workers, families, and the healthcare system, to alleviate the severe economic hardships and public health threat created by the 2019 Novel Coronavirus pandemic.

The CARES Act expanded SBA's disaster and 7(a) lending programs and requires the SBA to make six months of borrower payments for 7(a), 504 and Microloan borrowers in regular servicing.

SBA's Disaster Assistance Loan program makes direct loans to disaster survivors under four categories: (1) physical disaster loans to repair or replace damaged homes and personal property; (2) physical disaster loans to businesses of any size; (3) economic injury disaster loans to eligible small businesses and nonprofit organizations without credit available elsewhere; and (4) economic injury loans to eligible small businesses affected by essential employees called up to active duty in the military reserves. The maximum interest rate is 4 percent for loan applicants without credit available elsewhere and 8 percent for applicants with credit available elsewhere. The SBA offers low-interest economic injury disaster loans for working capital to small businesses suffering substantial economic injury as a result of the Coronavirus (COVID-19). These EIDL loans may be used to pay fixed debts, payroll, accounts payable and other bills that cannot be paid because of the disaster's impact. The interest rate is 3.75 percent for small businesses. The interest rate for non-profits is 2.75 percent.

SBA's business loan programs include its flagship 7(a) Loan Guaranty program in which the SBA guaranties up to 90 percent of the amount of loans made by participating banks and other lending institutions to eligible small businesses not able to obtain credit elsewhere. The CARES Act added the Paycheck Protection Program in the 7(a) loan program which is designed to provide a direct incentive for small businesses to keep their workers on the payroll. The loan will be fully forgiven if the funds are used for payroll costs, interest on mortgages, rent, and utilities (due to likely high subscription, at least 60 percent of the forgiven amount must have been used for payroll). Loans issued prior to June 5, 2020, have a maturity of two years while those issued after have a maturity of five years. All loans have an interest rate of 1 percent. The CARES Act also provides debt relief for 7(a) borrowers. The SBA will pay six months of principal, interest, and any associated fees owed by current 7(a) borrowers with loans in regular servicing status as well as new 7(a) loans disbursed prior to September 27, 2020. Borrowers do not apply for this assistance; it is automatically provided.

The 504 Certified Development Company program guarantees 100 percent of the principal and interest payments on debentures issued by development companies for loans to eligible small businesses secured by real estate or equipment. The CARES Act provides debt relief for 504 borrowers. The SBA will pay six months of principal, interest, and any fees owed by current borrowers who are in regular servicing status as well as new 504 loans disbursed prior to September 27, 2020. Borrowers do not apply for this assistance; it is automatically provided.

The Small Business Investment Company program guarantees principal and interest payments on debentures issued by small business investment companies, which in turn make investments in qualifying small businesses.

The 7(m) Microloan program provides direct loans to nonprofit intermediaries, which use these funds to make loans up to \$50,000 to eligible small businesses. The CARES Act provides debt relief for Microloan borrowers. The SBA will pay six months of principal, interest, and any fees owed by current borrowers who are in regular servicing status as well as new Microloan loans disbursed prior to September 27, 2020. Borrowers do not apply for this assistance; it is automatically provided.

Credit Subsidy Modeling

The SBA estimates future cash flows for direct and guaranteed loans using economic and financial credit subsidy models. These estimated cash flows are used to develop the subsidy funding required under the Federal Credit Reform Act of 1990. The SBA has developed a customized credit subsidy model for each of its major loan programs.

SBA's models vary in the specific methodologies employed to forecast future program cash flows. In general, however, models for all major credit programs use historical data as the basis for assumptions about future program performance and then translate these assumptions into nominal cash flow estimates by applying rules about program structure. Nominal cash flow forecasts are discounted using the OMB's Credit Subsidy Calculator that has both forecasted and actual Treasury interest rates.

Historical data are used as the basis for program performance assumptions. The historical data undergo quality review and analysis prior to its use in developing model assumptions.

Key input to the subsidy models varies by program. Input includes items such as:

- Contractual terms of the loan or guaranty such as loan amount, interest rate, maturity, and grace periods
- Borrower characteristics
- Loan origination methods
- Economic indicators such as gross domestic product growth and unemployment rate
- Loan performance assumptions, for example: conditional purchase and prepayment rates and recovery rates
- Loan fee rate

Subsidy Funding under the Federal Credit Reform Act

FCRA requires that the credit subsidy costs of direct loans and loan guaranties be expensed in the year loans are disbursed. The credit subsidy cost is the net present value of expected cash inflows and outflows over the life of a guaranteed loan, or the difference between the net present value of expected cash flows and the face value of a direct loan. The cost expressed as a percentage of loans disbursed is termed the subsidy rate. The SBA receives appropriations to fund its credit programs based on the subsidy rate that applies to the credit program level approved by Congress. The SBA records subsidy expenses when loans are disbursed. In accordance with FCRA, subsidy costs are reestimated annually.

Credit Program Receivables and Related Foreclosed Property, Net

FCRA governs direct loans made after FY 1991. FCRA direct loans are valued at the present value of expected future cash flows discounted at the interest rate of marketable Treasury securities. The subsidy allowance represents the difference between the outstanding loans receivable balance and the net present value of the estimated cash flows of the loans over their remaining term. The subsidy allowance is subtracted from the outstanding loans receivable balance to obtain the net loans receivable balance.

Guaranteed loans purchased by the SBA upon borrower default are established as loans receivable and are valued in a similar manner as direct loans under FCRA.

Direct loans and defaulted guaranties made prior to FCRA are valued at the current receivable balance net of an allowance for uncollectible amounts calculated using historical loss experience.

The SBA advances payments semiannually to honor SBA's timely payment requirement of principal and interest due for debentures in SBA's 504 Certified Development Company and Small Business Investment Company programs. The advances are liquidated by receipt of the payments due from borrowers in these programs. Advance balances are reported as Other Loans Receivable.

Interest receivable is comprised of accrued interest on loans receivable and purchased interest related to defaulted guaranteed loans. Interest income is accrued at the contractual rate on the outstanding principal amount and is reduced by the amount of interest income accrued on nonperforming loans in excess of 90 days delinquent. SBA's purchase of accrued interest is limited to 120 days on the defaulted guaranty unless the loan has been sold in the secondary market. Purchased interest is carried at cost, and an allowance is established for amounts in excess of 90 days delinquent.

Foreclosed property is comprised of real and personal property acquired through foreclosure on direct loans and defaulted loan guaranties. Properties acquired as a result of defaulted loans committed after FY 1991 are shown at recoverable value, which is adjusted to the present value of expected future cash flows for financial statement presentation through the allowance for subsidy. Other foreclosed property is shown at the appraised value. At September 30, 2020 the SBA's foreclosed property was \$39.4 million related to 84 loans. The properties had been held for an average of 1,340 days. At September 30, 2019 foreclosed property was \$24.7 million related to 83 loans. The properties had been held for an average of 1,275 days.

Valuation Methodology for the Liability for Loan Guaranties under FCRA

FCRA also governs loan guaranties made after FY 1991. A liability for outstanding guaranties is included on SBA's Balance Sheet. The liability for guaranteed loans committed after FY 1991 is based on the net present value of their expected future cash flows, including guaranty fee inflows and the net cash outflows of defaulted guaranteed loans purchased by the SBA.

Valuation Methodology for Pre-FCRA Liability for Loan Guaranties

The SBA values pre-credit reform direct and defaulted guaranteed loans by estimating an allowance for loan losses. This allowance is offset against gross loan receivables to obtain SBA's expected net collections from these assets. The SBA establishes a 100 percent allowance for pre-credit reform direct and guaranteed loans that are past due more than 180 days.

B. Credit Program Receivables and Related Foreclosed Property, Net

(Dollars in Thousands)

As of September 30, 2020 (Unaudited)	Pre-1992 Loans	Post-1991 Loans	Total
Direct Business Loans			
Business Loans Receivable	\$ 1,236	\$ 217,150	\$ 218,386
Interest Receivable	-	809	809
Foreclosed Property	2,609	-	2,609
Allowance	(1,072)	(30,928)	(32,000)
Total Direct Business Loans	2,773	187,031	189,804
Direct Disaster Loans			
Disaster Loans Receivable	374	185,279,828	185,280,202
Interest Receivable	163	1,760,193	1,760,356
Foreclosed Property	-	3,496	3,496
Allowance	(150)	(5,641,474)	(5,641,624)
Total Direct Disaster Loans	387	181,402,043	181,402,430
Defaulted Guaranteed Business Loans & Other Loans Receivable			
Defaulted Guaranteed Business Loans	1,071	3,440,378	3,441,449
Other Loans Receivable (see note below)	-	61,975	61,975
Interest Receivable	-	23,347	23,347
Foreclosed Property	1,894	31,398	33,292
Allowance	(842)	(2,214,506)	(2,215,348)
Total Defaulted Guaranteed Business Loans & Other Loans Receivable	2,123	1,342,592	1,344,715
Total Credit Program Receivables & Related Foreclosed Property, Net			\$ 182,936,949

Note: The increase in post-1991 Disaster Loans Receivable is to CARES Act funded loans.

(Dollars in Thousands)

As of September 30, 2019	Pre-1992 Loans	Post-1991 Loans	Total
Direct Business Loans			
Business Loans Receivable	\$ 6,736	\$ 191,712	\$ 198,448
Interest Receivable	-	550	550
Foreclosed Property	2,608	-	2,608
Allowance	(6,719)	(19,501)	(26,220)
Total Direct Business Loans	2,625	172,761	175,386
Direct Disaster Loans			
Disaster Loans Receivable	523	9,568,423	9,568,946
Interest Receivable	154	42,071	42,225
Foreclosed Property	-	3,715	3,715
Allowance	(126)	(1,265,374)	(1,265,500)
Total Direct Disaster Loans	551	8,348,835	8,349,386
Defaulted Guaranteed Business Loans & Other Loans Receivable			
Defaulted Guaranteed Business Loans	3,823	3,269,080	3,272,903
Other Loans Receivable (see note below)	-	76,758	76,758
Interest Receivable	-	26,820	26,820
Foreclosed Property	1,894	16,489	18,383
Allowance	(3,259)	(2,422,697)	(2,425,956)
Total Defaulted Guaranteed Business Loans & Other Loans Receivable	2,458	966,450	968,908
Total Credit Program Receivables & Related Foreclosed Property, Net			\$ 9,493,680

Note: Other Loans Receivable includes payments advanced by the SBA against future reimbursements in the SBIC and 504 loan programs.

C. Loans Disbursed and Outstanding Loan Obligations

(Dollars in Thousands)

DIRECT LOANS

New Loans Disbursed During the Year Ended September 30,	2020 (Unaudited)	2019
Business Direct Loan Program	\$ 53,167	\$ 35,263
Disaster Loan Program	178,455,632	1,518,101
Total Direct Loans Disbursed	\$ 178,508,799	\$ 1,553,364
Outstanding Loan Obligations as of September 30,	2020	2019
Business Direct Loan Program	\$ 41,703	\$ 42,191
Disaster Loan Program	13,808,399	636,888
Total Direct Loan Obligations	\$ 13,850,102	\$ 679,079

GUARANTIED LOANS

New Loans Disbursed During the Year Ended September 30,	2020	2019
Total Principal Disbursed at Face Value	\$ 542,948,707	\$ 26,790,570
Total Principal Disbursed Guaranteed by the SBA	537,999,418	21,188,429
Outstanding Loan Obligations as of September 30,	2020	2019
Business Guaranteed Loan Programs	\$ 22,270,996	\$ 15,845,258
Loans Outstanding as of September 30,	2020	2019
Total Principal Outstanding at Face Value	\$ 646,028,326	\$ 129,717,116
Total Principal Outstanding Guaranteed by the SBA	621,677,390	105,827,203

New Loans Disbursed and Outstanding Loan Obligations under Direct Loans for the Disaster Loan Program increased due to CARES Act loans. The increases in Business Guaranteed Loan Programs are due to the CARES Act PPP program.

D. Subsidy Cost Allowance Balances

(Dollars in Thousands)

For the Years Ended September 30,	2020 (Unaudited)	2019
Post-1991 Business Direct and Purchased Guaranteed Loans		
Beginning Balance of Allowance Account	\$ 2,442,198	\$ 2,443,355
Current Year's Subsidy (see 6.G for breakdown by component)	4,788	3,136
Loan Modifications	27,100	-
Loans Written Off	(573,108)	(864,737)
Subsidy Amortization	(2,513)	(2,558)
Allowance Related to Guaranteed Loans Purchased This Year	259,140	736,242
Miscellaneous Recoveries and Costs	73,801	128,364
Balance of Subsidy Allowance Account before Reestimates	2,231,406	2,443,802
Components of Subsidy Reestimates		
Technical Assumptions/Default Reestimates	14,029	155
Interest Rate Reestimates	(1)	(1,759)
Total of the above Components of Subsidy Reestimates	14,028	(1,604)
Ending Balance of Allowance Account	\$ 2,245,434	\$ 2,442,198
Post-1991 Disaster Direct Loans		
Beginning Balance of Allowance Account	\$ 1,265,374	\$ 1,325,326
Current Year's Subsidy (see 6.G for breakdown by component)	24,303,168	188,230
Loans Written Off	(143,539)	(197,254)
Subsidy Amortization	(939,321)	(14,700)
Miscellaneous Recoveries and Costs	60,722	57,004
Balance of Subsidy Allowance Account before Reestimates	24,546,404	1,358,606
Components of Subsidy Reestimates		
Technical Assumptions/Default Reestimates	(14,982,028)	(66,004)
Interest Rate Reestimates	(3,922,902)	(27,228)
Total of the above Components of Subsidy Reestimates	(18,904,930)	(93,232)
Ending Balance of Allowance Account	\$ 5,641,474	\$ 1,265,374

For Business Direct and Purchased Guaranteed Loans, a Loan Modification was required for the CARES Act Debt Relief program.

E. Liability for Loan Guaranties

(Dollars in Thousands)

For the Years Ended September 30,	2020 (Unaudited)	2019
Pre-1992 Business Loan Guaranties		
Beginning Balance of Liability for Loan Guaranties	\$ -	\$ 1
Adjustment to Expected Losses, Guaranties Outstanding	-	(1)
Ending Balance of Liability for Loan Guaranties	-	-
Post-1991 Business Loan Guaranties		
Beginning Balance of Liability for Loan Guaranties	2,000,420	2,662,785
Current Year's Subsidy (see 6.G for breakdown by component)	525,917,920	668
Loan Modifications	6,561,276	-
Fees	1,329,264	1,325,782
Interest Accumulation Factor	7,870,800	68,076
Claim Payments to Lenders	(1,216,741)	(1,495,093)
Adjustment Due to Reestimate & Guaranteed Loan Purchases	957,601	758,851
Miscellaneous Recoveries and Costs	(24,991,609)	(337,044)
Balance of Liability for Loan Guaranties before Reestimates	518,428,931	2,984,025
Components of Subsidy Reestimates		
Technical Assumptions/Default Reestimates	(7,836,726)	(963,302)
Interest Rate Reestimates	2,120,293	(20,303)
Total of the above Components of Subsidy Reestimates	(5,716,433)	(983,605)
Ending Balance of Liability for Loan Guaranties	512,712,498	2,000,420
Total Ending Balance of Liability for Loan Guaranties	\$ 512,712,498	\$ 2,000,420

For Business Loan Guaranties, a Loan Modification was required for the CARES Act Debt Relief and PPP programs.

The increase in the Interest Accumulation Factor is interest earned on uninvested funds for PPP.

The large flux showing on the "Miscellaneous Recoveries and Costs" line is comprised of \$17.9 billion from PPP processing and \$6.6 billion debt relief expense.

F. 2020 Subsidy Rates by Program and Component

Loan Program	Total Subsidy	Financing	Default	Other	Fee
Guaranty					
7(a)	0.33%	0.00%	4.75%	0.00%	-4.42%
504 CDC	0.00%	0.00%	4.11%	0.42%	-4.53%
504 Refi	0.00%	0.00%	4.13%	0.43%	-4.56%
SBIC Debentures	0.00%	0.00%	4.57%	0.06%	-4.63%
Paycheck Protection Program (PPP)	101.72%	0.00%	6.51%	90.96%	4.25%
Direct					
Disaster	13.62%	7.58%	10.35%	-4.31%	0.00%
Microloan	9.29%	7.27%	2.29%	-0.27%	0.00%

The subsidy rates in Table F pertain only to loans obligated in the current year. These rates cannot be applied to the loans disbursed during the current year to yield the subsidy expense because loans disbursed during the current year include loans obligated in prior years. Subsidy expenses reported in Note 6.G result from the disbursement of loans obligated in the current year as well as in prior years and include reestimates.

G. Subsidy Expense by Component

(Dollars in Thousands)

For the Years Ended September 30,	2020 (Unaudited)	2019
Business Loan Guaranties		
Defaults	\$ 34,275,918	\$ 5,696
Fees	21,394,301	(5,556)
Other	470,247,701	528
Subsidy Expense Before Reestimates and Loan Modifications	525,917,920	668
Loan Modifications	6,561,276	-
Reestimates	(5,716,433)	(983,605)
Total Guaranteed Business Loan Subsidy Expense	\$ 526,762,763	\$ (982,937)
Business Direct Loans		
Interest	\$ 3,732	\$ 2,469
Defaults	1,219	803
Other	(163)	(136)
Subsidy Expense Before Reestimates	4,788	3,136
Loan Modifications	27,100	-
Reestimates	14,028	(1,604)
Total Business Direct Loan Subsidy Expense	\$ 45,916	\$ 1,532
Disaster Direct Loans		
Interest	\$ 13,514,459	\$ 44,700
Defaults	18,477,601	194,774
Other	(7,688,892)	(51,244)
Subsidy Expense Before Reestimates	24,303,168	188,230
Reestimates	(18,904,930)	(93,232)
Total Disaster Direct Loan Subsidy Expense	\$ 5,398,238	\$ 94,998

The increase in FY 2020 Business Loan Guaranties and Disaster Direct Loan dollars resulted from the CARES Act program activity. "Business Loan Guaranties - Other" includes subsidy expense associated with PPP loan forgiveness. See note 17 for further information.

H. Administrative Expense

The SBA received appropriations to administer its credit programs, including the making, servicing and liquidation of its loans and guaranties. Amounts expensed in the Statement of Net Cost are shown in the following table. The increase in FY 2020 disaster funding is a result of increased funding received under the CARES Act.

(Dollars in Thousands)

For the Years Ended September 30,	2020 (Unaudited)	2019
Disaster Direct Loan Programs	\$ 828,082	\$ 333,058
Business Loan Programs	155,612	155,349
Total Administrative Expense	\$ 983,694	\$ 488,407

I. Credit Program Subsidy Reestimates

Reestimates are performed annually on a cohort-by-cohort basis. The purpose of reestimates is to update original program cost estimates to reflect actual cash flow experience as well as changes in forecasts of future cash flows. Forecasts of future cash flows are updated based on additional information about historical program performance, revised expectations for future economic conditions, and enhancements to cash flow projection methods. Financial statement reestimates were performed using a full year of FY 2020 performance data for SBA's large loan programs and nine months of actual and three months of projected performance data for the Secondary Market Guaranty, Microloan, and the small loan programs.

Business Guaranteed Loan Programs

Net subsidy reestimates for the business guaranteed loan programs are shown in the following table.

(Dollars in Thousands)

For the Years Ended September 30,	2020 (Unaudited)	2019
7(a)	\$ 996,234	\$ (245,591)
7(a) - Recovery Act	(6,471)	4,982
7(a) - Jobs Act	(4,018)	2,011
504 CDC	581,462	(338,453)
504 CDC - Recovery Act	(10,671)	(14,670)
504 CDC - Jobs Act	(853)	(6,833)
504 CDC - Debt Refinancing	(46,889)	(20,425)
504 First Mortgage Loan Pooling - Recovery Act	255	(2,871)
SBIC Debentures	60,611	(202,875)
SBIC Participating Securities	(52,335)	(56,467)
Secondary Market Guaranty Program	(34,679)	(100,648)
Paycheck Protection Program	(7,204,524)	-
ARC - Recovery Act	(367)	(444)
All Other Guaranty Loan Programs	5,812	(1,321)
Total Guaranteed Loan Program Subsidy Reestimates	\$ (5,716,433)	\$ (983,605)

The 7(a) Loan Guaranty program, SBA's flagship program had a net upward reestimate of \$996.2 million in FY 2020. The reestimate is mostly due to higher projected losses in FY 2021 and beyond for cohorts 2015 through 2019 due to updated economic assumptions. The reestimate is partially offset by a downward reestimate in the 2020 cohort due to lower than projected disbursements for the cohort, resulting in lower cash outflows for Section 1112 debt relief payments than originally estimated.

The 7(a) Recovery Act program had a net downward reestimate of \$6.5 million. The reestimate is mostly due to lower than estimated Section 1112 debt relief payments and is partially offset by higher projected losses in FY 2021 and beyond due to updated economic assumptions.

The 7(a) Jobs Act cohort had a net downward reestimate of \$4.0 million. The reestimate is mostly due to lower than estimated Section 1112 debt relief payments and is partially offset by higher projected losses in FY 2021 and beyond due to updated economic assumptions.

The 504 Certified Development Company program had a net upward reestimate of \$581.5 million. The reestimate is mostly due to higher projected losses in FY 2021 and beyond for the 2010 through 2019 cohorts due to updated economic assumptions. The reestimate is partially offset by higher than projected recoveries in FY 2020 and increases to projected recoveries in FY 2021 and beyond contributing to a combined downward reestimate for the 1992 through 2009 cohorts. The upward reestimate is also partially offset for the 2020 cohort due to lower than projected disbursements for the cohort, resulting in lower cash outflows for Section 1112 debt relief payments than originally estimated.

The 504 Recovery Act program had a net downward reestimate of \$10.7 million. The reestimate is primarily due to higher than projected recoveries in FY 2020 and increases to projected recoveries in FY 2021 and beyond. The reestimate is partially offset by higher projected purchases in FY 2021 and beyond due to updated economic assumptions.

The 504 Jobs Act program had a net downward reestimate of \$0.9 million. The reestimate is primarily due to higher than projected recoveries in FY 2020 and increases to projected recoveries in FY 2021 and beyond. The reestimate is partially offset by higher projected purchases in FY 2021 and beyond due to updated economic assumptions.

The 504 Debt Refinancing program had a net downward reestimate of \$46.9 million. The reestimate is primarily due to lower than projected disbursements for the 2020 cohort, resulting in lower cash outflows for Section 1112 debt relief payments than originally estimated. This is partially offset by higher projected losses in FY 2021 and beyond due to updated economic assumptions.

The Section 504 First Mortgage Loan Pooling program had a net upward reestimate of \$0.3 million. The upward reestimate is primarily due to higher than projected advances in FY 2020 which offset higher than projected recoveries in FY 2020.

The SBIC Debentures program had a net upward reestimate of \$60.6 million. The upward reestimate is primarily driven by lower than projected recoveries in FY 2020 and higher than projected losses in FY 2021 and beyond due to updated loan performance and economic assumptions.

The SBIC Participating Securities program had a net downward reestimate of \$52.3 million. The reestimate is primarily due to higher than projected recoveries in FY 2020.

The Secondary Market Guaranty program had a net downward reestimate of \$34.7 million. The downward reestimate is primarily driven by updated economic assumptions. The updated assumptions resulted in a narrower spread between projected pool coupon rates and rates of return on MRF investments, resulting in a larger reduction in MRF liabilities relative to MRF earnings. The net reestimate was negative for most of the pre-2018 cohorts, which have higher levels of prior accumulated amortization excess, and therefore these cohorts benefitted the most from the narrower projected spread.

The Paycheck Protection Program, authorized in the CARES Act, had a net downward reestimate of \$7.2 billion in FY 2020. The majority of the reestimate amount is attributed to updates to the discount rate for the 2020 PPP cohort. The updated discount rate is 225 basis points lower than the budget formulation discount rate which leads to a large downward adjustment in financing account interest earnings in FY 2020. A portion of the reestimate is also attributed to lower than anticipated origination fee outflows to participating lenders as well as several smaller factors that differed from the original cost estimate for the program. There were no loan forgiveness payment outflows processed in FY 2020.

The America's Recovery Capital program had a net downward reestimate of \$0.4 million. The reestimate is primarily due to higher than projected recoveries and lower than expected interest and default payments in FY 2020.

All Other Guaranty Loan programs includes the SBIC New Market Venture Capital program that had a net upward reestimate of \$5.8 million. The upward reestimate was driven by lower than projected recoveries in FY 2020.

Business Direct Loan Programs

Net subsidy reestimates for the business direct loan programs are shown in the following table.

(Dollars in Thousands)

For the Years Ended September 30,	2020 (Unaudited)	2019
7(m) Microloan	\$ 13,937	\$ (1,113)
7(m) Microloan - Recovery Act	47	(539)
Intermediary Lending Pilot Program	49	125
All Other Direct Loan Programs	(5)	(77)
Total Direct Loan Program Subsidy Reestimates	\$ 14,028	\$ (1,604)

The 7(m) Direct Microloan program had a net upward reestimate of \$13.9 million. The upward reestimate is due to lower than projected loan repayments in FY 2020. In addition, disbursements in the Microloan program in FY 2020 were higher than anticipated resulting in higher cash outflows for Section 1112 debt relief payments than originally estimated.

The 7(m) Direct Microloan Recovery Act program had a net upward reestimate of \$0.05 million. The reestimate is primarily due to lower than projected loan repayments in FY 2020.

The Intermediary Lending Pilot program had a net upward reestimate of \$0.05 million. The reestimate is primarily due to lower than projected net cash inflows in FY 2020.

Disaster Direct Loan Program

Net subsidy reestimates for the disaster direct loan programs are shown in the following table.

(Dollars in Thousands)

For the Years Ended September 30,	2020 (Unaudited)	2019
Disaster	\$ (18,904,930)	\$ (93,232)
Total Disaster Direct Loan Program Subsidy Reestimates	\$ (18,904,930)	\$ (93,232)

The Disaster Assistance program had a net downward reestimate of \$18.9 billion. The downward reestimate is a result of updates to the discount rate which results in reduced borrowing costs for FY 2020 lending. The FY 2020 cohort discount rate declined from a formulated rate of 3.54 percent to 1.21 percent for Disaster Regular loans and 1.22 percent for COVID-funded loans. Due to the high volume of EIDL COVID loans at a fixed 3.75 percent interest rate, the financing surplus offsets higher than formulated defaults for these cohorts. The downward reestimate for the 2020 cohort for COVID-funded loans is \$18.2 billion and the downward reestimate for the 2020 cohort for regular funded loans is \$693.9 million.

Note 7 General Property and Equipment, Net

The SBA capitalizes equipment with a cost of \$100,000 or more per unit, and a useful life of two years or more, at full cost and depreciates using the straight-line method over the useful life. The SBA expenses equipment not meeting the capitalization criteria.

Leasehold improvements with modifications of \$200,000 or more and a useful life of two years or more are capitalized and amortized using the straight-line method over the useful life of the improvement or the lease term, whichever is shorter. Leasehold improvements not meeting the capitalization criteria are expensed.

Software intended for internal use, whether internally developed, contractor developed, or purchased is capitalized at cost if the unit acquisition cost is \$500,000 or more and service life is at least two years. Capitalized software costs include all direct and indirect costs incurred, including overhead to develop the software. Software for internal use is amortized using the straight-line method over its useful life, not to exceed five years. Amortization begins when the software is put into production. The costs of enhancements are capitalized when it is more likely than not that the enhancements will result in significant additional capabilities. Costs that do not meet the capitalization criteria are expensed when incurred.

Assets meeting the capitalization thresholds are detailed in the following table.

(Dollars in Thousands)

As of September 30,	2020 (Unaudited)	2019
Leasehold Improvements	\$ 1,811	\$ 1,811
Amortization of Leasehold Improvements	(1,759)	(1,608)
Net	52	203
Software in Development	27,451	-
Net	27,451	-
Total General Property and Equipment, Net	\$ 27,503	\$ 203

The increase in Software in Development for FY 2020 is for the development of BETA.Certify.Gov.

Note 8 Liabilities Not Covered by Budgetary Resources

These liabilities consisted of the following categories, as shown in the table.

(Dollars in Thousands)

As of September 30,	2020 (Unaudited)	2019
Intragovernmental Liabilities - Other		
Employment Taxes Payable	\$ 905	\$ 5,232
Federal Employees' Compensation Act Payable	5,548	5,724
Total Intragovernmental Liabilities - Other	6,453	10,956
Federal Employees' Compensation Act Actuarial Liability	30,576	28,794
Surety Bond Guarantee Program Future Claims	60,060	57,255
Other Liabilities		
Accrued Unfunded Annual Leave	39,064	29,081
Total Other Liabilities	39,064	29,081
Total Liabilities Not Covered by Budgetary Resources	136,153	126,086
Total Liabilities Covered by Budgetary Resources	717,920,066	14,957,535
Total Liabilities Not Requiring Budgetary Resources	(201)	1,423
Total Liabilities	\$ 718,056,018	\$ 15,085,044

The liability for Surety Bond Guarantees is an estimate of future claims in the SBG Program for guaranties outstanding at year-end.

The increase in Total Liabilities Covered by Budgetary Resources results from CARES Act Program activity and is attributable mostly to the amounts shown on the Balance Sheet lines: Debt, Downward Reestimate Payable to Treasury, and Liability for Loan Guaranties.

Note 9 Debt

Borrowings payable to the Treasury result from loans provided by the Treasury to fund the portion of direct loans not covered by subsidy appropriations, and to fund the payment of downward subsidy reestimates, and other credit program disbursements (see Note 15). The SBA makes periodic principal repayments to the Treasury based on the analysis of its cash balances and future disbursement needs.

All debt is intragovernmental and covered by budgetary resources. Debt transactions and resulting balances are shown in the following table.

Intragovernmental Debt

(Dollars in Thousands)

As of September 30,	2020 (Unaudited)	2019
Beginning Balance	\$ 11,810,241	\$ 11,212,607
New Borrowing	207,461,405	2,231,792
Repayments	(43,097,986)	(1,634,158)
Ending Balance	\$ 176,173,660	\$ 11,810,241

The FY 2020 increases in New Borrowings and Repayments are due to the borrowing activity related to disaster loan making under the CARES Act.

Note 10 Net Assets of Liquidating Funds Due to Treasury

Unobligated balances of liquidating funds are transferred to the Treasury general fund at the end of the fiscal year. Net Assets of Liquidating Funds Due to Treasury is the residual of the book value of assets less liabilities in the Liquidating Funds for loans made prior to FY 1992 that is not yet available for transfer.

(Dollars in Thousands)

As of September 30,	2020 (Unaudited)	2019
Disaster Loan Fund	\$ 387	\$ 552
Business Loan and Investment Fund	15,535	8,180
Total Due to Treasury	\$ 15,922	\$ 8,732

Note 11 Other Liabilities

Other liabilities are shown in the following table.

(Dollars in Thousands)

As of September 30,	2020 (Unaudited)	2019
OTHER LIABILITIES - INTRAGOVERNMENTAL		
Entity		
Current		
Employment Taxes Payable	\$ 7,739	\$ 3,792
Advances from Other Agencies	2,172	1,727
Total Current	9,911	5,519
Non-current		
Employment Taxes Payable	905	5,232
Federal Employees' Compensation Act Payable	5,548	5,724
Total Non-current	6,453	10,956
Total Entity	16,364	16,475
Non-entity		
Current		
Payable to Treasury	6	6
Total Other Liabilities - Intragovernmental	\$ 16,370	\$ 16,481
OTHER LIABILITIES - PUBLIC		
Entity		
Current		
Accrued Funded Payroll and Benefits	\$ 47,747	\$ 18,657
Accrued Unfunded Annual Leave	39,064	29,081
Other Liabilities	-	40
Suspense Accounts	(201)	1,423
Total Current	86,610	49,201
Total Entity	86,610	49,201
Total Other Liabilities - Public	\$ 86,610	\$ 49,201

Accrued Funded Payroll and Benefits increased due to additional staffing to manage CARES Act programs.

Note 12 Leases

The SBA leases all of its facilities from the General Services Administration. The SBA enters into an Occupancy Agreement with the GSA for each facility. The GSA, in turn, leases commercial facilities or provides space in federal buildings. Agreements for space in federal buildings can be vacated with 120 to 180 days' notice. However, the SBA anticipates continuing the same or similar facilities leases in the future. These federal leases with the GSA are operating leases and are expensed in the Statement of Net Cost when incurred. FY 2020 and FY 2019 historical facilities lease costs were \$48.0 million and \$48.0 million. Future lease payments are based on FY 2021 GSA base year estimates. Projections after the base year assume a 3 percent inflation factor. Payments after five years reflect only current leases that will still be in effect, projected to the end of each lease term. Lease Projections after 2025 increased due to the increase in the total number of Occupancy Agreements still in effect until 2036.

Future Facilities Operating Lease Payments

(Dollars in Thousands)

Fiscal Year	Lease Projections
2021	\$ 49,471
2022	50,955
2023	52,484
2024	54,058
2025	55,680
After 2025	65,613
Total	\$ 328,261

Note 13 Non-entity Reporting

Non-entity Assets are assets held by the SBA but not available to the SBA. The primary non-entity asset is for SBA's downward subsidy reestimates in its loan programs. Because the loan programs are discretionary, the downward reestimates are not available to the SBA and they are returned to the Treasury in the fiscal year following the accrual of the reestimates. During the year, these general fund accounts contain SBA's prior year reestimates. At year-end, the funds are swept by the Treasury. Also, at year-end the SBA accrues the current year's reestimates, including downward reestimates as applicable. For the downward reestimates in the loan financing funds, the SBA records an accrual adjustment that records a transfer out to the non-entity fund, a reduction of subsidy allowance or loan guaranty liability, and an account payable to the non-entity fund. In the loan program funds, the SBA records a reduction of loan subsidy expense and the associated impact on the net cost. The non-entity Treasury general funds contain a corresponding account receivable in anticipation of the receipt of the downward reestimates in the following year and a Downward Reestimate Payable to the Treasury.

For consolidated financial statement presentation, the SBA eliminates the payable to the non-entity fund and the non-entity Treasury general fund receivable from the financing funds; since both are included in SBA's reporting entity. The Downward Reestimate Payable to the Treasury in the non-entity Treasury general fund is not eliminated and is reflected on the Balance Sheet as a liability line item.

(Dollars in Thousands)

As of September 30,	2020 (Unaudited)	2019
Entity		
Financing Fund Payable	\$ (28,541,393)	\$ (1,028,472)
Non-entity		
Miscellaneous Receipts Fund Receivable	28,541,393	1,028,472
Downward Reestimate Payable to Treasury	(28,541,393)	(1,028,472)
Balance Sheet Reported Payable	\$ (28,541,393)	\$ (1,028,472)

See note 6.I for information on the Downward Reestimate Payable.

Note 14 Consolidated Statement of Net Cost

Federal cost accounting standards require the SBA to report operating costs by strategic goal activity. Full costs include all direct and indirect costs for a strategic goal. Full costs are reduced by exchange (earned) revenues to arrive at net operating cost.

Operating Cost

The full and net operating costs of SBA's major strategic goals are presented in the Consolidated Statement of Net Cost. Full costs comprise all direct costs for the strategic goals and those indirect costs which can be reasonably assigned or allocated to the strategic goals, including employee pension and other retirement benefit costs paid by the OPM and charged to the SBA.

Earned Revenue

Earned revenue arises from exchange transactions and is deducted from the full cost of SBA's major strategic goals to arrive at net strategic goals costs. The SBA recognizes earned revenue when reimbursements are payable from other federal agencies and the public as a result of costs incurred or services performed. A major source of earned revenue includes interest earned on SBA's outstanding business and disaster loan portfolios, and interest earned on uninvested funds in the credit reform financing accounts.

Reporting by Strategic Goal

The SBA reports net costs consistent with its four strategic goals on a full cost allocation basis. Strategic Goal 1 (Support Small Business Revenue and Job Growth) includes expanding access to capital for small businesses through SBA's loan and other assistance programs, research set-asides for innovative entrepreneurship, and the small business contracting set-aside program. Strategic Goal 2 (Build Healthy Entrepreneurial Ecosystems and Create Business Friendly Environments) works to develop small businesses through technical assistance provided through SBA's resource partner network, online learning, and other specialized assistance programs like 8(a) Business Development, 7(j) Management and Technical Assistance, and All Small Mentor-Protégé. It also includes SBA's efforts to create a small business friendly environment. Strategic Goal 3 (Restore Small Businesses and Communities after Disasters) includes disaster preparedness and direct disaster loans. Strategic Goal 4 (Strengthen SBA's Ability to Serve Small Businesses) ensures effective and efficient management of Agency resources. Agency administrative overhead costs are fully allocated to the programs in Strategic Goals 1, 2, 3, and 4. The Management's Discussion and Analysis section of SBA's annual Agency Financial Report includes additional detail on SBA's strategic goals. Costs Not Assigned to Strategic Goals are costs associated with the Office of the Inspector General. The OIG's mission and funding are a separate and independent part of the SBA and is therefore not assigned.

Intragovernmental Gross Cost is incurred by the SBA in exchange transactions with other federal agencies. Gross Cost with the Public is incurred in exchange transactions with the public. Intragovernmental Earned Revenue is earned by the SBA in exchange transactions with other federal agencies. Earned Revenue from the Public is earned in exchange transactions with the public. The General Services Administration and the Treasury are SBA's primary intragovernmental trading partners.

The classification as Intragovernmental Cost or Gross Cost with the Public relate to the source of goods and services received by the SBA and not to the classification of related revenue. The classification of revenue or cost being defined as "intragovernmental" or "public" is defined on a transaction by transaction basis. The purpose of this classification is to enable the federal government to provide consolidated financial statements, and not to match the public and intragovernmental revenue with costs that are incurred to produce public and intragovernmental revenue.

SBA's Gross Cost with the Public in Strategic Goals 1 and 3 is largely determined by estimates and reestimates of its credit program costs (See Note 6.I).

Gross Cost and Exchange Revenue

(Dollars in Thousands)

For the Years Ended September 30,	2020 (Unaudited)	2019
STRATEGIC GOAL 1:		
Support Small Business Revenue and Job Growth		
Intragovernmental Gross Cost	\$ 76,153	\$ 122,576
Gross Cost with the Public	534,796,476	(682,440)
Total Strategic Goal 1 Gross Cost	534,872,629	(559,864)
Intragovernmental Earned Revenue	7,916,787	92,156
Earned Revenue from the Public	148,706	119,425
Total Strategic Goal 1 Earned Revenue	8,065,493	211,581
STRATEGIC GOAL 2:		
Build Healthy Entrepreneurial Ecosystems and Create Business Friendly Environments		
Intragovernmental Gross Cost	\$ 3,582	\$ 73,069
Gross Cost with the Public	23,941	237,421
Total Strategic Goal 2 Gross Cost	27,523	310,490
STRATEGIC GOAL 3:		
Restore Small Businesses and Communities after Disasters		
Intragovernmental Gross Cost	\$ 7,875,157	\$ 410,525
Gross Cost with the Public	27,118,539	347,158
Total Strategic Goal 3 Gross Cost	34,993,696	757,683
Intragovernmental Earned Revenue	4,709,665	81,592
Earned Revenue from the Public	2,901,640	251,325
Total Strategic Goal 3 Earned Revenue	7,611,305	332,917
STRATEGIC GOAL 4:		
Strengthen SBA's Ability to Serve Small Businesses		
Intragovernmental Gross Cost	\$ 1,559	\$ 34,639
Gross Cost with the Public	10,417	112,551
Total Strategic Goal 4 Gross Cost	11,976	147,190
COST NOT ASSIGNED TO STRATEGIC GOALS		
Intragovernmental Gross Cost	\$ 328	\$ 6,007
Gross Cost with the Public	2,193	19,518
Total Gross Cost Not Assigned to Strategic Goals	2,521	25,525
Net Cost of Operations	\$ 554,231,547	\$ 136,526

The increase in Gross Cost with the Public in Strategic Goals 1 and 3 result from the CARES Act program activity.

The increase in Intragovernmental Earned Revenue in Strategic Goal 1 and 3 result from increased interest earned on uninvested funds from Treasury resulting from the CARES Act program activity.

The increase in Intragovernmental Gross Cost in Strategic Goal 3 resulted from increased interest expense on debt with Treasury resulting from the CARES Act program activity.

Note 15 Statement of Budgetary Resources

The Statement of Budgetary Resources presents information about total budgetary resources available to the SBA and the status of those resources as of September 30, 2020 and 2019. SBA's budgetary resources were \$764.6 billion and \$3.1 billion for the fiscal years ended September 30, 2020 and 2019. Additionally, \$754.1 billion and \$9.2 billion of nonbudgetary resources (including borrowing authority and collections of loan principal, interest, and fees in financing funds) were reported for the fiscal years ended September 30, 2020 and 2019.

Permanent Indefinite Appropriations

The SBA receives permanent indefinite appropriations annually to fund increases in the projected subsidy costs of loan programs, as determined by the reestimation process required by the FCRA. The appropriations are received initially in the SBA Program Funds, and then transferred to the Financing Funds, where they are used to fund obligations. SBA's Liquidating Funds also receive permanent indefinite appropriations to fund obligations. The Financing Funds are used to account for credit program obligations made subsequent to FY 1991. Liquidating Funds are used to account for credit program obligations made prior to FY 1992.

Decreases in projected subsidy costs in the Financing Funds are returned to the Treasury through SBA's annual reestimation process. The prior year's ending unobligated balances in SBA's Liquidating Funds are also transferred to the Treasury annually.

Borrowing Authority and Terms of Borrowing

The SBA is authorized to borrow from the Treasury's Bureau of the Fiscal Service when funds needed to disburse direct loans and purchase guaranteed loans exceed subsidy costs and collections in the nonbudgetary loan financing funds. In FY 2020 and FY 2019, the SBA received \$167.3 billion and \$2.2 billion of borrowing authority from the OMB. At the end of FY 2020, the SBA had \$0.9 billion borrowing authority carried over to fund direct loans and default claims to be disbursed in the future. The SBA pays interest to the Treasury based on Treasury's cost of funds. The rate at which interest is paid to the Treasury on the amounts borrowed (or received from the Treasury on uninvested cash balances) in a loan financing fund for a particular cohort is a disbursement-weighted average discount rate for cohorts prior to FY 2001 and a single effective rate for cohorts beginning with FY 2001. The SBA calculates and repays borrowings not needed for working capital at mid-year and at year-end for prior year cohorts. The SBA uses the loan principal, interest, and fees collected from the borrowers in its loan financing funds to repay its Treasury borrowings. The repayment maturity dates for borrowings from the Treasury are based on the loan maturities used in the subsidy calculation. The maturities range from 16 years for direct business loans, 25 years for guaranteed business loans and 30 years for disaster loans.

Apportionment Categories of Obligations Incurred

During FY 2020 and FY 2019, the SBA incurred \$819.0 billion and \$6.4 billion of direct and reimbursable obligations, of which \$819.0 billion and \$6.4 billion were apportioned in category B (amounts apportioned in category A are immaterial when rounded to billions). Category A apportionments are restricted by quarter and program, while category B apportionments are restricted by purpose and program.

Unobligated Balances

Unobligated balances at September 30, 2020 and 2019 are \$699.7 billion and \$5.9 billion, which include \$9.7 billion and \$4.1 billion of unavailable unobligated balances. These balances are unavailable primarily because they are unapportioned by the OMB. The SBA accumulates the majority of the unobligated balances in its nonbudgetary financing accounts during the fiscal year (\$525.3 billion in FY 2020 and \$4.4 billion in FY 2019) from fees and subsidy to fund forgiveness and default claims in future years. In addition, unobligated balances are accumulated in budgetary accounts from appropriations (\$174.3 billion in FY 2020 and \$1.5 billion in FY 2019) that are used to finance SBA's ongoing program operations. The SBA requests OMB apportionments as needed, and after OMB approval, apportioned amounts are available for obligation.

Undelivered Orders

Undelivered orders consist of goods or services ordered and obligated which the SBA has not received. This includes any orders that have been paid in advance, but for which delivery or performance has not yet occurred. Total undelivered orders for the periods ended September 30, 2020 and 2019 were \$23.7 billion and \$1.3 billion. Unpaid undelivered orders for the periods ended September 30, 2020 and 2019 were \$23.5 billion and \$1.1 billion. Paid undelivered orders for the periods ended September 30, 2020 and 2019 were \$0.2 billion and \$0.2 billion. For FY 2020 total undelivered orders consisted of \$21.8 billion non-federal and \$1.9 billion federal. For FY 2019 total undelivered orders consisted of \$1.0 billion non-federal and \$0.3 billion federal..

Differences between the Statement of Budgetary Resources and the Budget of the U.S. Government

There was no material difference between the FY 2019 Statement of Budgetary Resources and the President's FY 2021 budget submission. The President's FY 2022 Budget with actual numbers for FY 2020 has not yet been published. The SBA expects no material differences between the President's Budget "actual" column and the FY 2020 reported results when the budget becomes available in February 2021.

Note 16 Reconciliation of Net Operating Cost and Net Budgetary Outlays

Statement of Federal Financial Accounting Standards 53 amends requirements for a reconciliation between budgetary and financial accounting information established by SFFAS 7. SFFAS 53 provides for the budget and accrual reconciliation to replace the statement of financing. The BAR explains the relationship between the entity's net outlays on a budgetary basis and the net cost of operations during the reporting period.

Budgetary accounting is used for planning and control purposes and relates to both the receipt and use of cash. Financial accounting is intended to provide a picture of the government's financial operations and financial position and presents information on an accrual basis. The accrual basis includes information about costs arising from the consumption of assets and the incurrence of liabilities. The reconciliation of net outlays presented on a budgetary basis, and the net cost, presented on an accrual basis, provides an explanation of the relations between budgetary and financial accounting information. The reconciliation serves not only to identify costs paid for in the past and those that will be paid in the future, but also to assure integrity between budgetary and financial accounting. The analysis illustrates this reconciliation by listing the key differences between net cost and net outlays.

FY 2020 A-136 guidance changes the presentation of the reconciliation of net cost to net outlays from FY 2019. The FY 2019 presentation has been updated to reflect the change in guidance. Net cost should be reconciled to net outlays, which should exclude financing account activity. As shown on the SBR, net outlays represent net budgetary outlays and do not include net disbursements of credit financing accounts.

Reestimate expense is recorded at the end of the fiscal year and funded in the following fiscal year. SBA's annual reestimate process updates program costs based upon actual cash flow experience and forecasts of future cash flow. As a part of the reestimate process there is an adjustment for the President's Budget where expenses for downward adjustments are recorded in the budgetary program funds and the outlays are from financing funds creating a difference between budgetary outlays and net cost. Additional discussion of reestimates is in Note 6.I and referenced throughout Note 6.

Changes in assets recognize the timing differences between the recognition of income and the receipt of funds. These are primarily non-federal advances.

Changes in liabilities recognize the timing difference between the recording and payment of expenses. These are related to disbursements in transit for the new EIDL grants.

Other financing sources include SBA's imputed cost for retirement benefits. This is an expense for the Agency that is funded by the OPM.

Components of budget outlays that are not part of net operating cost include disbursements and receipts that are not a revenue or expense. Included in this category is the effect of the reversal of the unfunded expense recorded in FY 2019 for the end of year upward reestimate.

Budget and Accrual Reconciliation

(Dollars in Thousands)

For the Year Ended September 30, 2020 (Unaudited)	Federal	Non-federal	Total 2020
Net Operating Cost (SNC)	\$ (4,669,673)	\$ 558,901,220	\$ 554,231,547
Components of Net Operating Cost Not Part of the Budgetary Outlays			
General Property, plant and equipment depreciation expense	-	27,300	27,300
Year-end credit reform subsidy re-estimates	24,337,896	-	24,337,896
President's Budget adjustment to downward re-estimates	230,406	-	230,406
Paycheck Protection Program downward modification	1,266,424	-	1,266,424
President's Budget adjustment to upward re-estimates	39,034	-	39,034
Modification Adjustment Transfer (MAT), net		(30,515)	(30,515)
Increase/(decrease) in assets not affecting Budget Outlays:			
Accounts and Taxes Receivable, net		186	186
Advances	(16,175)	41,695	25,520
Loans Receivable, net	-	(356)	(356)
Other assets	-	7,542	7,542
(Increase)/decrease in liabilities not affecting Budget Outlays:			
Accounts Payable	(10,090)	(245,946)	(256,036)
Accrued Grant Liability	-	46	46
FECA Actuarial Liability	-	(1,782)	(1,782)
Surety Bond Guarantee Program Future Claims	-	(2,805)	(2,805)
Other Liabilities	111	(39,075)	(38,964)
Other Financing Sources:			
Imputed Cost	(19,508)	-	(19,508)
Total Components of Net Operating Cost Not Part of the Budget Outlays	\$ 25,828,098	\$ (243,710)	\$ 25,584,388
Components of the Budget Outlays That Are Not Part of Net Operating Cost			
Other Financing Sources:			
Donation of Cash and Cash Equivalents		(12)	(12)
Effect of prior year credit reform subsidy re-estimates	120,391	-	120,391
Total Components of the Budget Outlays That Are Not Part of Net Operating Cost	\$ 120,391	\$ (12)	\$ 120,379
Other Reconciling Items			
Distributed Offsetting Receipts		(2,523,844)	(2,523,844)
Total Other Reconciling Items	\$ -	\$ (2,523,844)	\$ (2,523,844)
Total Net Outlays			\$ 577,412,470
Budgetary Agency Outlays, net (SBR)			
Budgetary Agency Outlays, net			\$ 577,412,470

Budget and Accrual Reconciliation (continued)

(Dollars in Thousands)

For the Year Ended September 30, 2019	Federal	Non-federal	Total 2019
Net Operating Cost (SNC)	\$ 473,068	\$ (336,542)	\$ 136,526
Components of Net Operating Cost Not Part of the Budgetary Outlays			
General Property, plant and equipment depreciation expense	-	(151)	(151)
Year-end credit reform subsidy re-estimates	869,047	-	869,047
President's Budget adjustment to downward re-estimates	147,554	-	147,554
President's Budget adjustment to upward re-estimates	61,839	-	61,839
Increase/(decrease) in assets not affecting Budget Outlays:			
Accounts and Taxes Receivable, net	-	1,113	1,113
Advances	(3,855)	(1,660)	(5,515)
Loans Receivable, net	-	3,359	3,359
Other assets	-	900	900
(Increase)/decrease in liabilities not affecting Budget Outlays:			
Accounts Payable	1,186	541	1,727
Accrued Grant Liability	-	2,185	2,185
Liability for Loan Guaranties	-	1	1
FECA Actuarial Liability	-	6,060	6,060
Surety Bond Guarantee Program Future Claims	-	(7,645)	(7,645)
Other Liabilities	(888)	(5,152)	(6,040)
Other Financing Sources:			
Imputed Cost	(21,503)	-	(21,503)
Total Components of Net Operating Cost Not Part of the Budget Outlays	\$ 1,053,380	\$ (449)	\$ 1,052,931
Components of the Budget Outlays That Are Not Part of Net Operating Cost			
Other Financing Sources:			
Donation of Cash and Cash Equivalents	-	(112)	(112)
Effect of prior year credit reform subsidy re-estimates	213,548	-	213,548
Total Components of the Budget Outlays That Are Not Part of Net Operating Cost	\$ 213,548	\$ (112)	\$ 213,436
Other Reconciling Items			
Distributed Offsetting Receipts	-	(946,587)	(946,587)
Total Other Reconciling Items	\$ -	\$ (946,587)	\$ (946,587)
Total Net Outlays			\$ 456,306
Budgetary Agency Outlays, net (SBR)			
Budgetary Agency Outlays, net			\$ 456,306

Note 17 COVID-19 Activity

In March 2020, the Coronavirus Aid, Relief and Economic Security Act (the CARES Act P.L. 116-136) was enacted to provide emergency and immediate national economic relief and assistance across the American economy, including to small businesses, workers, families, and the healthcare system, to alleviate the severe economic hardships and public health threat created by the 2019 Novel Coronavirus pandemic. The CARES Act was subsequently modified in legislation in April, June, and July 2020 to add funding and adjust programs for continued pandemic response. Agency disaster declarations were announced for all states and six territories of the United States, enabling existing disaster response programs to respond to the pandemic.

Following are the individual programs enacted at the SBA.

Subsidy for Paycheck Protection Program

The Paycheck Protection Program (PPP) was established by the CARES Act and subsequently modified to add funding, change program features, and extend the period for loan commitments to August 8, 2020. The PPP is a loan guaranty program designed to provide a direct incentive for small businesses to retain employees by providing loan forgiveness for amounts used for eligible expenses for payroll and benefit costs, interest on mortgages, rent, and utilities incurred between February 15, 2020 and December 31, 2020. The program is implemented by the Small Business Administration in coordination with the Department of the Treasury.

PPP lending authority at the FY 2020 subsidy rate is \$659.0 billion. The CARES Act originally combined PPP lending authority with the 7(a) program authority. Subsequent legislation separated the lending authority of the two programs.

PL 116-136 section 1107 appropriated \$349.0 billion for subsidy (loan level – \$343.1 billion).

PL 116-139 amended PL 116-136 section 1107(a)(1) to \$670.3 billion in appropriations for subsidy and section 1102(b)(1) to \$659.0 billion in loan authority.

Funds impacted are 073X4149 (Business Loan Investment Fund – Gty Credit Reform), and since the funds are set to expire on September 30, 2021 a new fund symbol, 073 20/211154 (Business Loan Investment Fund – Program (CARES)) was created for this purpose.

This program impacts the following lines on the financial statements.

Balance Sheet:

- Fund Balance with Treasury
- Downward Reestimate Payable to Treasury
- Accounts Payable (public)
- Liability for Loan Guaranties
- Unexpended Appropriations

Net Cost:

- Strategic Goal 1 Gross Cost
- Strategic Goal 1 Earned Revenue

Net Position:

- Appropriations Received
- Appropriations Used
- Other – Non-entity Activity

Statement of Budgetary Resources:

- Appropriations
- Spending Authority from Offsetting Collections
- New Obligations & Upward Adjustments
- Apportioned, Unexpired
- Unapportioned, unexpired
- Net Outlays
- Distributed Offsetting Receipts

Footnotes 2, 6, 8, 13, 14, 15 and 16 are impacted.

CARES Act Debt Relief

As part of the coronavirus debt relief efforts, the SBA pays six months of principal, interest, and any associated fees that borrowers owe for all current 7(a), 504, and Microloans in regular servicing status as well as new 7(a), 504, and Microloans disbursed prior to September 27, 2020. This relief is not available for PPP loans or EIDL. Borrowers need not apply for this assistance as it will be automatically provided.

P.L. 116-136, Sec 1107, Sec 1112 appropriated \$17.0 billion in funds that are to remain available until September 30, 2021. A new fund symbol was created for this purpose, 073 20/211154.

Of the \$17.0 billion appropriation, \$7.8 billion was obligated for a cost modification to make loan payments on behalf of borrowers. Under FCRA, recalculation of subsidy resulted in an upward Modification Adjustment Transfer (MAT) across the cohorts of the three loan programs of \$88.3 million of appropriations transferred to the Financing funds and a downward MAT resulting in the amount of \$57.9 million transferred from the Financing Fund to the general fund.

The following fund symbols are impacted by the Cares Act Debt Relief.

Fund Symbol	Fund Name	Programs
073X4148	Business Loan Investment Fund - Direct Credit Reform	Microloans
073X4149	Business Loan Investment Fund - Gty Credit Reform	504, 7(a), SMG
073X4279	Business Loan Investment Fund - Direct Recovery Act	Microloans
073X4280	Business Loan Investment Fund - Gty Recovery Act	504, 7(a), SMG
0732814	Other Payments of Investments and Recoveries	
073 20/211154	Business Loan Investment Fund - Program (CARES)	

This program impacts the following lines on the financial statements.

Balance Sheet:

- Fund Balance with Treasury
- Credit Program Receivables and Related Foreclosed Property, Net
- Debt
- Downward Reestimate Payable to Treasury
- Liability for Loan Guaranties
- Unexpended Appropriations

Net Cost:

- Strategic Goal 1 Gross Cost
- Strategic Goal 1 Earned Revenue

Net Position:

- Appropriations Received
- Appropriations Used
- Transfers-Out Without Reimbursement
- Transfers-In Without Reimbursement
- Other – Non-Entity Activity
- Other Adjustments

Statement of Budgetary Resources:

- Appropriations
- Borrowing Authority
- Spending Authority from Offsetting Collections
- New Obligations & Upward Adjustments
- Apportioned, Unexpired
- Net Outlays
- Distributed Offsetting Receipts

Footnotes 2, 6, 8, 9, 13, 14, 15 and 16 are impacted.

Economic Injury Disaster Loan Emergency Advance (EIDL) Grants

In response to the Coronavirus (COVID-19) pandemic, small business owners in all U.S. states, Washington, DC, and territories were eligible to apply for an Economic Injury Disaster Loan of which up to \$10,000 could be advanced as a grant to provide economic relief to businesses experiencing a temporary loss of revenue. This loan advance will not have to be repaid. Recipients do not have to be approved for a loan to receive the advance, but the amount of the loan advance will be deducted from total loan eligibility in the calculation of Economic Injury. The SBA began processing EIDL grants in early April 2020 from Economic Injury Disaster Loan and EIDL Advance applications to qualified small businesses and U.S. agricultural businesses.

P.L. 116-136, Sec 1107, Sec 1110 and P.L. 116-139, Division B Title II appropriated \$10.0 billion each for a program total of \$20.0 billion, in administrative funds 073 20/210500 and 073X0500.

This program impacts the following lines on the financial statements.

Balance Sheet:

- Fund Balance with Treasury
- Accounts Payable (public)
- Unexpended Appropriations

Net Cost:

- Strategic Goal 3 Gross Cost

Net Position:

- Appropriations Received
- Appropriations Used
- Ending Unexpended Appropriations

Statement of Budgetary Resources:

- Appropriations
- New Obligations & Upward Adjustments
- Apportioned, Unexpired
- Net Outlays

Footnotes 2, 8, 14, 15 and 16 are impacted.

Subsidy for Coronavirus Disaster Assistance Loans

Based on Agency disaster declarations, SBA offered disaster designated states and territories low-interest federal disaster loans for working capital to small businesses suffering substantial economic injury as a result of COVID-19 under P.L 116-139, Division B Title II.

This act provided an additional \$50.0 billion in loan subsidy to remain available until expended for the “Disaster Loans Program Account” for the cost of direct loans authorized by section 7(b) of the Small Business Act. For FY 2020, this subsidy provided loan authority of \$367.1 billion.

Funds impacted are 073X1152 (Disaster Program Fund) and 073X4150 (Disaster Loan Fund - Direct Credit Reform).

This program impacts the following lines on the financial statements.

Balance Sheet:

- Fund Balance with Treasury
- Credit Program Receivables and Related Foreclosed Property, Net
- Debt
- Downward Reestimate Payable to Treasury
- Accounts Payable (Public)
- Unexpended Appropriations

Net Cost:

- Strategic Goal 3 Gross Cost
- Strategic Goal 3 Earned Revenue

Net Position:

- Appropriations Received
- Appropriations Used
- Other – Non-Entity Activity

Statement of Budgetary Resources:

- Appropriations
- Borrowing Authority
- Spending Authority from Offsetting Collections
- New Obligations & Upward Adjustments
- Apportioned, Unexpired
- Net Outlays

Footnotes 2, 6, 8, 9, 13, 14, 15 and 16 are impacted.

Salaries and Expenses Administrative Funding

Public Law P.L. 116-136, Sec 1107 and P.L. 116-139, Division B Title II provided \$2.8 billion in support for administrative expenses of SBA headquarters and field offices for CARES Act program implementation, as well as to prevent, prepare for, and respond to COVID-19.

Disaster Administrative Funding

Public Law P.L. 116-123, Title II and P.L. 116-136, Title V provided \$582.0 million in support for the administrative expenses to carry out the Economic Injury Disaster Loan program in response to COVID-19.

Entrepreneurial Assistance - Small Business Development Centers

This is a grant program to provide management counseling, training, and technical assistance to the small business community through a network of Small Business Development Centers under P.L. 116-136, Sec 1103, Sec 1107.

Entrepreneurial Assistance - Women's Business Ownership Assistance

This is a grant program to fund private, nonprofit organizations to assist, through training and counseling, small business concerns owned and controlled by women, and to remove, in so far as possible, the discriminatory barriers that are encountered by women in accessing capital and promoting their businesses under P.L. 116-136, Sec 1103, Sec 1107.

Entrepreneurial Assistance - Centralized HUB FOR COVID-19

This is a grant program to establish an online platform that provides small businesses with access to a consolidation of COVID-19 related information and resources from multiple federal agencies that incorporates an online training program to educate SBA's resource partners under P.L. 116-136, Sec 1103, Sec 1107.

Office of the Inspector General

Public Law P.L. 116-136, Sec 1107 is to perform the necessary audit oversight of CARES Act related loans and activities.

Amounts related to CARES Act programs are shown in the following table.

(Dollars in Thousands)

Fund Symbol	Description	Budgetary Resources Available	Budgetary Resources Used	Obligations Incurred	Resources Available beyond FY 2020
073X1152	CARES Act EIDL Loan	\$ 50,000,000	\$ 25,101,240	\$ 25,101,240	\$ 24,898,760
	CARES Act Admin	582,000	582,000	582,000	-
073 20/210500	EIDL Grants	10,000,000	9,991,520	9,991,520	8,480
073X0500	EIDL Grants	10,000,000	9,965,795	9,965,795	34,205
073 20/211154	Sect 1102 PPP	670,334,800	532,324,952	532,324,952	138,009,848
	Sect 1112 Debt Relief	7,824,286	7,824,286	7,824,286	-
073 20/210100	CARES Act	2,775,000	1,131,407	1,131,407	1,643,593
073 20/210400	CARES Act	265,000	256,674	256,674	8,326
073 20/240200	CARES Act	25,000	16	16	24,984

Note: Carryover resources beyond FY 2020 include PPP funds that can no longer be obligated without further legislation as program authority ended on August 8, 2020.

Note 18 Reclassification of Balance Sheet, Statement of Net Cost, and Statement of Changes in Net Position for FR Compilation Process

To prepare the Financial Report of the U.S. Government (FR), the Department of the Treasury requires agencies to submit an adjusted trial balance, which is a listing of amounts by U.S. Standard General Ledger account that appear in the financial statements. Treasury uses the trial balance information reported in the Governmentwide Treasury Account Symbol Adjusted Trial Balance System (GTAS) to develop a Reclassified Balance Sheet, Reclassified Statement of Net Cost, and a Reclassified Statement of Changes in Net Position for each agency, which are accessed using GTAS. Treasury eliminates all intragovernmental balances from the reclassified statements and aggregates lines with the same title to develop the FR statements. This note shows SBA's financial statements and SBA's reclassified statements prior to elimination of intragovernmental balances and prior to aggregation of repeated FR line items.

The term "intragovernmental" is used in this note to refer to amounts that result from other components of the Federal Government.

The term "non-Federal" is used in this note to refer to Federal Government amounts that result from transactions with non-Federal entities. These include transactions with individuals, businesses, non-profit entities, and State, local, and foreign governments.

The SBA has no funds from dedicated collections.

Reclassification of Financial Statements

(Dollars in Thousands)

FY 2020 SBA Balance Sheet (Unaudited)		Line Items Used to Prepare FY 2020 Government-Wide Balance Sheet	
ASSETS		ASSETS	
Intragovernmental Assets		Intragovernmental Assets	
Fund Balance with Treasury (Note 2)	\$ 714,400,127	Fund Balance with Treasury	\$ 714,400,127
Advances (Note 1)	2,301	Advances to Others and Prepayments	2,301
Total Intragovernmental Assets	714,402,428	Total Intragovernmental Assets	714,402,428
Assets - Public and Other		With the Public	
Cash (Note 3)	10,572	Cash and Other Monetary Assets	10,572
Accounts Receivable, Net (Note 5)	112,082	Accounts Receivable, Net	112,082
Credit Program Receivables and Related Foreclosed Property, Net (Note 6)	182,936,949	Direct Loans and Loan Guarantees Receivables, Net	182,936,949
General Property and Equipment, Net (Note 7)	27,503	General Property, Plant and Equipment, Net	27,503
Advances (Note 1)	44,456	Other Assets	44,456
Total Assets - Public and Other	183,131,562	Total With the Public	183,131,562
Total Assets	\$ 897,533,990	Total Assets	\$ 897,533,990
LIABILITIES		LIABILITIES	
Intragovernmental Liabilities		Intragovernmental Liabilities	
Accounts Payable (Note 1)	\$ 14,905	Accounts Payable	\$ 15,922
		Accounts Payable - Capital Transfers	10,803
		Benefit Program Contributions Payable	14,745
		Accounts Payable	41,470
		Total Reclassified Accounts Payable	
		Debt Associated with Loans	160
		Interest Payable - Loans and not Otherwise Classified	176,173,660
Debt (Note 9)	176,173,660	Loans Payable	176,173,820
Net Assets of Liquidating Funds Due to Treasury (Note 10)	15,922	Total Reclassified Debt Associated with Loans	
		Other Liabilities	2,172
		Advances From Others and Deferred Credits	3,389
		Other Liabilities (w/o Reciprocals)	
Downward Reestimate Payable to Treasury (Note 1, Note 13)	28,541,393	Liability to the General Fund of the United States	
Other (Note 11)	16,370	Government for Custodial and Other Non-Entity Assets	
Total Intragovernmental Liabilities	204,762,250	Total Reclassified Other	28,546,960
		Total Intragovernmental Liabilities	204,762,250
Other Liabilities - Public		With the Public	
Accounts Payable (Note 1)	337,528	Accounts Payable	337,528
Accrued Grant Liability (Note 1)	66,496	Federal Employee and Veteran Benefits Payable	70,386
Liability for Loan Guaranties (Note 6)	512,712,498	Loan Guarantee Liability	512,712,497
Federal Employees' Compensation Act Actuarial Liability (Note 1, Note 8)	30,576		
Surety Bond Guarantee Program Future Claims (Note 8)	60,060		
Other (Note 11)	86,610	Other Liabilities	173,357
Total Other Liabilities - Public	513,293,768	Total With the Public	513,293,768
Total Liabilities	718,056,018	Total Liabilities	718,056,018
NET POSITION		NET POSITION	
Unexpended Appropriations (Note 1)	183,460,572	Unexpended Appropriations - All Other Funds	183,460,575
Cumulative Results of Operations (Note 1)	(3,982,600)	Cumulative Results of Operations - All Other Funds	(3,982,603)
Total Net Position	179,477,972	Total Net Position	179,477,972
Total Liabilities and Net Position	\$ 897,533,990	Total Liabilities and Net Position	\$ 897,533,990

Reclassification of Financial Statements (continued)

(Dollars in Thousands)

FY 2020 SBA Statement of Net Cost (Unaudited)	Line Items Used to Prepare FY 2020 Government-Wide Statement of Net Cost	
STRATEGIC GOAL 1:		
Support Small Business Revenue and Job Growth		
Gross Cost	\$ 534,872,629	\$ 561,951,565
Less: Earned Revenue	8,065,493	561,951,565
Net Cost of Strategic Goal 1	526,807,136	
STRATEGIC GOAL 2:		
Build Healthy Entrepreneurial Ecosystems and Create Business Friendly Environments		
Gross Cost	27,523	87,649
Net Cost of Strategic Goal 2	27,523	19,508
		127,721
		7,683,340
		38,562
STRATEGIC GOAL 3:		
Restore Small Businesses and Communities after Disasters		
Gross Cost	34,993,696	7,956,780
Less: Earned Revenue	7,611,305	569,908,345
Net Cost of Strategic Goal 3	27,382,391	
STRATEGIC GOAL 4:		
Strengthen SBA's Ability to Serve Small Businesses		
Gross Cost	11,976	2,280
Net Cost of Strategic Goal 4	11,976	12,624,172
		12,626,452
COST NOT ASSIGNED TO STRATEGIC GOALS		
Gross Cost	2,521	
Net Cost Not Assigned to Strategic Goals	2,521	15,676,798
Net Cost of Operations	\$ 554,231,547	\$ 554,231,547
		Net Cost
		Non-Federal Cost
		Non-Federal Gross Cost
		Total Non-Federal Cost
		Intragovernmental Gross Cost
		Benefit Program Cost
		Imputed Cost
		Buy/Sell Cost
		Borrowing and Other Interest Expense
		Other Expenses (w/o Reciprocals)
		Total Intragovernmental Gross Cost
		Total Reclassified Gross Cost
		Non-federal Earned Revenue
		Intragovernmental Earned Revenue
		Buy/Sell Revenue
		Borrowing and Other Interest Revenue
		Total Intragovernmental Earned Revenue
		Total Reclassified Earned Revenue

Reclassification of Financial Statements (continued)

(Dollars in Thousands)

FY 2020 SBA Statement of Changes in Net Position (Unaudited)		Line Items Used to Prepare FY 2020 Government-Wide Statement of Changes in Net Position	
Beginning Unexpended Appropriations	\$ 1,779,472	\$ 1,633,608	Net Position, Beginning of Period
		1,633,608	Net Position, Beginning of Period - Adjusted
Budgetary Financing Sources			
Appropriations Received	762,191,631		Non-Federal Non-Exchange Revenue
Rescissions	(16,369)	179	Other Taxes and Receipts
Adjustment - Cancelled Authority	(11,135)	179	Total Non-Federal Non-Exchange Revenue
Return of Unrequired Liquidating Fund Appropriation	(2,048)		
Other Adjustments	(197)		
Appropriations Used	(580,480,782)		Budgetary Financing Sources
Total Budgetary Financing Sources	181,681,100		Appropriations Received as adjusted (recissions and other adjustments)
		762,161,885	Appropriations Used
		(580,480,782)	Appropriations Expended
Ending Unexpended Appropriations	\$ 183,460,572	580,480,782	Non-Expenditure Transfers-In of Unexpended Appropriations and Financing Sources
		7,922	Non-Expenditure Transfers-Out of Unexpended Appropriations and Financing Sources
Beginning Cumulative Results of Operations	\$ (145,864)	(17,328)	Total Budgetary Financing Sources
Budgetary Financing Sources		762,152,479	
Transfers-Out Without Reimbursement	(57,862)		Other Financing Sources
Appropriations Used	580,480,782		Imputed Financing Sources
Other - Current Year Liquidating Equity Activity	(9,406)	19,508	Non-Entity Collections Transferred to the General Fund of the U.S. Government
Donations of Cash and Cash Equivalents	12		Accrual for Non-Entity Amounts to be Collected and Transferred to the General Fund of the U.S. Government
Other Financing Sources		(2,583,334)	Total Other Financing Sources
Transfers-In Without Reimbursement	57,862	(27,512,921)	
Imputed Financing from Costs Absorbed by Others	19,508	(30,076,747)	Net Cost of Operations
Other - Non-entity Activity	(30,096,085)		
Total Financing Sources	550,394,811		
Less: Net Cost of Operations	554,231,547	554,231,547	
Net Change	(3,836,736)		
Ending Cumulative Results of Operations	\$ (3,982,600)		
Ending Net Position	\$ 179,477,972	\$ 179,477,972	Ending Net Position

REQUIRED SUPPLEMENTARY INFORMATION

COMBINING STATEMENT OF BUDGETARY RESOURCES

For the Year Ended September 30, 2020 (Unaudited)

(Dollars in Thousands)

	BLIF		DLF		SBGRF
	Budgetary	Nonbudgetary Financing	Budgetary	Nonbudgetary Financing	Budgetary
BUDGETARY RESOURCES					
Unobligated Balance from Prior Year Budget Authority, net (discretionary and mandatory)	\$ 34,331	\$ 3,483,890	\$ 1,145,094	\$ 287,243	\$ 103,289
Appropriations (discretionary and mandatory)	687,632,294	88,377	50,825,367	-	-
Borrowing Authority (discretionary and mandatory)	-	508,227	-	166,759,067	-
Spending Authority from Offsetting Collections	(1)	550,177,478	(1)	32,792,302	17,795
Total Budgetary Resources	\$ 687,666,624	\$ 554,257,972	\$ 51,970,460	\$ 199,838,612	\$ 121,084
STATUS OF BUDGETARY RESOURCES					
New Obligations and Upward Adjustments (total)	\$ 540,432,281	\$ 29,068,091	\$ 26,963,907	\$ 199,705,635	\$ 18,339
Unobligated Balance, end of year:					
Apportioned, unexpired accounts	147,234,343	515,755,469	25,001,878	46,403	31,782
Unapportioned, unexpired accounts	-	9,434,412	4,675	86,574	70,963
Unexpired Unobligated Balance, end of year	147,234,343	525,189,881	25,006,553	132,977	102,745
Expired Unobligated Balance, end of year	-	-	-	-	-
Unobligated Balance, end of year (total)	147,234,343	525,189,881	25,006,553	132,977	102,745
Total Status of Budgetary Resources	\$ 687,666,624	\$ 554,257,972	\$ 51,970,460	\$ 199,838,612	\$ 121,084
OUTLAYS, NET					
Net Outlays (discretionary and mandatory)	\$ 533,954,609		\$ 25,128,056		\$ (2,391)
Distributed Offsetting Receipts	(2,365,907)		(159,396)		-
Agency Outlays, net (discretionary and mandatory)	\$ 531,588,702		\$ 24,968,660		\$ (2,391)
Disbursements, net (total) (mandatory)		\$ (515,012,906)		\$ 154,176,735	

(Dollars in Thousands)

	SE	OIG	ADVOCACY	EDP	EIDL	WCF	BATF	TOTAL	TOTAL	Total
	Budgetary	Budgetary	Budgetary	Budgetary	Budgetary	Budgetary	Budgetary	Budgetary	Nonbudgetary Financing	
BUDGETARY RESOURCES										
Unobligated Balance from Prior Year Budget Authority, net (discretionary and mandatory)	\$ 175,962	\$ 12,872	\$ 743	\$ 50,721	\$ -	\$ 6,000	\$ 164	\$ 1,529,176	\$ 3,771,133	\$ 5,300,309
Appropriations (discretionary and mandatory)	3,037,234	46,900	9,120	526,000	20,000,000	7,922	-	762,084,837	88,377	762,173,214
Borrowing Authority (discretionary and mandatory)	-	-	-	-	-	-	-	-	167,267,294	167,267,294
Spending Authority from Offsetting Collections	937,903	1,600	-	(2)	-	-	13	957,307	582,969,780	583,927,087
Total Budgetary Resources	\$ 4,151,099	\$ 61,372	\$ 9,863	\$ 576,719	\$ 20,000,000	\$ 13,922	\$ 177	\$ 764,571,320	\$ 754,096,584	\$ 1,518,667,904
STATUS OF BUDGETARY RESOURCES										
New Obligations and Upward Adjustments (total)	\$ 2,309,263	\$ 24,161	\$ 9,306	\$ 513,914	\$ 19,957,315	\$ 4,433	\$ 3	\$ 590,232,922	\$ 228,773,726	\$ 819,006,648
Unobligated Balance, end of year:										
Apportioned, unexpired accounts	1,815,179	32,765	557	40,441	42,685	9,489	174	174,209,293	515,801,872	690,011,165
Unapportioned, unexpired accounts	2,270	-	-	-	-	-	-	77,908	9,520,986	9,598,894
Unexpired Unobligated Balance, end of year	1,817,449	32,765	557	40,441	42,685	9,489	174	174,287,201	525,322,858	699,610,059
Expired Unobligated Balance, end of year	24,387	4,446	-	22,364	-	-	-	51,197	-	51,197
Unobligated Balance, end of year (total)	1,841,836	37,211	557	62,805	42,685	9,489	174	174,338,398	525,322,858	699,661,256
Total Status of Budgetary Resources	\$ 4,151,099	\$ 61,372	\$ 9,863	\$ 576,719	\$ 20,000,000	\$ 13,922	\$ 177	\$ 764,571,320	\$ 754,096,584	\$ 1,518,667,904
OUTLAYS, NET										
Net Outlays (discretionary and mandatory)	\$ 840,322	\$ 21,749	\$ 9,283	\$ 271,489	\$ 19,711,360	\$ 1,791	\$ 46	\$ 579,936,314		\$ 579,936,314
Distributed Offsetting Receipts	1,459	-	-	-	-	-	-	(2,523,844)		(2,523,844)
Agency Outlays, net (discretionary and mandatory)	\$ 841,781	\$ 21,749	\$ 9,283	\$ 271,489	\$ 19,711,360	\$ 1,791	\$ 46	\$ 577,412,470		\$ 577,412,470
									\$ (360,836,171)	

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O T H E R
I N F O R M A T I O N
(U N A U D I T E D)



— *start*

— *grow*



— *expand*

— *recover*

 **START & GROW**
**CHARISSA & DAVE
RUBEY**
SUCCESS STORY


Dakota Micro, Inc.
Cayuga, ND

CHARISSA AND DAVE RUBEY relocated from Southern California to North Dakota in 1994 to take over the family farm. A few years later, Dave suffered a slipped disk in his neck. He wore a neck brace, and not being able to turn his head made operating farm equipment impossible.

Unable to find a camera system that was small, durable, and flexible enough to allow him to operate farm equipment efficiently, Dave decided to use his engineering background to build one and created the AgCam system. Dakota Micro Inc. was incorporated in 2002 and manufactures sturdy camera systems and surveillance equipment for agricultural, public works, and military applications. The company grew as Dave developed more camera systems with Charissa leading the company as the CEO. She took advantage of SBA resources—SCORE Mentors, an SBA loan, the Women's Business Center, and the U.S. Export Assistance Center—to expand the business.

Today the company, still located on the family farm, has grown to include a 10,000 square-foot manufacturing facility that serves a global market with more than 40 dealers on five continents and employs 18 people in their rural community.

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MENTAL HEALTH**

The Bizzell Group, LLC
Lanham, MD

DR. ANTON BIZZELL led efforts to reduce the impact of prescription opiates and alcoholism while at the U.S. Department of Health and Human Services Substance Abuse and Mental Health Service Administration. After working at a consulting firm, in 2010 he established The Bizzell Group. The company, along with a cadre of 15 experts, provides health services solutions, research, communication and outreach support, technical assistance, and training, with the goal of providing customized, innovation solutions that will help communities nationwide develop healthy and secure environments.

The Bizzell Group is 8(a) certified, and their clients include the Departments of Labor, Health and Human Services, Defense, Energy, Transportation, and the United States Agency for International Development, among others. In 2018 and 2019, the Washington Business Journal ranked The Bizzell Group among the area's fastest growing companies. In 2017, The Bizzell Group was recognized by Inc. Magazine as the third-fastest growing Black-owned business in the nation. Sales increased from \$8.4 million in 2016 to \$16.5 million in 2018. The company has grown from a small space in Dr. Bizzell's basement to two offices in suburban Maryland, an office in Atlanta, Georgia, a staff of 100 working in nine U.S. states.

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REPORT ON THE TOP MANAGEMENT AND PERFORMANCE CHALLENGES

Top Management and Performance Challenges Facing the Small Business Administration in Fiscal Year 2021



October 2020
Office of Inspector General



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MESSAGE FROM THE INSPECTOR GENERAL



HANNIBAL "MIKE" WARE

I am pleased to present the Office of Inspector General Report on the *Top Management and Performance Challenges Facing the Small Business Administration* for fiscal year (FY) 2021, as required by the Reports Consolidation Act of 2000.

This year has presented tremendous challenges to SBA, the likes of which the agency has never encountered in its history. The devastating impact of Coronavirus Disease 2019 (COVID-19) on our nation and small businesses catapulted SBA into the spotlight as the primary agency responsible for providing nationwide assistance to small businesses.

This report discusses several challenges and issues, many of which we have discussed in previous reports. Managing COVID-19 stimulus is the greatest overall challenge facing SBA currently. This crucial new challenge is exacerbated by persisting management and performance challenges best described as systemic. Pandemic response has, in many instances, magnified the challenging systemic issues in SBA's mission-related work.

Overall, the agency has made progress addressing this year's list of management challenges. We believe that progress is in large part attributable to the agency's concerted effort to address outstanding internal control recommendations that are reflected in many component challenge corrective action areas.

However, our audits and investigations continue to find the agency facing significant risks in

- loan program oversight and controls,
- oversight of statutory programs to promote small business development and government contracting, and
- deploying information technology and related cybersecurity controls.

Challenges Not Failings

Identification of an issue as a top challenge does not necessarily denote significant deficiencies or lack of attention on SBA's part. All but one of these challenges are longstanding, inherently difficult, and may likely continue to be challenges in the coming years. Resolving the challenges will require consistent, focused attention from agency management and ongoing engagement with Congress, the public, and other stakeholders.

It is also important to note that the top challenges are not listed in order of importance or magnitude, except for the COVID-19 challenge, which we address first in this report. We view all eight challenges as critically important to SBA operations in the upcoming year.

A handwritten signature in black ink, appearing to read "H. Ware".

Hannibal "Mike" Ware
Inspector General

Changes to This Year's Report

We have made some significant changes in this year's report, as follows:

- **We added a new challenge (Challenge 1)** related to the impact of the COVID 19 pandemic on SBA programs and operations.
- **We present challenges in a new format** to include a discussion of each challenge and underlying issues, agency progress in meeting the challenge, and work remaining for the agency to reduce or eliminate the challenge.
- **We eliminated recommendations for each challenge.** In previous reports, each management challenge was followed by a series of recommended actions to enhance the effectiveness of agency programs and operations. Each recommended action was assigned a color score to indicate its status. Instead, in this year's report, we color-code issues underlying each challenge, shown in Table B.
- **We removed the human capital management challenge (formerly Challenge 3).** SBA has made substantial improvements to its human capital strategies to address the challenges we identified. SBA developed and implemented plans that aligned talent needs and capability with its strategic plan. It also implemented strategic workforce and succession plans to identify competency gaps, strengthen leadership capacity, and address the challenges of its aging workforce.

SBA continues to make progress in addressing our recommendation to update its human capital management policies. In FY 2020, SBA updated and implemented 11 human capital management policies. SBA also improved communication of the new policies through outreach efforts.

- **We removed the challenge on SBA's exclusions for determining governmentwide federal contracting goal-setting guidelines, referred to as "goaling" (previously included in Challenge 2).** Over the last several years, SBA has amended its goaling guidelines and since FY 2013, the agency has been adding previously excluded contracts back to the goaling equation.

SBA has also improved transparency of the exclusions on its website by adding a link to the FY 2018 guidelines. OIG maintains the Small Business Act requires SBA to use the value of all prime contracts to determine governmentwide small business procurement goals and achievements; excluding prime contracts for governmentwide goals and reports does not meet the law. However, because of SBA's new transparency in disclosing how it calculates goal percentages, we no longer believe this issue is a serious management challenge.

- **We removed the challenge on SBA's portfolio risk management system (previously included in Challenge 4).** From FY 2016 to FY 2020, SBA made significant improvements to ensure the portfolio risk management program supported risk-based decisions and implemented additional controls to reduce risks in SBA loan programs. Specifically, SBA established performance measures and risk mitigation goals for each loan program and the entire lending portfolio.
- **We removed the challenge on SBA's quality control program to reduce improper payments (previously included in Challenge 6).** Over the last several years, SBA developed enhanced improper payment reporting to monitor root causes, identify operational risk, and create corrective action plans.

From FY 2018 to FY 2020, SBA provided a comprehensive metric report documenting the effectiveness of corrective actions to mitigate improper payments and an assessment of the improper payment process. The agency also required additional controls to ensure proper scrutiny is applied in testing plans and checklists. SBA has confirmed that the quality control function continues to make policy recommendations to the Office of Financial Assistance and lender referrals to the Office of Credit Risk Management on matters that could potentially cause improper payments.





Table 2 lists the management challenges and issues associated with each that we discuss in this report.

Color Coding to Indicate Progress

As in previous years, this report uses a color scheme as a visual indicator of the agency's progress in confronting the issues that make a particular function a top management challenge. We include a color meter indicator with the issues we describe for each challenge to show whether SBA has made progress (see Table 1). The exception in this year's report is Challenge 1.

We have not color-coded the issues the agency is confronting with the COVID-19 loan programs because the situation creates a new reporting element. In this report, we describe the issues and problems we have found so far. But it would be unfair to judge progress when the agency is diligently working to fulfill the economic goals of the laws passed in March.

TABLE 1. Color-Code Definitions

Color	Definition	Color indicator
Green	Issue Resolved or Appropriately Reduced	
Yellow	Substantial Progress	
Orange	Moderate or Limited Progress	
Red	No Progress	

The management challenges report is an important tool to help the agency prioritize its work to improve program performance and enhance operations. These challenges will guide OIG work in the coming year. We look forward to continuing to work with SBA's leadership team to address the agency's top management and performance challenges.

TABLE 2. Top Management and Performance Challenges Facing SBA in FY 2021

Challenge	Issues
Challenge 1 SBA's Economic Relief Programs Are Susceptible to Significant Fraud Risks and Vulnerabilities	Paycheck Protection Program Susceptible to Abuse and Fraud Paycheck Protection Program Eligibility Paycheck Protection Program Data Reliability Potentially Fraudulent COVID-19 Economic Injury Disaster Loans
Challenge 2 Inaccurate Procurement Data and Eligibility Concerns in the Small Business Contracting Programs Undermine the Reliability of Contracting Goal Achievements	Agencies Receive Credit for Ineligible Firms or Firms No Longer in the 8(a) or HUBZone Programs Women-Owned Small Business Federal Contracting Program Susceptible to Abuse
Challenge 3 SBA Needs to Improve Oversight of IT Investment and Reduce IT Security Risks	SBA's New IT Investment Controls Need Improvement Additional Progress Needed on Security Controls
Challenge 4 SBA Risk Management and Oversight Practices Need Improvement to Ensure the Integrity of Loan Programs	SBA's Oversight of High-Risk Lending Participants Increased Risk Introduced by Loan Agents Increased Risk Introduced by Lender Service Providers
Challenge 5 SBA Needs to Administer the Section 8(a) Business Development Program Effectively	SBA Continues to Address Its Ability to Develop Firms in the 8(a) Program and Measure Results Streamlined Application Process May Expose the 8(a) Program to Higher Fraud Risk Deficiencies in Continuing Eligibility Processes Expose the 8(a) Program to Higher Fraud Risk SBA Dollar Threshold for Economic Disadvantage Should Be Based on Verifiable Data
Challenge 6 Identification of Improper Payments in SBA's Loan Programs Remains a Challenge	Improvements Needed to Ensure High Risk 7(a) Loan Reviews Reduce the Risk of Losses
Challenge 7 SBA's Disaster Assistance Program Must Balance Competing Priorities to Deliver Prompt Assistance but Prevent Potential Fraud	Reserve Staff Need Training to Sustain Productivity During Mobilization Improper Payment Quality Assurance Process Needs Strengthening Inadequate Verification of Cause and Extent of Damages
Challenge 8 SBA Needs Robust Grants Management Oversight	SBA's Grants Management System Needs Improvement

CHALLENGE 1

SBA's Economic Relief Programs Are Susceptible to Significant Fraud Risks and Vulnerabilities

Paycheck Protection Program

Why This Is a Challenge

More than 30 million small businesses in the United States have been negatively affected by COVID-19. The President signed the Coronavirus Aid, Relief, and Economic Security (CARES) Act into law on March 27, 2020, to provide economic relief to our nation.

Under the CARES Act, the Small Business Administration (SBA) fully guarantees relief loans for eligible small businesses, individuals and nonprofit organizations that can be forgiven if loan proceeds were used as the Act requires. Eligible expenses include payroll, rent, utility payments, and other limited uses. The CARES Act appropriated \$349 billion for the SBA Paycheck Protection Program (PPP) under the 7(a) small business lending program.

In early April 2020, SBA launched the \$349 billion PPP in collaboration with the U.S. Department of the Treasury. On April 24, 2020, Congress appropriated an additional \$321 billion for PPP through the Paycheck Protection Program and Health Care Enhancement Act, bringing the total for the program to \$670 billion. The deadline for PPP borrowers to apply for a loan was originally June 30, 2020, however Congress passed legislation that extended the expiration of the program until August 8, 2020.

As of August 8, 2020, SBA had processed 5.2 million guaranteed loans, totaling \$525 billion through 5,460 private lenders, far more than all of SBA's combined lending under the 7(a) program from 1990 to 2019. From fiscal years (FYs) 2000-2019, SBA made about 1.2 million 7(a) loans totaling \$333 billion. On average, SBA made about 62,000 loans a year totaling about \$16.7 billion.

SBA moved quickly to establish the new nationwide program but eased controls required in its lending programs to do so, increasing the risk of rampant fraud.

Issue: Paycheck Protection Program Susceptible to Abuse and Fraud



Our preliminary investigative oversight revealed strong indicators of widespread potential abuse and fraud in the PPP. Since the PPP began, OIG has had a major increase in reports of suspected fraud. These reports of suspected fraud have come from various sources, including OIG Hotline complaints, contacts from financial institutions, and other law enforcement agencies, and we have launched numerous investigations based on these reports.

Examples of suspicious activities and suspected PPP fraud include:

- False statements on applications
- Fraudulent supporting documents (such as payroll and tax forms)
- Accounts established using stolen identities
- Corporate identity theft
- Inflation of payroll
- Misuse of proceeds
- Unqualified borrowers
- Businesses created after PPP was in effect
- Lender fraud

OIG received more than 77,000 Hotline complaints of potential fraud by the end of September and the numbers continue to rise. Complaints of potential fraud or scams include the following:

- Loan applicants fraudulently have stated they own a business but do not
- Business owners have received funds but did not use it for their business
- Business owners have laid off employees to reduce their employment numbers and qualify for a PPP loan
- Business owners have refused to allow employees to return to work, telling them to continue unemployment assistance
- People on the web have offered to prepare fraudulent applications for a fee

OIG has identified trends that indicate widespread fraudulent activity in the program in the high volume of complaints. These trends match the arrests and ongoing investigations our agents and other government agencies are pursuing. As of August 28, 2020, the Justice Department had filed 39 PPP fraud cases, charging 56 defendants. Defendants are charged with bilking taxpayers out of tens of millions of dollars.

SBA's engagement with financial institutions to immediately identify disbursements that may have been obtained fraudulently could reduce or prevent additional losses because associated loan forgiveness will still be in process, and the loan forgiveness process could trigger another round of suspected fraud activity. Strong controls will help reduce or eliminate fraud risk and enhance program integrity for the PPP and similar programs enacted in the future.

Agency Progress

As of October 1, 2020, SBA had not initiated loan reviews other than the automated loan reviews conducted by the application system or forgiven any loans because agency management had not finalized loan review and forgiveness processes. Agency management told us they could not share details until the processes were finalized. Without details of the loan review and loan forgiveness processes, we could not adequately assess the agency's ongoing progress.

SBA's plans and actions to reduce fraud risks and prevent further losses will determine how this challenge will be rated in the future. Our investigations into suspected fraud and suspicious activities continue. We have an ongoing review of duplicate loans made under the PPP. We anticipate future audit work on PPP loan eligibility, loan forgiveness, and lender activities, and we will continue to monitor agency actions to assess and reduce fraud risk and address vulnerabilities in the PPP.

Issue: Paycheck Protection Program Eligibility



OIG's ongoing inspection of SBA's implementation of the PPP and coordination with the Treasury Department have revealed systemic issues. Our preliminary results found indications of deficiencies with internal controls related to eligibility of borrowers. Our ongoing review of SBA's implementation of PPP has identified thousands of loans erroneously provided to potentially ineligible borrowers.

For example, SBA inappropriately approved loans for businesses that

- exceeded maximum loan amounts for the number of employees,
- were in the government's Do Not Pay database,
- exceeded the maximum size allowed, and
- obtained a Taxpayer Identification Number (TIN) after the program began in February 2020.

Approving loans for ineligible borrowers reduces the amount of critical program capital available to eligible borrowers. We expect to issue final reports addressing PPP eligibility in early FY 2021.

Businesses Exceeding Maximum Loan Amounts

We found tens of thousands of approved and disbursed loans were made to borrowers for amounts that exceeded the maximum allowed based on the number of employees and compensation rates as defined in the CARES Act.

Borrowers on Do Not Pay Database

We coordinated with the Treasury Department to compare TIN and name data provided in SBA data files against Do Not Pay debt, exclusions, and death data sources. We found tens of thousands of loans that matched a Do Not Pay data source record indicating potential loan ineligibility.

The Treasury Department Do Not Pay system helps agencies fulfill the obligation to deny federal loans, loan insurance, and loan guarantees to businesses delinquent on federal debts and obligations. To be eligible to receive PPP funds, a business must not have any current federal debarments or suspensions, and the applicant must not have delinquent federal loans or have defaulted on any federal loans in the last 7 years. The OIG will issue a report early in FY 2021 providing the final results of this analysis.

Businesses that Exceeded Maximum Size Standards

Under the CARES Act, an eligible business cannot exceed the greater of 500 employees or the SBA size standard for number of employees in the industry, if applicable. We found hundreds of businesses obtained PPP loans that may have been erroneously approved. These businesses exceeded both 500 employees and the applicable employee-based size standard for the business industry.

Taxpayer Identification Number Registered after February 15, 2020

The CARES Act requires that businesses must have been in operation before February 15, 2020, to be eligible for a PPP loan. We found thousands of businesses obtained PPP loans with TINs that were not registered until after that date. The businesses would have been ineligible for PPP loans because they likely did not meet the CARES Act eligibility requirement of being in operation before February 15.

Agency Progress

To confront this new challenge, agency management is reassessing existing controls and developing additional controls to ensure only eligible recipients receive loans. According to agency management, these additional controls will address various processes, including loan reviews and loan forgiveness.

SBA has established a PPP loan forgiveness platform and began accepting loan forgiveness applications on August 10, 2020. SBA also hired new staff and contractors to assist with loan reviews and loan forgiveness. However, as noted earlier, as of October 1, 2020, SBA had not finalized loan review and loan forgiveness processes, forgiven any loans, or initiated loan reviews other than the automated reviews conducted by the application system.

Swift management action to identify and review potentially ineligible loans could prevent improper payments to lenders because the associated loan forgiveness may still be in process. As we complete current reviews and do future audit work, SBA's plans and actions to reduce and prevent improper payments will determine how we will rate this challenge in the future.

Issue: Paycheck Protection Program Data Reliability



OIG's ongoing inspection of SBA's implementation of the PPP has found that the data SBA publicly reported as well as the loan-level PPP data was inaccurate and incomplete. Job statistics were inaccurate and incomplete, industry classification codes were incomplete, loan disbursement dates were inaccurate, and underserved market data was incomplete. Without accurate and complete data, SBA cannot reliably and accurately inform SBA management and Congress about program

effectiveness and measures needed to inform program decisions. We plan to issue final reports addressing PPP data reliability in early FY 2021.

Underserved Market Data Was Incomplete

In our flash report of May 8, 2020, we found that SBA's demographic information for underserved markets for PPP borrowers was incomplete. SBA's borrower application for PPP did not include standard SBA fields to request demographic information.

Agency Progress

On May 15, 2020, SBA issued the initial PPP loan forgiveness application, which included an optional page to submit borrower demographic information. We have an ongoing audit of duplicate loans made under the PPP and anticipate future audit work to review PPP loan eligibility, loan forgiveness, and lender activities, and we will continue to monitor agency actions to enhance data reliability.

Economic Injury COVID 19 Disaster Loan Program

Why This Is a Challenge

In FY 2020, the CARES Act and the Paycheck Protection Program and Healthcare Enhancement Act provided \$366 billion for disaster assistance and \$20 billion for emergency advance grants for eligible entities.

SBA's initial response to implement the COVID-19 EIDL program made billions of dollars of capital available to provide prompt economic relief to businesses affected by COVID-19. To expedite the process, SBA "lowered the guardrails" or relaxed internal controls, which significantly increased the risk of program fraud. The unprecedented demand for COVID-19 EIDLs and the equally unprecedented challenges SBA had in responding to this pandemic combined with lowered controls put significant stress on existing controls.

SBA had approved 2.2 million disaster loans for \$66.7 billion in its entire history since 1953. By contrast, between March and the end of July this year, SBA had received more than 14 million COVID-19 Economic Injury Disaster Loan (EIDL) applications and approved 3.2 million loans totaling \$169.3 billion.

During large-scale disasters such as COVID-19, SBA must bring on new loan officers to match the volume of loan applications and prevent processing backlogs that delay the delivery of disaster assistance. In its COVID-19 response, SBA increased its permanent and temporary trained staff size to more than 9,000, which was more than any other previous disaster. SBA also outsourced loan processing to a subcontractor.

Issue: Potentially Fraudulent COVID-19 Economic Injury Disaster Loans



From the beginning of the COVID-19 EIDL program until September 30, 2020, OIG received more than 77,000 Hotline complaints, most of them alleging fraudulent activity, and thousands of complaints from banks about potentially fraudulent activity. OIG has steadily received hundreds of additional complaints per day. OIG has launched numerous investigations into this fraudulent activity. In addition, our ongoing inspection of SBA's initial disaster assistance response to COVID-19 has identified suspicious activity.

We found several serious problems, including significant evidence that SBA approved billions in potentially fraudulent loans to

- applicants who changed the bank account number to pay out the loan to a different number than that listed on the original loan application;
- applicants using the same Internet Protocol (IP) address, the same email address, the same bank accounts, or businesses listed at the same addresses; and

- ineligible businesses that registered an Employer Identification Number after the cutoff date of January 31, 2020.

Potentially Fraudulent Loans to Accounts that Differed from the Original Bank Accounts Listed on Applications. SBA had approved billions in COVID-19 EIDLs to applicants who later changed the bank account number to pay out the loan to a different number. For these applications, additional funds were disbursed in advance grants. Although there are reasons an applicant might need to change a bank account number during the loan process, the number of applicants who changed their bank account numbers or accounts to an entirely different bank before loan disbursements is concerning.

Potentially Fraudulent Loans Made to Applicants Using Duplicate Information. We found SBA had approved more than one loan to applicants who used the same IP addresses, email addresses, business addresses, or bank accounts. There are some legitimate reasons for individual occurrences of applicants using the same addresses or accounts to apply for loans. Multiple occurrences, however, are a strong indication of fraud.

Potentially Fraudulent Loans Made to Ineligible Entities. We found that SBA approved millions in COVID-19 EIDLs and advance grants to potentially ineligible entities. In our July 2020 Management Alert, we warned SBA that we had found approximately \$250 million in approved loans to ineligible entities.

CHALLENGE 2

Inaccurate Procurement Data and Eligibility Concerns in Small Business Contracting Programs Undermine the Reliability of Contracting Goal Achievements

Why This Is a Challenge

The Small Business Act has established a governmentwide goal that 23 percent of all prime contracts be awarded to small businesses each fiscal year. Since FY 2013, the Small Business Administration (SBA) has reported that the federal government met or exceeded its goal of awarding 23 percent of federal contracting dollars to small businesses in its annual Small Business Goaling Report.

However, over the years, Congress has expressed concerns about the accuracy of the report. These concerns have been substantiated by OIG and Government Accountability Office (GAO) audits, which identified widespread misreporting by agencies, because contract awards reported as having gone to small firms have been substantially performed by larger companies.

As the advocate for small business, SBA must strive to ensure that only eligible small firms obtain and perform small business awards. Because SBA's goal setting, or "goaling" achievement reports do not portray federal contract dollars awarded only to small businesses, SBA reduces the ability of Congress and other federal policymakers to determine whether the government is maximizing contracting opportunities for small businesses.

Issue: Agencies Receive Credit for Ineligible Firms or Firms No Longer in the 8(a) or HUBZone Programs



OIG audits continue to identify federal agencies that may have erroneously received credit towards their small business goals for small, disadvantaged businesses because of inaccurate reporting of the award data.

Agency contracting officers have incorrectly reported ineligible firms as certified either in the 8(a) or HUBZone programs in the Federal Procurement Data System – Next Generation. The Office of Inspector General of the General Services Administration recently found \$89 million in procurements erroneously recorded as small business in the Federal Procurement Data System–Next Generation.¹

OIG audits continue to find that SBA did not consistently detect ineligible firms in its preference contract programs. In a September 2018 audit report (Report 18-22), we found SBA did not consistently detect ineligible firms in the 8(a) program and did not always act to remove firms it determined were no longer eligible for the program. We found that 20 of the 25 firms we reviewed should have been removed from the 8(a) program. These firms received \$126.8 million in new 8(a) set-aside contract obligations in FY 2017 at the expense of eligible disadvantaged firms.

In a March 2019 report (Report 19-08), we also found that SBA did not ensure that only eligible firms entered the HUBZone program; 3 of the 15 firms reviewed did not meet eligibility requirements. These firms received \$589,000 in HUBZone contract obligations at the expense of eligible firms.

In 2020, SBA changed the requirements for HUBZone employee residency eligibility. An employee no longer needs to be a current HUBZone resident to count toward the residency requirement. Instead, an employee counts as a HUBZone resident throughout that employee's unbroken tenure with the company, as long as that employee lived in a HUBZone when first used for certification purposes and remained in the residence for 180 days afterward.

HUBZone businesses could theoretically have no employees (zero) currently residing in the HUBZone but continue to be qualified under this rule. Consequently, the government's ability to argue the employee residency requirements for

¹ General Services Administration OIG Report Number A170121/Q/6/P20006, The Federal Acquisition Service's Reporting of Small Business Procurements Contained Significant Inaccuracies (September 14, 2020). General Services Administration OIG Report Number A170121/Q/6/P20006, The Federal Acquisition Service's Reporting of Small Business Procurements Contained Significant Inaccuracies (September 14, 2020).

enforcement purposes is significantly weakened. Allowing continued certification of concerns without current HUBZone residents and no requirement that the company hire such residents in the future, appears inconsistent with the agency's legislative authorization for this program.

In FY 2020, SBA removed regulations allowing for protests of a firm's Small Disadvantaged Business status. Protest and review processes protect program integrity. This process is important because of the volume of transactions SBA reports each year as part of the governmentwide goal achievements that are not 8(a) Small Disadvantaged Business. As of September 2020, SBA's Dynamic Small Business Search database included 152,986 firms self-certifying as small, disadvantaged businesses.

The amount of dollars SBA reports to Congress and the public as being performed by 8(a) and HUBZone firms in the Small Business Goaling Report is inflated by the inclusion of contract actions performed by ineligible program participants. SBA needs to strengthen its oversight to ensure only eligible firms participate in these preference contract programs.

Agency Progress

SBA has made substantial progress in implementing controls to detect ineligible firms in the 8(a) and HUBZone programs. In FY 2020, SBA updated its HUBZone policy directives for the current certification process to standardize analysis and oversight and trained staff on the guidance. SBA also implemented procedures to ensure program officials justified recommendations to admit firms applying to the 8(a) program and that tracked complaints about firms' eligibility to participate in the 8(a) program.

More transparent reporting of awards to firms that grow beyond the definition of "small" after award is necessary to show a true picture of the small business goal achievements.

Issue: Women-Owned Small Business Federal Contracting Program Susceptible to Abuse



SBA's Women-Owned Small Business (WOSB) program is intended to give those companies that meet the program's requirements greater access to federal contracting opportunities. Both OIG and GAO have reported weaknesses in SBA's controls that are supposed to ensure only eligible firms receive WOSB program set-aside contracts.

SBA officials have said the agency examines a sample of firms for eligibility and has conducted a compliance review of all four SBA-approved third-party certifiers. However, these processes and procedures have not yet been formalized.

The National Defense Authorization Act in FY 2015 granted contracting officers the authority to award sole-source awards to firms in the WOSB program and required firms to be certified by a federal agency, a state government, SBA's Administrator, or a national certifying entity approved by the Administrator. However, SBA implemented the sole-source authority provision first without a certification program.

OIG considers allowing sole-source contracting authority in the WOSB program without implementing the contemporaneously required certification program to be inconsistent with the statutory authorization. In a June 2018 audit report (Report 18-18), OIG found contracting officers at various federal agencies made sole-source awards without having the necessary documentation to determine eligibility because of SBA's implemented sole-source authority without a certification program. The change resulted in approximately \$52.2 million awarded to potentially ineligible firms.

Agency Progress

SBA has made substantial progress toward addressing this challenge by establishing a certification process for the WOSB program and issuing a final rule. In May 2020, SBA published the WOSB certification final rule outlining new WOSB certification requirements and roles and responsibilities of SBA and third-party certifiers. SBA added language in its third-party certifier agreement to increase oversight of the certifiers, require additional reporting metrics, and include a review of the third-party certifier determination methodologies.

SBA incorporated a prescreening process to ensure that firms submit complete applications and initiated a phased approach to certifying firms in Beta.Certify.SBA.gov. The first phase began July 2020 when WOSB firms (including economically disadvantaged WOSBs) began submitting application documentation self-certifying that the firm meets program requirements. The second phase was planned to begin in October 2020 and involves SBA analysts making eligibility determinations.

Because SBA still has not implemented a certification process for the WOSB program as required, firms continue to self-certify, exposing the WOSB program to potential fraud and abuse, as well as overstating SBA WOSB contracting goals.

SBA's plans to begin making decisions on firm eligibility to participate in the program should result in agency compliance with the statutory authorization that required firms to be certified by the SBA's Administrator, among others.

CHALLENGE 3

SBA Needs to Improve Oversight of IT Investments and Security Risks

Why This Is a Challenge

The agency must continually improve its capabilities to provide program assistance to small businesses. IT security and systems oversight represent growing challenges to provide this assistance. New IT investments are needed to improve the portal interfaces for small businesses.

New portal systems must address concurrent issues such as significant transaction growth and IT security controls. SBA's systems are meeting these needs by placing a growing reliance on cloud and other third-party providers. At the same time, SBA must develop internal applications to meet changing program requirements and growing program demand.

Our previous audit work indicates SBA needs to continuously monitor internal and third-party computer systems to protect information and preserve data integrity. Application software must be properly maintained to prevent security vulnerabilities, and contingency planning to handle multiple types of threats is needed. Effective IT investment controls must be established to ensure IT investments meet identified functional requirements, projected schedules, and estimated costs.

Our current audit work seeks to gain an understanding of security incidents such as the data exposure that occurred during the EIDL loan program.

Issue: SBA's New IT Investment Controls Need Improvement



Growth in program requirements and increasing transaction volumes requires SBA make significant investments in its IT systems. SBA's most significant IT investment during the past 5 years has been development of its Certify system, which was intended to improve small business access to SBA's contracting and assistance programs.

During our recent review, we identified a need for improved planning and performance oversight throughout this project. As a result, Certify.gov did not meet its original goal of improving SBA's small business certification process, and the \$30 million investment has not yielded the intended results.

In the future, SBA plans to migrate to another platform to address Certify's limitations. However, until SBA addresses these oversight weaknesses, identified through several investment control recommendations, there is a continued risk of repeating past project shortcomings.

SBA has begun moving to a new application platform to address Certify's weaknesses. Certify was envisioned to be the single gateway to all of SBA's contracting programs and a vehicle to improve small business participation in federal contracts.

Certification program changes such as those mandated for the Women-Owned Small Business Program requires Certify's functionality to be expanded to address new program requirements, streamline the certification process and improve productivity.

The system was also supposed to provide management views of in-progress applications, automate repetitive tasks, and make document review straightforward to help the agency identify fraud, waste, and abuse. We plan to monitor the Certify investment to ensure necessary functionality is added and federal guidance followed for major future IT investments.

Issue: Additional Progress Needed on Security Controls



Inspectors General are required by the Federal Information Security Modernization Act's (FISMA) to assess the effectiveness of information security programs on a maturity model spectrum and assess security capability in eight domains. The current benchmark for an effective program within the context of the maturity model is Level 4, Managed and Measurable.

Our most recent evaluation indicated SBA has achieved Level 4 for incident response but is at level 2 "Defined" or level 3 "Consistently Implemented" in the remaining seven areas. Consequently, SBA is at an overall level of "not effective." At the same time, however, significant progress is being made towards an "effective" level as outlined in the FISMA metrics.

Agency Progress

SBA has made significant progress on policies to implement information security continuous monitoring activities and ensure controls are tested on a regular basis by internal and external testers. In addition, the agency has implemented encryption for data at rest and in transit and has established a policy for responding to data breaches.

However, we continue to find problems with information security continuous monitoring and data protection. These areas include establishing security baselines for systems, ensuring vulnerabilities identified are corrected promptly, and establishing metrics to document the effectiveness of data protection efforts.

SBA officials also have made significant progress in risk management by communicating agency risks to appropriate personnel and maintaining processes to identify risks that may affect the agency in the future. SBA is also working to ensure backups are completed and contingency plans are up to date.

We continue to find challenges in risk management and contingency, however. These areas include improving oversight of plans of actions and milestones, maintaining up-to-date software and hardware inventories, and ensuring security controls for agency systems and third-party systems are assessed for effectiveness. In addition, SBA has made significant improvement in access control, implementing an agency-wide policy for user access, proper approvals for new users, and using two-factor authentication. In configuration management, SBA is using automation to ensure systems are properly configured and secured.

Challenges remain in the areas of user access configurations, applying patches in a timely manner, documenting departures from system baselines, and documenting proper permissions for new users.

CHALLENGE 4

SBA Risk Management and Oversight Practices Need Improvement to Ensure the Integrity of Loan Programs

Why This Is a Challenge

SBA's Office of Credit Risk Management (OCRM) manages credit risk for a loan portfolio of more than \$744 billion. However, those loans are originated by lenders and certified development companies that have various degrees of expertise in SBA loan program requirements.

Most traditional 7(a) and 504 SBA loans are originated by lenders with delegated approval authority, resulting in limited SBA oversight and quality control reviews until a default occurs. Many lenders rely on the services of fee-based and other third-party agents to help originate, close, service, and liquidate SBA loans.

Previous OIG audits have shown that SBA did not recognize significant lender weaknesses. In response, SBA initiated actions to address identified issues with its oversight of lenders, and implemented all our audit recommendations before FY 2019. However, although SBA took action to address previous concerns about lender oversight, an OIG FY 2020 audit of SBA's oversight of high-risk lenders identified additional internal control weaknesses in lender oversight.

Consequently, we have added a new issue related to SBA's oversight of high-risk lenders. SBA has planned several actions to address recommendations made in the 2020 audit that should continue to improve SBA's oversight of lenders in the 7(a) program.

Additionally, many lenders rely on the services of fee-based and other third-party agents to help originate, close, service, and liquidate SBA loans. Previous OIG audits have shown that SBA did not effectively identify and track third-party agent involvement in its 7(a) and 504 loan portfolios. SBA has made substantial progress in identifying and tracking third-party agents.

Issue: SBA's Oversight of High-Risk Lending Participants



The risks inherent in delegated lending require effective oversight to monitor compliance with SBA policies and procedures and take corrective actions when material noncompliance is detected. However, OIG's audit of SBA's oversight of high-risk lenders found that OCRM did not always effectively oversee high-risk lenders to identify and mitigate risks (Report 20-03, November 12, 2019).

SBA did not always conduct planned high-risk lender reviews, recommend appropriate and consistent risk mitigation actions for the deficiencies identified during the oversight reviews of high-risk lenders, or communicate loan deficiencies noted during high-risk lender reviews to SBA approval and purchase loan centers.

Agency Progress

In FY 2020, SBA issued a final rule to implement the Small Business 7(a) Lending Oversight Reform Act of 2018. The regulations include SBA's informal enforcement actions for 7(a) lenders, authority to impose civil monetary penalties on all 7(a) lenders, and an updated definition of "credit elsewhere."

SBA also realigned the OCRM organizational structure to provide greater management depth and consistency for its review teams and added additional resources to the review teams for effective oversight.

OCRM also implemented quarterly meetings to assess high-risk lender review results and developed a communications protocol that documents deficiencies identified during loan file reviews. OCRM plans to issue updated standard operating procedures in FY 2021. The agency is also developing a database to manage the oversight of high-risk lenders that will be implemented during FY 2021.

Issue: Increased Risk Introduced by Loan Agents



Previous OIG audits and investigations have shown SBA could not effectively identify and track loan agent involvement in its 7(a) and 504 loan portfolios and had outdated enforcement regulations. OIG investigations have also revealed a pattern of fraud by loan packagers and other fee-based agents in the 7(a) loan program, involving hundreds of millions of dollars.

Over the course of a decade, OIG investigated at least 22 cases with confirmed loan agent fraud, totaling approximately \$335 million (Report 15-16, September 25, 2015). The audit determined that loan agents were involved in approximately 15 percent of all 7(a) loans increasing the risk of default. SBA has indicated the percentage decreased to approximately 7 percent in FY 2020. Despite the prevalence of fraud in its loan portfolios, SBA's oversight of loan agents was limited.

SBA implemented a process that requires lenders to provide a loan agent disclosure form (Form 159) to SBA's fiscal-and-transfer agent for 7(a) loans. The fiscal-and-transfer agent must enter the data into a database accessible to SBA. SBA also began linking 7(a) loan Form 159 information with its loan data. In the report on SBA's loan agent oversight (Report 15-16), we identified significant issues in the data quality of Form 159. Additionally, the report found that SBA had not implemented tracking Form 159 in the 504-loan program.

Agency Progress

In response to our report on SBA's oversight of loan agents, SBA stated that it would explore the feasibility of implementing a registration system for the 7(a) loan program (Report 15-16). SBA determined the best way to gather information on loan agents was by improving Form 159. The enhanced Form 159 was approved by the Office of Management and Budget and rolled out with official notification and lender training.

In FY 2019, SBA also implemented an effective method of disclosing and tracking loan agent involvement in the 504-loan program. SBA requires 504 lenders to electronically submit Form 159 directly into SBA's electronic lending system.

In addition, SBA has awarded a new Fiscal Transfer Agent contract. The contract requires the Fiscal Transfer Agent to develop application and follow-up controls over 7(a) lender submissions to ensure critical fields on each form are completed. The migration phase is in process, and SBA expects the enhanced controls to be fully implemented in FY 2021.

Because loan agent involvement in the 7(a) program is significant, it is important for SBA to have oversight tools in place to identify and track loan agent involvement in this sizeable program. SBA also needs to effectively mitigate the risk introduced by high-risk loan agents. OIG will continue to monitor SBA's oversight of loan agents and conduct audits and reviews as necessary.

Issue: Increased Risk Introduced by Lender Service Providers



In 2019, five former officers and employees at one of the largest lender service providers were charged for their alleged roles in a 13-year conspiracy to defraud SBA in connection with programs to guarantee loans made to small businesses.

The officers allegedly fraudulently obtained guarantees for loans SBA deemed ineligible. The officers hid signs of ineligibility from the SBA by misrepresenting the use of SBA loan proceeds and unlawfully diverting previously denied loan applications into expedited approval channels. The officers originated dozens of loans, totaling more than \$10 million in disbursements, that were not eligible for SBA guarantees.

SBA has had to contend with the issue of risks introduced by lender service providers for some time. In a March 2015 audit (Report 15-06), we noted that the outsourcing of traditional lender functions to lender service providers, a type of loan agent, had significantly increased. Since then, the number of SBA-approved lender-service-provider agreements has grown significantly, reaching almost 2,900, in part because of SBA's effort to better control access to its systems by lender service providers.

SBA assigns an identifying number for all lender service providers that access SBA systems and records all SBA-approved agreements. Use of the identification number has made it possible for OCRM to develop initial metrics on provider participation in SBA's 7(a) program, but oversight is still limited. SBA's loan agent performance analysis does not combine lender service provider loan-level information to identify high-risk lender service providers.

Agency Progress

In response to our report on SBA's oversight of lender service providers, SBA implemented a method to track lender service provider involvement at the loan level. However, this information was not aggregated to evaluate performance.

In FY 2020, SBA worked with a contractor to develop performance analysis for lender service provider portfolios to identify any high-risk lender service providers. SBA plans to complete and implement the enhancement in FY 2021.

As lender service provider involvement in the 7(a) program continues to increase, it will be especially important for SBA to evaluate lender service provider performance and effectively mitigate the risk introduced by high-risk lender service providers. OIG will continue to monitor SBA's oversight of lender service providers and conduct audits and reviews as necessary.

CHALLENGE 5

SBA's Management and Monitoring of Section 8(a) Business Development Program Needs Improvement

Why This Is a Challenge

SBA's 8(a) Business Development Program was created to provide business development assistance to eligible small, disadvantaged businesses seeking to compete in the American economy. A major benefit of the 8(a) program is that 8(a) firms can receive sole source, as well as set-aside, competitive federal contracts, which means small businesses do not have to compete against large businesses that may have an industry advantage.

SBA's challenge has been to ensure that it is providing effective business development assistance to 8(a) firms and that only eligible firms are admitted into and remain in the program. Additionally, SBA faces the challenge of developing objective and reasonable criteria for determining at which point socially disadvantaged individuals are deemed economically disadvantaged.

Issue: SBA Continues to Address Its Ability to Develop Firms in the 8(a) Program and Measure Results



In the past, SBA has adequately emphasized business development to enhance the ability of 8(a) firms to compete for federal contracts. SBA has made assistance more readily available to program participants by using resource partners, such as small business development centers, the SCORE Association (formerly known as the Service Corps of Retired Executives), and procurement technical assistance centers to offer individualized development assistance.

SBA also has taken steps to ensure business opportunity specialists assess program participants' business development needs during site visits. During FY 2018, SBA implemented additional measures for business opportunity specialists to use to assess development of firms in the 8(a) mentor-protégé program.

However, despite these improvements, SBA has not fully established an IT system to perform regular performance monitoring and reporting for 8(a) participants to assure compliance with their business plans. Without an effective IT system to monitor 8(a) participant progress in meeting individualized business development goals, SBA may not be able to consistently determine whether 8(a) participants have demonstrated the ability to compete in the marketplace without 8(a) assistance.

SBA has unsuccessfully attempted to revamp its IT systems for monitoring 8(a) firms. SBA has partially implemented an IT system, Certify.SBA.gov, that was intended to be a comprehensive approach to service delivery for all of SBA's contracting programs.

However, the system in place only handles certification management and does not offer many of the key essential search, analytical, and reporting tools it was supposed to have. SBA already plans to develop a new IT system to replace Certify.SBA.gov.

Agency Progress

SBA has decided to stop development on the current Certify.gov platform and redevelop it as an exclusive certification management system. After spending more than \$30 million, SBA's initial attempt to implement Certify faced serious developmental challenges and was scheduled to be decommissioned at the end of FY 2020.

SBA plans to develop a separate system to monitor 8(a) participants' business development outside of Certify.gov, SBA created a manual workaround for business opportunity specialists to assess the 8(a) participant's individual business development during the annual review and input results in a Microsoft Excel spreadsheet. This file is retained in the firm's Certify.gov case file, which lacks reporting functionality. Currently, SBA has no system to assist program officials in monitoring 8(a) participants' business development to assess the effectiveness of the program.

In 2019, SBA formed a team to develop a solution to help program officials monitor 8(a) participants' business development and assess the program effectiveness. The team has defined business development activities and identified performance measures to assess outcomes. The team continues to explore technology solutions to capture the business development and performance outcomes. Currently, SBA's system for monitoring 8(a) participants' development on an individualized basis is limited to Excel files in the case files for the individual firm.

Issue: Streamlined Application Process May Expose the 8(a) Program to Higher Fraud Risk



For 6 years, there was a steady decline in the number of firms participating in the 8(a) program, from about 7,000 in 2010 to about 4,900 in August 2016. In FY 2016, SBA leadership developed an aggressive growth plan to increase the number of participants in the 8(a) program by 5 percent over the previous year through a streamlined application process. However, as of August 2020, SBA reports the 8(a) program now includes only 4,486 firms.

According to SBA officials, the streamlined application process is less burdensome for firms applying to the 8(a) program. As part of this modified process, various documents previously used to determine an applicant's eligibility to participate in the 8(a) program would no longer be requested or would be required in a modified version.

However, shortening the review process by eliminating documents may erode core safeguards that prevented questionable firms from entering the 8(a) program. At the request of SBA's former Deputy Administrator, we conducted a follow-on audit to a report issued in FY 2016 (Report 16-13) to determine whether SBA resolved eligibility concerns for the 30 sample firms in our audit. We determined that SBA resolved eligibility concerns for 20 of the 30 firms that we reviewed. We questioned the eligibility of 10 firms (Report 17-15).

Agency Progress

We verified that SBA added controls to the application review process and has implemented corrective actions during FY 2019. SBA updated its 8(a) program policies and procedures to include a statement of difference in the review notes of each application when a final application decision differed from a lower level reviewer recommendation. SBA also updated its policies and procedures to require Business Opportunity Specialists to submit a request to the Internal Revenue Service for the tax transcripts to verify the 8(a) applicant's financial information.

Although SBA updated its internal policies and procedures, these are guidelines and not mandatory. SBA should finalize the corresponding regulations to require the use of tax transcripts to verify applicant financial information as a program requirement.

Issue: Continuing Eligibility Processes Expose the 8(a) Program to Higher Fraud Risk



In FY 2018, we reported that SBA's oversight was insufficient to ensure that 8(a) Business Development Program participants met continuing eligibility requirements (Report 18-22). We found SBA did not consistently identify ineligible firms in the 8(a) program and did not always act to remove firms it determined were no longer eligible for the program.

In addition, SBA did not perform required continuing eligibility reviews when it received specific and credible complaints regarding firms' eligibility and did not log all complaints.

Agency Progress

SBA has updated its 8(a) program policies and procedures governing the 8(a) continuing eligibility review process and evaluation standards, as well as the process for removing firms deemed ineligible for program assistance and submitted its draft revised policies and procedures for review.

SBA implemented the BD Hotline Complaints Tracker as the official system to track complaints about firms' continuing eligibility for the 8(a) program and the actions taken to address them. Since beginning to use the tracker in FY 2019, SBA has identified two firms as high risk, determined ineligible, and terminated from the program.

Issue: SBA Dollar Threshold for Economic Disadvantage Should Be Based on Verifiable Data



The Small Business Act requires that participants be socially and economically disadvantaged. The Act defines economic disadvantage as diminished capital and credit opportunities compared to owners of similar businesses that are not disadvantaged. SBA, however, has not adequately determined what constitutes diminished capital and credit opportunities.

Section 8(a)(6)(A) of the Small Business Act states, “In determining the degree of diminished credit and capital opportunities, the Administration shall consider, but not be limited to, the assets and net worth of such socially disadvantaged individual[s].” According to SBA regulations, when considering diminished capital and credit opportunities, SBA is to review such factors as personal income, personal net worth, and the fair market value of all assets. SBA is also to compare the financial condition of the company with other small businesses in the same primary industry classification.

Although SBA does review several factors when determining economic disadvantage, it relies primarily on the net worth of the individual. Net worth by itself, however, does not show whether an individual has diminished capital and credit opportunities.

In 2020, SBA published a rule to establish economic disadvantage net worth of \$750,000 program. Before this year, SBA regulations allowed individuals with a net worth of up to \$250,000 for initial eligibility and \$750,000 to remain in the program and be classified as economically disadvantaged.

Agency Progress

In March 2011, SBA revised its regulations and established additional standards to address the definition of “economic disadvantage” to be a net worth of less than \$250,000. In FY 2018, SBA hired a contractor to do a study to help the agency establish criteria defining economic disadvantage and set individual net worth thresholds.

The study developed three potential methodologies to set the threshold for economic disadvantage. Depending on the methodology chosen, the financial threshold ranged between \$400,000 and \$1.2 million, without adjustments for home and business equity.

The contractor’s study recommended SBA use the methodology that concluded that individuals with an adjusted net worth of \$375,000 (\$1.1 million without adjustments) should be considered economically disadvantaged. However, SBA did not adopt the \$375,000 net worth standard because the agency did not consider economic disadvantage to be the deciding factor of continuing eligibility for the program.

In May 2019, SBA published a proposed rule to address increasing the economic disadvantage by adopting the \$750,000 net worth continuing eligibility standard for all determinations. SBA requested comments to the proposed rule on whether the \$375,000 or \$750,000 net worth standard should be used for the 8(a) program. SBA also requested comments on whether SBA should decrease the economically disadvantaged Women-Owned Small Business net worth standard from \$750,000 to the lower \$375,000 net worth standard supported by the study.

SBA considered the 146 comments that supported the \$750,000 adjusted net worth standard to be a diverse set of perspectives, which represented a balance in the public’s review of the final rule. However, most of the comments opposed SBA decreasing the economically disadvantaged WOSB \$750,000 adjusted net worth standard to the lower \$375,000.

SBA concluded that the \$375,000 net worth standard related to entry into the 8(a) program as opposed to participation in the free enterprise system as an economically disadvantaged business owner. In 2020, SBA published its final rule for

economic disadvantage to adopt a \$750,000 net worth threshold for initial and continuing eligibility in the 8(a) program, which aligned the 8(a) net worth threshold with other SBA preference contracting programs with economic disadvantaged considerations.

Instead of adopting the \$375,000 net worth standard for establishing economic disadvantage as the study had found through empirical research, SBA relied on the \$750,000 adjusted net worth that it had established for its other preference contracting programs.

CHALLENGE 6

Identification of Improper Payments in SBA's Loan Programs Remains a Challenge

Why This Is a Challenge

In FY 2019, the dollar amount of SBA's 7(a) loan approvals totaled \$23.6 billion. Most of these loans were made by lenders with delegated approval authority. When a loan goes into default, SBA conducts a review of the lender's actions on the loan to determine whether it is appropriate to pay the lender the guaranty, which SBA refers to as a "guaranty purchase."

For loans sold on the secondary market, SBA is obligated to purchase the guarantee from the investor and review the lender's actions after payment is made. Pursuing recovery from a lender on sold loans is generally a more difficult task for SBA.

In FY 2014, OIG established a High-Risk 7(a) Loan Review Program to evaluate lender compliance with SBA requirements for high-dollar, early defaulted 7(a) loans. High-dollar, early defaulted loans are loans of \$500,000 or more that default within the first 18 months of initial disbursement. During FY 2019, OIG identified material lender noncompliance in five of the eight loans reviewed, totaling approximately \$8.7 million in questioned costs.

This year, because of OIG's priority focus on the Paycheck Protection Program, we only completed one assessment of a high-dollar, early defaulted 7 (a) loan for FY 2020. That review identified material lender noncompliance, resulting in more than \$2 million in questioned costs (Report 20-18, August 25, 2020).

Although SBA completed purchase and quality control reviews on all the loans, the agency did not identify or fully address the material deficiencies noted in the subsequent OIG review.

Issue: Improvements Needed to Ensure High-Risk 7(a) Loan Reviews Reduce the Risk of Losses



OIG audits have identified 7(a) loans that were ineligible, lacked repayment ability, or were not properly closed, resulting in improper payments. These improper payments occurred in part because SBA did not adequately review the related loans.

The OIG High-Risk 7(a) Loan Review Program uses an internal scoring system to prioritize loans for review based on known risk attributes. This evaluation includes a review of high-risk loans purchased by SBA to determine whether lenders materially complied with SBA requirements and to identify suspicious activity.

Since FY 2014, we have recommended recoveries on 17 loans totaling more than \$19.3 million under this program. In addition, we identified suspicious activity on 5 loans totaling nearly \$4 million, resulting in formal referrals to our Investigations Division.

Our reviews have consistently identified issues regarding eligibility, repayment ability, size standards, franchise agreements, business valuations, appraisals, equity injection, and debt refinance. The program also identified concerns with change of ownership transactions and SBA's identification of improper payments.

Agency Progress

SBA modified production standards to allow loan specialists more time to review complex early defaulted loans. In addition, the agency improved its review of loans by providing training to loan specialists and updating the loan review checklist.

In FY 2020, SBA evaluated its purchase process and quality control reviews for 7(a) guaranteed loans to determine why the loan center reviews did not identify or correct lenders' noncompliance with SBA requirements, as noted in OIG reports.

CHALLENGE 7

SBA's Disaster Assistance Program Must Balance Competing Priorities to Deliver Prompt Assistance but Prevent Potential Fraud

Why This Is a Challenge

The disaster loan program plays a vital role in the aftermath of disasters by providing long-term, low-interest loans to affected homeowners, renters, businesses of all sizes, and nonprofit organizations. SBA must continually balance the priority of quickly assisting disaster survivors in the immediate aftermath of a devastating life event against the need to ensure program integrity.

During large-scale disasters such as COVID-19, SBA must bring on new loan officers to match the volume of loan applications and prevent processing backlogs that delay the delivery of disaster assistance. To respond to the COVID-19 pandemic, SBA increased its permanent and temporary trained staff size to more than 9,000, which was more than any other previous disaster. It has been a challenge for SBA to bring on significant numbers of staff and provide them with the proper level of training.

In our September 2019 report (Report 19-23), SBA's Audit of Desktop Loss Verification, we found the desktop loss verification process helped SBA meet its timeliness goals for disaster applications, but controls needed strengthening to reduce the risk of fraud and ensure program integrity. SBA did not always validate the cause and extent of damages and repair and replacement costs before disbursing loan funds and relied on reports from the Federal Emergency Management Agency that did not contain pertinent information needed to validate the reported damages and losses in the initial loss verification.

Loan files also did not contain sufficient documentation to support loan-making decisions. Without adequate loss verification, loans could be made to individuals who do not qualify for the loan or do not have damages that justify the amount of the loan.

Issue: Reserve Staff Need Training to Sustain Productivity During Mobilization



SBA has had this challenge for several years but has made progress in reducing risks. However, the magnitude of the COVID-19 pandemic required SBA to rapidly increase trained staff to historic levels. The number of personnel needed to address this pandemic was almost twice the previous historic high in numbers of total staff. And the agency had to develop the needed training to address the new criteria for COVID-19 disaster loans.

In response to Hurricanes Harvey, Irma, and Maria, SBA's Office of Disaster Assistance increased its trained staff from 800 to more than 5,000 employees in December 2017. By contrast, in response to the COVID-19 pandemic, SBA increased its permanent and temporary staff size to more than 9,000 employees to handle the unprecedented volume of applications and prevent processing backlogs that delay the delivery of disaster assistance.

SBA outsourced EIDL processing to a subcontractor. However, the process to approve or decline COVID-19 EIDLs was left to SBA staff. Suddenly, SBA had to train both the existing staff and all the newly hired employees the new system to approve or decline loan applications.

Agency Progress

Although SBA is continuing to face this challenge, it is slightly different requiring the training of staff to the new COVID-19 EIDL criteria. SBA had previously addressed OIGs recommendations and based on their progress the recommendations were closed. However, the staff training issue was still included in last year's Management Challenges report. In FY 2020, the COVID-19 pandemic reignited the need to train and mobilize the largest number of new employees ever.

In 2018, SBA published an "after action" report reviewing its successes, challenges, and action items from the response to hurricanes Harvey, Irma, and Maria. SBA then launched a cross-functional training plan development team to develop core

training modules, as well as online and automated tutorials. A similar after-action report for the response to COVID-19 will help SBA to determine if employees were sufficiently trained to accurately process loans and make appropriate loan decisions.

Issue: Improper Payment Quality Assurance Process Needs Strengthening



SBA received a historic number of loan applications in FY 2020. In our ongoing work, we have found a significant number of potentially fraudulent loans, which will increase the improper payment testing and put pressure on the current improper payment process.

The deadline to apply for COVID-19 EIDLs is December 31, 2020. SBA will continue to process loan applications submitted before the deadline after that date, as well as continuing to provide other disaster relief, situations that could easily result in improper payments.

In February 2020, we reported on weaknesses we found in the improper payment quality assurance process. We found that the improper payments appeal process effectively assessed improper payments, but the initial review process was inefficient.

Agency Progress

SBA has acted on this new issue to reduce or eliminate the number of improper payments being made on COVID-19 loans. We will continue to monitor agency actions to ensure policies are clear and comprehensive and staff is adequately trained to effectively identify improper payments.

Issue: Inadequate Verification of Cause and Extent of Damages



A critical part of the disaster lending process is evaluating the cause and extent of property damages, which provides SBA the information necessary to establish eligibility for disaster loan funds. In 2019, we reported on the desktop loss verification process (Report 19-23).

In the past, loss verifiers conducted on-site inspections to assess damages. But in January 2017 in response to the increased number of digital applications, SBA implemented the desktop loss verification process to expedite assistance to disaster survivors.

The desktop loss verification process uses a two-pronged approach: an initial desktop loss verification and a post desktop review. The initial desktop loss verification is used to estimate the cost of repairs. After the initial desktop loss verification, SBA requires a post-desktop review to validate the total damage estimates obtained from the initial desktop loss verification.

However, SBA did not always validate the cause and extent of damages and repair and replacement costs before disbursing loan funds. SBA relied on Federal Emergency Management Agency reports that did not contain information needed to validate damages and losses reported in the initial loss verification, and loan files did not contain sufficient documentation to support loan-making decisions.

As a result, SBA disbursed 36,869, or 50 percent, of the 73,313 loans included in our scope, totaling \$594,286,878 without validating damages and losses. We recommended SBA strengthen controls to reduce the risk of fraud and ensure program integrity for the loss verification process.

Agency Progress

The agency has made substantial progress to strengthen controls to reduce the risk of fraud and ensure program integrity. In FY 2020, the agency updated its policies and controls to prevent loan disbursement before a post-desktop review. The agency also stopped using Federal Emergency Management Agency reports to conduct post-desktop review and confirmed all post-desktop reviews will be performed onsite.

The agency also updated its policy and now requires loss verifiers to provide documentation to support conclusions of post-desktop review. We will continue to monitor agency actions to strengthen controls to reduce the risk of fraud and ensure program integrity.

CHALLENGE 8

SBA Needs Robust Grants Management Oversight

Why This Is a Challenge

In FY 2020, SBA had \$261 million to administer grants and cooperative agreements to resource partners and other nonfederal entities for technical assistance and training programs to develop small businesses. This amount doubled in March 2020 when Congress increased the funds available to provide additional technical assistance to small businesses affected by the COVID-19 pandemic.

With recent governmentwide emphasis on grants management reform, and a priority initiative to modernize the government in the President's Management Agenda of 2018, it is SBA's responsibility to maximize the value of its grant funding to ensure its grant programs effectively and efficiently accomplish program objectives. In OIG's review of past audit findings (Report 19-02), we identified systemic issues with SBA's accuracy of grant data for both financial and performance reporting and ineffective oversight. We have continued to find grant management deficiencies in recent reviews of SBA grant programs.

Issue: SBA's Grants Management System Needs Improvement



During FY 2020, most of SBA's technical assistance programs used the federal Procurement Request Information System Management, or PRISM, to award and report on grants. The PRISM system requires substantial manual data entry, which is prone to human errors.

In March 2018, we issued a Management Advisory memorandum (Report 18-15) on material weaknesses identified by an independent accounting firm in SBA's controls over the accuracy of data reported in [USASpending.gov](https://www.usaspending.gov).

In SBA's internal A-123 review on the grant management process, SBA's internal auditors found that 100 percent of the sampled transactions included inaccuracies. These data inaccuracies inhibit policymakers' and the public's ability to effectively track federal spending. Errors also affect the agency's ability to report complete and accurate information on time, as required by the Digital Accountability and Transparency Act of 2014.

Agency Progress

SBA has made substantial progress to modernize its grants management system. In FY 2019, SBA approved funding totaling \$2.5 million over 5 years to implement [Grantsolutions.gov](https://grantsolutions.gov).

SBA management believes the investment will help the agency

- improve funding management, awarding of grants, processing payments, and close-outs;
- enhance ability to develop accurate performance metrics reporting;
- reduce compliance violations; and
- increase auditability, accountability, and transparency.

In 2019, SBA entered into an interagency agreement with the U.S. Department of Health and Human Services to provide transition analysis, infrastructure setup, and training services to launch [Grantsolutions.gov](https://grantsolutions.gov).

SBA has incrementally transitioned its grant programs to the new Grantsolution.gov system. In FY 2020, several of SBA's program offices have adopted SBA's new grants management system. For each program, officials must ensure the system is customized to meet the program's needs.

SBA has also worked to integrate the financial system with [Grantsolution.gov](https://grantsolution.gov). SBA continues to make progress implementing the system despite competing priorities in managing the CARES Act programs. SBA plans to fully implement the system for all grant programs in 2021. The full implementation of [Grantsolution.gov](https://grantsolution.gov) will improve SBA's compliance, oversight, and management of its grant programs.

AGENCY'S RESPONSE TO THE OIG TOP MANAGEMENT AND PERFORMANCE CHALLENGES FACING THE SMALL BUSINESS ADMINISTRATION IN FISCAL YEAR 2021

OFFICE OF THE ADMINISTRATOR



U.S. SMALL BUSINESS ADMINISTRATION

WASHINGTON, D.C. 20416

AGENCY'S RESPONSE TO THE OIG TOP MANAGEMENT AND PERFORMANCE CHALLENGES FACING THE SMALL BUSINESS ADMINISTRATION IN FISCAL YEAR 2021

On behalf of the Agency, we thank the Office of the Inspector General (OIG) for its efforts to identify the top management and performance challenges facing the U.S. Small Business Administration (SBA). The OIG's investigation and analysis provide important insight into the threats and challenges to our enterprise objectives. We believe the SBA's substantial progress can be attributed in no small measure to our continued communication, collaboration, and coordination with the OIG leadership and staff.

Our offices remain dedicated to continuing SBA's efforts to address existing Management Challenges. The insights of the 2021 Management Challenges Report (Report) have been shared throughout SBA so that our leadership at every level can better evaluate risks and effectively prioritize resources and oversight efforts.

The challenges brought on by the COVID-19 pandemic has tested the resolve and capabilities of the entire Agency. SBA has effectively delivered economic assistance to tens of millions of small business owners who collectively serve as the bedrock of our Nation's economy. Economic Injury Disaster Loans and Advances ("EIDL Program") and the Paycheck Protection Program (PPP) have been a critical part of that relief. Considering the unprecedented circumstances, SBA has served small businesses as efficiently and effectively as possible, while being responsible stewards of taxpayer funds. SBA is deeply committed to managing the risk of waste, fraud, and abuse in these and all other SBA programs.

In this letter, SBA has identified the Agency's concerns already shared with the OIG prior to the publication of the Report's final version. In addition, information the OIG gathered through its most recent audits did not inform OIG's assessment of Agency progress on several of the Management Challenges, resulting in further inaccurate perceptions of potential fraud.

We request OIG's careful review and consideration of these areas as we move forward in addressing the challenges during FY 2021 and appreciate SBA's ongoing collaboration with OIG.

Sincerely,

Jovita Carranza
Administrator

Attached: Discussion of Select 2021 Management Challenge Concerns

DISCUSSION OF SELECT 2021 MANAGEMENT CHALLENGE CONCERNS

Challenge 1 - SBA's Economic Relief Programs Are Susceptible to Significant Fraud Risks and Vulnerabilities (Office of Capital Access and Office of Disaster Assistance)

Issue: Paycheck Protection Program (PPP)

Concern:

SBA disagrees with the language in this statement, “SBA moved quickly to establish the new nationwide program but eased controls required in its lending programs to do so, increasing the risk of rampant fraud.”

Discussion:

SBA, in consultation with the United States Department of the Treasury (Treasury), has worked to ensure the PPP program's effectiveness since the PPP's inception. This is reflected in the speed with which SBA and Treasury enabled millions of small businesses to have critical capital access, and support tens of millions of employees. SBA and Treasury have also worked with leading private sector subject matter experts to design and implement robust loan forgiveness and review procedures to protect and mitigate against fraud, waste, and abuse, and have continually adjusted PPP to ensure the integrity of this emergency program. The positive results of these efforts are reflected in the robust borrower certifications in the application form, which subject borrowers to severe penalties for incorrect or false eligibility certifications which are in place to divert fraud.

If SBA determines a borrower made an eligibility certification that was incorrect or lacked an adequate basis, SBA may seek repayment of the PPP loan, and the borrower may be ineligible for loan forgiveness. Further, in the event SBA determines that a borrower made a knowingly false certification on an application for a loan, SBA may refer the borrower for appropriate civil or criminal penalties. Further, the loan application and loan forgiveness applications impose stringent requirements on borrowers and lenders to support applications with documentation and maintain those documents for potential audits.²

OIG's assertions regarding the PPP do not appear to be a result of an audit, but rather a result of an informal review. In general, given the stage of OIG's review of the PPP, we believe OIG's assertions regarding the PPP should have been more circumspect in the Report.

Issue: Paycheck Protection Program (PPP) Eligibility and Issue: Paycheck Protection Program Data Reliability

Concern:

OIG's analysis in this Management Challenge included fundamentally inaccurate presumptions about data sources used to conduct their investigation, resulting in erroneous conclusions.

Discussion:

OIG used an incorrect formula to calculate maximum loan amounts by not incorporating EIDL refinances. OIG mistakenly relied on original amounts of loans, which did not reflect the subsequent loan reductions conducted by June 30, 2020. This resulted in the OIG's analysis evaluating loan amounts inflated above the actual, adjusted loan amounts and did not exclude

² See Sec 1106(f) of the CARES Act; IFR #1, III.2.q.; IFR #3, III.1.g.; IFR on Forgiveness (IFR #14); IFR on Loan Reviews (IFR #15), III.1.c and III.2.b.; SBA Form 2484 (lender retention requirements); SBA Form 3508 Instructions, p. 6 – 7 (Borrower retention requirements); SBA Form 3508EZ Instructions, p. 4 (Borrower retention requirements).

loans that were canceled entirely. Also, OIG’s analysis inaccurately indicates that disbursements of loan funds predated loans’ approval, which was not the case. SBA has provided evidence to OIG to verify these errors.

Issue: Potentially Fraudulent COVID-19 Economic Injury Disaster Loans

Concern:

The Agency response to OIG Report 20-16 refutes the assertion of “potential fraud” as a basis for this new Management Challenge. The report states: “To expedite the process, SBA ‘lowered the guardrails’ or relaxed internal controls, which significantly increased the risk of program fraud.” This statement is misleading and fails to acknowledge that SBA implemented the COVID-19 EIDL program per the CARES Act and in the process has taken measures to address fraud risk in the program.

Discussion:

SBA recommended the OIG amend their statement for accuracy, and state: “SBA implemented the COVID-19 EIDL program per the CARES Act which relaxed critical internal controls, such as the requirement for applicants to provide a federal tax return.”

Concern:

The OIG inaccurately asserted that: “We found several serious problems, including significant evidence that SBA approved billions in potentially fraudulent loans to...” This statement is categorically inaccurate because the findings the OIG cited as indicators of fraud are not categorically consistent or reliable indicators of potential fraud. Also, the statement “Although there may be some legitimate reasons for individual occurrences, multiple occurrences signal a strong indication of fraud” is false and misleading.

Data and supporting information provided by the Agency in response to OIG Report 20-16 demonstrated that the underlying basis for asserting the extent and severity of the “potential fraud” are not grounded in the data provided. Unfortunately, the data provided in this audit conducted in parallel to the Management Challenge review was not considered in the development of this Management Challenge.

Discussion:

In their examination, the OIG did not look at individual loans within their sample. Instead, the OIG searched for commonalities and grouped the loans into “buckets” that reflected the common attributes they inaccurately describe as reliable indicators of potential fraud. While there may be some instances in which fraud may be correlated with these indicators, a more thorough review of the data and supporting information SBA provided, OIG would have seen a far more complex behavior pattern that occurred through legitimate business needs. As an example, multiple loans from the same I.P. address signals a strong indication of an accountant, attorney, or financial advisor completing applications for their portfolio of clients, versus the assumption of fraud.

Challenge 2 - Inaccurate Procurement Data and Eligibility Concerns in Small Business Contracting Programs Undermine the Reliability of Contracting Goal Achievements (Office of Government Contracting and Business Development)

Concern:

The Report states that the OIG and GAO have “over the years” substantiated widespread misreporting by agencies in the annual Small Business Goaling Report. OIG does not include any supporting footnote or citation to the Report’s OIG references.

Discussion:

The OIG cites Reports 18-22 (September 2018), and 19-08 (March 2019), which take issue with a potential that “larger companies have substantially performed contract awards reported as having gone to small firms.” The only example of that inaccurate reporting of data is presented in the GSA OIG report that OIG referenced.³ By including this GSA OIG report as shown, OIG fails to provide the context needed to portray the GSA OIG findings accurately, most notably that GSA and GSA OIG acknowledged the Federal Procurement Data System Next Generation (FPDS-NG) system limitations, and the FAR Rule 2014-002 that allows for FPDS-NG to be updated to assign multiple NAICS codes to a contract.

From the GSA response, “Due to FPDS-NG system limitations, the NAICS code assigned and prepopulated cannot be changed. Those system limitations mandate that NAICS codes propagate from the parent IDV. FPDS-NG does not allow for more than one NAICS code to be assigned to a contract.” The GSA OIG acknowledges FPDS-NG system limitations related to four FAS task order contracts with incorrect NAICS codes. OIG Reports 18-22 and 19-08 did not have findings on large companies performing work that had gone to small firms. Additionally, Reports 18-22 and 19-08 did not have findings related to incorrect NAICS codes.

Finally, per FAR Rule 2014-002, published February 27, 2020, and GSA’s response to the GSA OIG report, “FPDS-NG will be updated to allow for the assignment of multiple NAICS codes to a contract and will enable an order to designate a NAICS code and corresponding size standard that matches a NAICS code and corresponding size standard awarded under the IDV contract” (FAR 19.102(b)(3)).⁴ SBA does not control this system, and continued reference to incorrect reporting in this respect is misleading. The FAR rule was published in February 2020, which should have afforded the OIG opportunity to review and accurately include these program advancements in the 2021 Management Challenge Report.

Issue: Agencies Receive Credit for Ineligible Firms or Firms No Longer in the 8(a) or HUBZone Programs

Concern:

The OIG states, “The amount of dollars SBA reports to Congress and the public as being performed by 8(a) and HUBZone firms in the *Small Business Goaling Report* is inflated by the inclusion of contract actions performed by ineligible program participants.” The sentence on its face is accurate; however, the samples were selected judgmentally in both referenced OIG reports. OIG attempts to extrapolate findings from the small sample to the entirety of the contracting population to support its assertions related to goaling inaccuracies for HUBZone and 8(a). Such an extrapolation lacks sufficient evidence to suggest that the issues the OIG highlights are reflected in a more statistically representative sample of Program participants. The access to and the integrity of the HUBZone Program has in fact been improved with the recent changes made to the Program by SBA.

Discussion:

The purpose of the HUBZone Program is to provide Federal contracting assistance for qualified small business concerns located in historically underutilized business zones to increase employment opportunities, investment, and economic

development in those areas. (FAR 19.1301(b)). SBA proposed these regulations to reduce barriers to entry and participation, which is directly in line with the spirit and intent of the Program. Concurrently, to maintain Program integrity, SBA also updated the continuing eligibility requirements to require all firms to undergo annual, rather than the previously required triennial, recertification, with a documentation review taking place every three years. This change is an increase of Program oversight.

In the Report, the OIG asserts that changes made to regulations for HUBZone are not in line with the Program's intent, and that it affects the government's ability to enforce the residency requirement. The analysis OIG presents does not include context regarding SBA's reasoning for the change or internal controls and oversight currently in place to monitor the impact of the provision, which was provided in the rulemaking. OIG also does not reference any empirical evidence that this regulation change would adversely affect a firm's attempts to maintain compliance.

Concern:

OIG states, "More transparent reporting of awards to firms that grow beyond the definition of "small" after the award is necessary to show a true picture of the small business goal achievements." OIG does not provide any supporting information that validates this assertion.

Discussion:

This language asserts, without evidence, an issue of how to define small firms awarded multi-year contracts and grow to be other than small in the years after the initial award. SBA regulations clearly outline when contract level re-representation is required. Contracting officers have discretionary authority to request new size certifications for a task order (13 CFR 121.404(a)(1)(iii)). However, they are permitted to rely on the contract level representation made, per the size standard in effect at the time of representation, that corresponds to the NAICS code assigned to the contract. Contract level re-representation is also explicitly required in three circumstances: 1) within 30 days after execution of a novation agreement, 2) within 30 days after a merger or acquisition of the contractor, and 3) no more than 120 days prior to the end of the fifth year of the contract (13 CFR 121.404(g)).

The *Contracting Scorecard Grading Methodology* references the appropriate regulations regarding multi-year contracts and how they are reported. To aid in transparency, in future years SBA plans to update the comment section of the *Small Business Procurement Scorecard* to refer to the *Contracting Scorecard Grading Methodology*. It should also be noted that, as mentioned in the GSA OIG report, FPDS-NG currently has systems limitations related to reporting. SBA does not have the authority to address these limitations directly.

Concern:

The OIG overstates the issue with reported goaling.

Discussion:

In recent years, the OIG audits of the HUBZone Program did not accurately reflect a statistically representative sample of program participants and this resulted in an overstatement of its issue with the extent of agencies who receive credit for ineligible firms and the over \$41 billion in contracts for 8(a) and over \$11 billion for HUBZone. OIG's extrapolation of its sampling method is flawed, in that for the closure of the corresponding report recommendations for both audits, the total actually disallowed was less than 1% is of the total contracts awarded in the Programs during the period scoped in the audit.

In Report 18-22, OIG selected a small, judgmental sample of 15 firms with the highest contract dollar amount for FY 2016, totaling \$461 million. This sample was substantively inconsistent with the rest of the participants in the 8(a) Program with set-aside contract obligations awarded to individually-owned firms in FY 2016 was \$11.6 billion. With the closure of the corresponding report recommendations, OIG agreed that only approximately \$3.9 million would be disallowed. The total actual disallowed is 0.759% of the sample and 0.032% of the total of all 8(a) dollars awarded in FY 2016.

In Report 19-08, SBA OIG selected a judgmentally stratified sample of 15 firms from April 2017 to March 2018, totaling \$29.4 million. During the same period, the universe of HUBZone contracts awarded to firms certified into the HUBZone Program was approximately \$47.42 million. With the closure of the corresponding report recommendation, OIG agreed that only \$29,712 would be disallowed for one firm that did not respond to SBA's request for additional information. The total actual disallowed amount is 0.099% of the sample and 0.061% of the total dollars in HUBZone contracts awarded during the period.

SBA does not believe this issue should rise to the level of one of the most significant Management Challenges facing the Agency, when considered with the improvements to the management and oversight of both the HUBZone and 8(a) Programs, which are correctly recognized and mentioned in Challenge 2 under Agency Progress.

Challenge 4 - SBA Risk Management and Oversight Practices Need Improvement to Ensure the Integrity of Loan Programs (Office of Capital Access)

Concern:

The OIG report inaccurately states, “Most traditional 7(a) and 504 SBA loans are originated by lenders with the delegated approval authority, resulting in limited SBA oversight and quality control reviews until a default occurs. Many lenders rely on the services of fee-based and other third-party agents to help originate, close, service, and liquidate SBA loans.”

Discussion:

Whether they have a primary federal regulator or are regulated by the SBA, lenders with delegated approval authority undergo regular risk-based or safety and soundness reviews. If these reviews find that they are not compliant with SBA requirements, the delegated authority can be suspended either voluntarily or through increased supervision or enforcement.

Additionally, based on Office of Credit Risk Management's (OCRM's) analysis of the portfolio, the term “many” is not accurate. Approximately 160 lenders have used agents over the past three years to generate a minimum of \$5 million in originations. The majority of lenders who utilize either agents or Lender Service Providers (LSPs) to assist them in their SBA loan operation do so because they are small lenders that are new to the Program. These lenders rely on experienced agents or LSPs to help them originate loans that comply with SBA requirements. It is important to note that OCRM's mission is to work closely with lenders who rely on agents to assist in obtaining and packaging applications to ensure that they are actively managing these relationships and monitoring the performance of referred loans in their portfolio. SBA holds the lenders accountable, as it does not have direct authority over third parties who assist lenders with their SBA lending operations.

Issue: SBA's Oversight of High-Risk Lending Participants

Concern:

OIG's audit of SBA's oversight of high-risk lenders found that OCRM did not always effectively oversee high-risk lenders to identify and mitigate risks.

Discussion:

SBA submitted audit closure submission materials for 4 of the 6 audit recommendations for the audit cited in this Management Challenge (20-03). With the information provided to close these recommendations already submitted to the OIG, there should be a substantial acknowledgment that OCRM has made considerable progress in strengthening its risk management framework and reviewing methodologies to identify and mitigate lender risk.

Issue: Increased Risk Introduced by Loan Agents**Concern:**

Based on OCRM's analysis of loan agent activity, the 15% referenced here by OIG is not accurate.

Discussion:

Based on SBA data, in FY 2020, the percentage of loan agent involvement in 7(a) disbursements is 7.4%.

Challenge 5 - SBA's Management and Monitoring of Section 8(a) Business Development Program Needs Improvement (Office of Government Contracting and Business Development)

Issue: SBA Continues to Address Its Ability to Develop Firms in the 8(a) Program and Measure Results**Concern:**

The OIG has misrepresented the complexity and context of this issue by stating, "SBA has not fully established an I.T. system to perform regular performance monitoring and reporting for 8(a) participants to assure compliance with their business plans. Without an effective I.T. system to monitor 8(a) participant progress in meeting individualized business development goals, SBA may not be able to consistently determine whether 8(a) participants have demonstrated the ability to compete in the marketplace without 8(a) assistance."

Concern:

OIG strongly implies that incomplete delivery of Certify's historic business requirements equates to failure to appropriately monitor and report on 8(a) participant performance against business plans, as well as an inability for SBA to evaluate participants' competitiveness in the federal marketplace without business development assistance. Management does not agree.

Discussion:

In August 2019, SBA re-baselined the business requirements for Certify.sba.gov. The re-baselined requirements address automation and digitization of the certification management process for SBA's business development and set-aside contracting programs. Thus, Certify's state of development is appropriately no longer tied to requirements of the past which concerned 8(a) program efficacy, and 8(a) firm participant development support, or measurement of either.

In October 2019, SBA's 8(a) Program and its Office of Field Operations partnered to establish a Business Assistance Tool for use by SBA staff in the field and Headquarters to perform regular performance monitoring of participant firms. This initiative has been productive and procedural notice development to formally implement this tool is underway after a brief pause in 2019 to prioritize provision of relief options to Program participants affected by COVID-19.

Issue: Streamlined Application Process May Expose the 8(a) Program to Higher Fraud Risk**Concern:**

The OIG asserts, without evidence, a higher risk of fraud. OIG's direction to SBA to require the use of tax transcripts to verify applicant financial information as a program requirement ignores the current limitations related to obtaining this information from the Internal Revenue Service (IRS).

The OIG also fails to include critical context on the now-closed report recommendations from Reports 16-13 and 17-15. For Report 17-15, the firms' final eligibility determinations were agreed to by OIG that only 2 of the 10 firms were determined

to be ineligible with \$0 disallowed. With the closure of the corresponding report recommendations at \$0 disallowed, it is an exaggeration to elevate this issue to a Management Challenge level.

Discussion:

In 2016, SBA removed the requirement that all 8(a) Program applicants must submit a signed IRS Form 4506T, Request for Copy or Transcript of Tax Form. 81 FR 48558, 48569 (July 25, 2016). At that time, SBA agreed with a commenter to the proposed rule that questioned the need for every applicant to submit IRS Form 4506T. Because SBA's regulations allow for the request of additional documents deemed necessary to determine eligibility, SBA has the authority to request a particular firm to submit IRS Form 4506T when appropriate. SBA reasoned that with this existing authority the requirement could be eliminated for all applicants. The application process would benefit from this streamlining, without leading to an increase of applicant fraud.

However, in response to continued concerns raised by SBA's OIG, SBA proposed to amend SBA's regulations (13 CFR § 124.203) to reinstate the requirement that every applicant to the 8(a) Program submit IRS Form 4506T (or, when available, IRS Form 4506C). After reviewing comments received from the public on the proposed rule, SBA determined that neither Form is a viable option for independent personal income verification purposes at this time.

On July 1, 2019, the IRS removed the third-party mailing option from Form 4506T after IRS determined that this delivery method presents a risk to sensitive taxpayer information. As a result, the IRS will no longer send tax return transcripts directly to SBA; instead, transcripts must be mailed to the taxpayer's address of record. Because of the improper chain of custody, the Agency no longer believes this form is an effective tool for independent income verification.

SBA's understanding is that the IRS is currently developing a successor form or Program through which SBA and other Federal agencies may directly receive a taxpayer's tax return information for income verification purposes. As such, the final rule that SBA recently published provides that each individual claiming disadvantaged status must authorize SBA to request and receive tax return information directly from the IRS, if such authorization is required. 85 FR 66146. SBA believes that this required authorization will help to maintain the integrity of the Program. However, without this authorization, SBA is still able to verify the appropriate eligibility information of applicants. OIG's assertion that a streamlined application process may lead to increased fraud continues to be unsubstantiated.

Issue: SBA Dollar Threshold for Economic Disadvantage Should Be Based on Verifiable Data

Concern:

The OIG report inaccurately states that “[i]nstead of adopting the \$375,000 net worth standard for establishing economic disadvantage as the study had found through empirical research, SBA relied on the \$750,000 adjusted net worth that it had established for its other preference contracting programs.” SBA disagrees with this characterization of the study.

OIG does not clearly state why their concerns with 8(a) economic disadvantage net worth amount being in line with other preference contracting programs is problematic. The Report acknowledges SBA reviews several factors but presents a mischaracterization that SBA “relies primarily” on net worth and that the data SBA uses is not “verifiable.” According to the regulations, SBA can and does review personal income, personal net worth, and fair market value of all assets.

Discussion:

SBA conducted the independent study in response to OIG and constituent concerns about the validity of the prior size standard. The study was thorough and considered a wide range of issues related to small business access to contract opportunities and the acquisitions' regulatory environment complexities. The study did not conclude, as the OIG suggests, that a net worth standard of \$375,000 was the only supportable net worth standard. Instead, the study concluded that the

available data support an economic disadvantage threshold between \$375,000 and \$1.2 million. This range reflects the complexity of establishing a threshold that considers the ability of disadvantaged business owners to compete in the free enterprise system, as well as those individuals' access to credit and capital. The \$750,000 standard is within that range and is entirely supported by the study.

Challenge 7 - SBA's Disaster Assistance Program Must Balance Competing Priorities to Deliver Prompt Assistance but Prevent Potential Fraud (Office of Disaster Assistance)

Issue: Reserve Staff Need Training to Sustain Productivity During Mobilization

Concern:

This should be indicated as a “new” issue. The description of the issue inadequately describes the fundamental training shortfall or how it is substantive enough to be elevated as an issue to a Management Challenge level.

Discussion:

While the topic was referenced in the OIG's FY 2020 Management Challenges Report, the reference was only invoked in that Report to inform that the related recommendation was closed in the preceding year (2019). This issue was not referenced as an ongoing issue in FY 2020. Therefore, introducing the issue in this Report makes it a fundamentally new issue, so it should be marked accordingly.

Additionally, the OIG has offered no supporting evidence that training for reserve staff is an issue. The description is severely lacking any detail and only describes that staffing increases were necessarily much higher for COVID-19 than what SBA did for the 2017 Hurricane Season. There is also an oblique reference to the fact that staff learned a new system for processing applications that was fundamentally unique from traditional processing for EIDL loan applications in order to be compliant with CARES Act requirements. Still, the OIG does not explain why this was a shortfall that must be addressed as an issue under a Management Challenge.

Issue: Improper Payment Quality Assurance Process Needs Strengthening

Concern:

The OIG included a factually inaccurate and misleading statement, “In FY 2020, SBA disaster relief for COVID-19 was at historic levels. SBA will continue to make COVID-19 EIDLs until December 31, 2020, as well as continuing to provide other disaster relief.”

Discussion:

The scheduled application deadline for COVID-19 EIDL is December 31, 2020, but SBA will continue to approve loans after that date that were submitted before the deadline, subject to the availability of appropriated funding. SBA will also continue to consider reconsiderations submitted after the application deadline but before the 6-month period closes following the initial decline decision. Applicants can also submit an appeal up to 30 days after a decline decision for a reconsideration. We can also consider requests to increase loans after the application deadline. SBA uses these program flexibilities regularly for the disaster loan program, which also extends to COVID-19 EIDL loans.

Issue: Inadequate Verification of Cause and Extent of Damages**Concern:**

The OIG mischaracterized the issue by stating that, “Verifying staff gathers and evaluates information through telephone interviews with applicants and third-party information, such as tax assessors’ websites, Google Earth, and Zillow.”

Discussion:

As described in the Report, this reflects an outdated process used in 2017 when the desktop verification was first launched. The process has since changed significantly, as described in OIG’s documentation to close recommendations from Audit Report 19-23.

Concern:

The OIG inaccurately asserted that “SBA inappropriately relied on Federal Emergency Management Agency (FEMA) reports that did not contain pertinent information needed to validate damages and losses reported in the initial loss verification, and loan files did not contain sufficient documentation to support loan-making decisions.”

Discussion:

It was not “inappropriate” to use FEMA housing inspection reports. The information included in those reports is useful in supporting SBA disaster assistance deployment, but it does not supplant the independent verification of losses. SBA also disagreed with the OIG’s use of this language in Audit Report 19-23. SBA has since implemented a simpler solution to resume onsite inspections as the post desktop report instead of using third party data to augment information received by FEMA and minimize the impact on the disaster survivor.

Concern:

The OIG mischaracterized the topic by stating that, “As a result, SBA disbursed 36,869, or 50 percent, of the 73,313 loans included in our scope, totaling \$594,286,878, without validating the cause, extent, or cost of damages. There was no assurance that disaster loans were only provided to individuals impacted by hurricanes Harvey, Irma, or Maria.”

Discussion:

SBA always validated the damages referenced. In some instances, the post-desktop review was completed 1-2 days after the disbursement. But in all cases, the damages were validated. It is also inaccurate to state there were no assurances that funds went to people with damage when the OIG’s analysis found zero cases of loans being provided to borrowers that did not have damage. The recommendations that SBA agreed to implement were only about the post-desktop review timing and eliminating the workaround to improve third party inspection reports for SBA’s use.

Challenge 8 - SBA Needs Robust Grants Management Oversight (Office of Executive Management Installation and Support Services)**Issue: SBA’s Grants Management System Needs Improvement****Concern:**

The OIG inaccurately stated that PRISM is used “...to award and report on grants.”

Discussion:

PRISM does not “report” on grants as it has no direct capability to perform this function. An accurate correction should say that PRISM is used “...to award and report financial transactions on grants.” This clarification is factually and technically accurate.

Concern:

The OIG presented a misleading statement with, “SBA has also worked to integrate the financial system with Grantsolutions.gov.”

Discussion:

Financial integration of the grant management system provided by Grantsolutions.gov is an option for SBA, which is still being evaluated. Identifying it as a component of the grant management system’s full implementation as part of this Management Challenge is inaccurate. It was not identified as part of the Management Challenge and did not affect its full implementation.

PAYMENT INTEGRITY

As required by the Improper Payment Information Act of 2002 (IPIA), as amended, and OMB Circular No. 123, Appendix C, *Requirements for Payment Integrity Improvement*, the SBA reviews programs identified as susceptible to improper payments.

Improper payment reviews are a multi-layered process that start with a risk assessment. If an assessment indicates a program is susceptible to improper payments, then testing is performed using a statistically valid sampling technique. Based upon the testing results, a corrective action plan is developed to prevent and remediate the types of errors uncovered. If testing finds a significant amount of recoverable dollars, the SBA considers the appropriateness of performing a recapture audit.

The detection and remediation of improper payments is a priority for the Agency. SBA staff monitor and review for improper payments and are charged with implementing improvements that will reduce improper payment rates. The SBA also continually seeks opportunities to enhance and implement internal controls to reduce the risk for improper payments.

The SBA received supplemental funds to cover the costs of disaster direct loans, including administrative expenses related to Hurricanes Harvey, Irma, and Maria disaster relief efforts. The Additional Supplemental Appropriations for Disaster Relief Requirements Act, 2017, as amended, deemed all programs and activities expending more than \$10 million of the supplemental funds in response to those hurricanes in any one fiscal year to be susceptible to significant improper payments regardless of risk assessment results, and it required agencies receiving supplemental disaster relief funds to produce and report an improper payment estimate for the funds. The SBA identified outlays in excess of \$10 million in a 12-month period for the administrative expenses of payroll and travel and conducted improper payment reviews to comply with the Act in FY 2020, in addition to the disaster direct loan program that is already reporting an improper payment estimate.

The SBA reviewed six programs and activities that are deemed susceptible to significant improper payments that included three major credit programs as mandated by OMB and disbursement of supplemental disaster relief funds for payroll and travel. The three major credit programs are:

- The 7(a) business loan program, which includes guaranty purchases and guaranty approvals;
- 504 certified development company (CDC) loan guaranty approvals; and
- Disaster direct loan disbursements.

Additionally, the SBA conducted a total of nine risk assessments on programs and activities to determine the susceptibility of these programs and activities to improper payments, as required by OMB Circular No. A-123, Appendix C. This Circular requires risk assessments to be completed at least once every three years for programs not deemed susceptible to significant improper payments, or earlier if a low risk program was subjected to a significant change in legislation or funding level. Significant improper payments are defined as gross annual improper payments exceeding (1) both 1.5 percent of program outlays and \$10,000,000, or (2) \$100,000,000. The risk assessments did not identify any additional programs as susceptible to improper payments.

The next sections discuss SBA efforts and results related to improper payment assessments and reviews. More detailed information on improper payments and information previously reported in the AFR that is not included in the FY 2020 AFR can be found at <https://paymentaccuracy.gov/>.

Payment Reporting

Table 1 presents a summary of the SBA's improper payment review results and reduction outlook. There is no improper payment made by the recipients of Federal money under SBA programs as the SBA does not have an intermediary.

TABLE 1: Improper Payment Reporting and Reduction Outlook (Dollars In Millions)

Program	FY 2019			FY 2020 Summary					FY 2020 Breakdown						FY 2020 Monetary Loss		FY 2020 Monetary Loss Control		FY 2021		
	Outlays ¹ \$	IP %	IP \$	Outlays ¹ \$	Proper Payment %	Improper Payment %	Proper Payment \$	Improper Payment \$	Over- payments %	Under- payments %	Unknown payments %	Over- payments \$	Under- payments \$	Unknown payment \$	Mon- etary Loss \$	Non- Monetary Loss \$	Monetary Loss Within Agency Control \$	Monetary Loss Outside Agency Control \$	Outlays ¹ \$	IP %	IP \$
7(a) Guaranty Purchases ^{1,2}	866.02	3.62	31.36	1,266.82	94.49	5.51	1,197.00	69.82	4.23	1.28	–	53.62	16.20	–	53.62	16.20	53.62	–	1,592.26	5.41	86.14
7(a) Guaranty Approvals ^{1,2,3}	16,713.74	2.15	358.65	15,728.29	97.94	2.06	15,405.06	323.23	2.06	–	–	323.23	–	–	323.23	–	–	323.23	15,033.17	1.96	294.65
504 CDC Guaranty Approvals ^{1,2}	4,784.30	0.56	26.65	5,683.35	96.19	3.81	5,466.82	216.53	3.81	–	–	216.53	–	–	216.53	–	–	216.53	5,983.00	3.71	221.97
Disaster Loan Disbursements ^{1,4,5}	1,635.93	6.30	103.06	790.69	88.02	11.98	695.94	94.75	1.96	10.02	–	15.53	79.22	–	15.53	79.22	15.53	–	210,000.00	9.99	20,979.00
Supplemental Disaster Relief Administrative Funds - Payroll ⁶	334.20	0.10	0.33	198.01	100.00	0.00	198.01	0.00	0.00	–	–	0.00	–	–	0.00	–	0.00	–	302.91	1.00	3.03
Supplemental Disaster Relief Administrative Funds - Travel ⁶	79.12	2.87	2.27	26.33	99.87	0.13	26.29	0.04	0.13	0.00	–	0.04	0.00	–	0.04	0.00	0.04	–	0.09	1.00	0.00
Total⁷	24,413.31	522.32	23,693.49	22,989.12	704.37	–	608.95	95.42	–	608.95	95.42	69.19	539.76	232,911.43	21,584.79						

1 Outlays in this report represent the base amount of the program activity related to SBA improper payments; and this amount will differ from the amount reported as outlays in SBA's President's Budget submissions because they include reestimates of subsidy cost, reimbursements to SBA administrative funds and other costs. Outlays for 7(a) loan guaranty purchases are the amount of disbursements for the purchase of defaulted guaranteed loans. Outlays for 7(a) loan guaranty approvals are the amount of new guaranty approvals by banks and other SBA lending partners. Outlays for 504 CDC loans guaranteed are approvals irrespective of disbursement, net of approval increases, decreases, reinstatements and cancellations for the current year. Outlays for disaster loans are loan disbursements on current year approvals.

2 Outlay projections do not match the President's Budget as timeframe is not FY. Outlays estimated by taking the average growth rate in outlays for the previous three years and applying it to the current level of outlays to project outlays in future year.

3 For 7(a) loan guaranty approvals, amounts reported are based on the guaranteed amount only.

4 The reporting period for disaster loan disbursements is from April 1 through March 31.

5 Outlay projection does not match the President's Budget as timeframe is not FY. FY 2021 loan approvals are based on actual FY 2020 Quarters 3 and 4 loan disbursements, and projected quarterly loan approvals for the remaining FY 2021.

6 The improper payment rate for disaster administrative payroll and disaster administrative travel expenses are projected to be 1 percent, which is acceptable to the Agency.

7 Total improper payment estimates and improper payment percentages do not represent a true statistical estimate for the Agency.

Table 2 presents a summary of the root causes of the SBA's improper payments.

TABLE 2: Improper Payment Root Cause Categories By Program Matrix (Dollars In Millions)													
Reason for Improper Payment	7(a) Guaranty Purchases		7(a) Guaranty Approvals		504 CDC Guaranty Approvals		Disaster Direct Loan Disbursements		Supplemental Disaster Relief Administrative Funds - Payroll		Supplemental Disaster Relief Administrative Funds - Travel		
	Over Payments	Under Payments	Over Payments	Under Payments	Over Payments	Under Payments	Over Payments	Under Payments	Over Payments	Under Payments	Over Payments	Under Payments	
Program Design or Structural Issue													
Inability to Authenticate Eligibility	Inability to Access Data												
	Data needed Does Not Exist												
Failure to Verify:	Death Data												
	Financial Data			323.23		216.52		2.00	21.81				
	Excluded Party Data												
	Prisoner Data												
	Other Eligibility Data (explain)												
Administrative/Process Error Made by:	Federal Agency	53.62	16.20					13.54	57.41	0.00		0.04	0.00
	State or Local Agency												
	Other Party												
Medical Necessity													
Insufficient Documentation to Determine													
Other Reason (explain)													
Total Estimated Improper Payments	53.62	16.20	323.23	0.00	216.52	0.00	15.54	79.22	0.00	0.00	0.04	0.00	0.00

7(a) Loan Guaranty Purchases

Statistical Sampling

The 7(a) loan guaranty purchase reviews sample cases were chosen using Probability Proportional to Size (PPS) sampling with replacement from all purchases approved during the 12-month period ending March 31, 2020. The purchase population was divided into four strata based on the following factors: (1) which servicing office processed the purchase, and (2) whether the loan was considered an early default, regardless of servicing office. The SBA determined the appropriate total sample size to be 210 loans from the population. The sample included aggregate purchase outlays of \$215,763,662 and an absolute value of improper payments of \$18,536,970 within the sample. Using the Hansen-Hurwitz estimation method, the estimated improper payment rate for the 7(a) guaranty purchase population is 5.51 percent for the annual period ending March 31, 2020. This represents a slight increase from 3.62 percent reported in FY 2019. The increase was due to better evident identification by the Quality Control department.

The FY 2020 improper payment rate estimate of 5.51 percent for this program is greater than the target reduction rate of 3.52 percent published in the FY 2019 AFR. SBA sampling method is a statistically valid and rigorous plan, with a 95 percent confidence interval, plus a 3 percent margin of error, the upper and lower bounds of the confidence interval. Because the lower bound of its confidence interval, of 2.65 percent, is lower than the reduction target rate of 3.52 percent, in accordance with OMB Memorandum 18-20, the 7(a) loan guaranty purchase program is considered to have met the reduction target.

The 7(a) loan guaranty purchase reviews were conducted to determine whether lenders complied materially with the 7(a) loan program origination requirements including statutory provisions, SBA regulations, any agreement the lender executed with the SBA, standard operating procedures, loan authorizations, and official SBA notices and forms applicable to the 7(a) loan program. The reviews were to determine if the lender (1) originated, serviced, and liquidated the loan in a prudent and commercially reasonable manner, (2) misrepresented or failed to disclose a material fact to the SBA, and/or (3) put the SBA's financial interest at risk.

Corrective Action

The root cause for all 7(a) loan guaranty purchase improper payments were administrative/process errors made by the Agency. Improper payments generally arose when new purchase processors failed to identify material lender deficiencies in the handling of an SBA guaranteed loan and made administrative errors in the purchasing process. The primary reasons for purchase errors included:

- Denial of guaranty purchases was incorrect and not properly justified;
- Ineligible purchase due to requirements of the International Trade Loan Program not being met;
- The debt refinanced with loan proceeds were not eligible for refinance;
- Ineligible purchases due to lack of supporting documentation;
- Inaccurate interest rate;
- Reimbursement of lender expenses were not fully justified or ineligible;
- Lender incorrectly processed approval under the Preferred Lender Program;
- Ineligible use of proceeds; and
- Lender failed to record/perfect the lien required by the Loan Authorization on the property required to be taken as collateral for the loan, and that failure caused a material loss on the loan.

As a means to reduce and/or eliminate the occurrence of future improper payments, a Corrective Action Plan has been formalized for the 7(a) loan guaranty purchase centers. Specific corrective actions are determined based upon the primary reason for the error and ensuring the error does not occur in the future. Plans for improvement include:

- Internal training for purchase processors, reviewers, and approvers to determine proper recommendation of guarantee purchase denial, determining proper interest rates, proper determination of internal trade loan program and Preferred Lender Program requirements, proper determination of debt refinance, proper determination of lien perfection, and determining appropriate lender expenses.
- Recovery of lender expenses that were not fully justified and deemed ineligible.

The corrective actions are currently underway. Similar to corrective actions performed in FY 2019, internal feedback

was provided to center staff regarding the specific loan level deficiency upon detection.

In response to one of the Agency's Management Challenges, the Purchase Centers and Quality Control conducted an evaluation of the purchase process to identify the causes for material lender noncompliance. This evaluation, along with internal training, has been designed to enhance Quality Control staff ability to identify issues and to recommend procedural changes. The internal training is expected to be completed by the end of third quarter of FY 2021.

Corrective actions are tracked at the loan level through a centralized database. The two Quality Control Specialists for the 7(a) guaranty purchase centers monitor errors from identification through completion of the corrective action. Headquarters management provides oversight to ensure milestones are met. All improper payments identified as a result of the FY 2020 IPERIA reviews have been resolved through obtaining additional documentation, referral for denial review, collection of funds from the lender, or reimbursement to the lender. Corrective actions were generally completed at the loan level within 60 days with all actions taken by the end of the fiscal year.

7(a) Loan Guaranty Approvals

Statistical Sampling

For 7(a) approval reviews, the sample cases were chosen using PPS sampling with replacement from all loan guaranties approved during the 12-month period ending March 31, 2020. The approval population was divided into two strata based on whether the loan was SBA Express or not. The SBA determined the appropriate total sample size to be 204 loans from the population. The sample included net guaranteed approvals of \$274,437,605 and improper payments of \$6,167,345 within the sample. Using the Hansen-Hurwitz estimation method, the estimated improper payments rate for the annual period ending March 31, 2020 was calculated as 2.06 percent. This represents a decrease from the FY 2019 rate of 2.15 percent. The decrease is primarily due to the corrective action plan that was in place since FY 2019 that focused on external training for lenders.

For 7(a) loan guaranty approval reviews, the FY 2020 improper payment rate estimate of 2.06 percent is greater than the target reduction rate of 2.05 percent published in the FY 2019 AFR. However, in accordance with OMB-18-20, the 7(a) loan guaranty approval program is considered

to have met the reduction target as the lower bound for its confidence interval under the sampling methodology which meets the 95 percent confidence level, plus or minus 3 percent margin of error guidance, is 0.12 percent and is lower than the reduction target of 2.05 percent.

The 7(a) loan guaranty approval reviews were conducted to determine whether lenders complied materially with the 7(a) loan program origination requirements including statutory provisions, SBA regulations, any agreement the lender executed with SBA, standard operating procedures, loan authorizations, and official SBA notices and form applicable to the 7(a) loan program. The reviews were conducted in order to determine if lenders (1) originated the loan in a prudent and commercially reasonable manner, (2) misrepresented or failed to disclose a material fact to the SBA, and/or (3) put the SBA's financial interest at risk.

Corrective Action

Approximately 80 percent of all 7(a) loan guarantee approvals are performed by lenders with delegated authority to evaluate, process, close, and disburse 7(a) loans; these lenders were responsible for all identified improper payment approvals in FY 2020. The most prevalent root cause stemmed from the delegated lenders' failure to authenticate borrowers' eligibility in compliance with loan program requirements. The primary reasons for 7(a) approval errors in FY 2020 included:

- Change of ownership policy requirements were not satisfied;
- Incorrect loan structure;
- Affiliation rules were not met;
- Business valuation policy requirements were not met;
- Cash injection policy requirements were not met; and
- Lack of appropriate documentation for eligibility verification.

As a means to reduce and/or eliminate the occurrence of future improper payments, a Corrective Action Plan has been formalized for the 7(a) loan guaranty approval centers. Specific corrective actions are determined based upon the primary reason for the error with the purpose of both remedying the error and ensuring the error does not occur in the future. Plans for improvement include:

- Collaborating with the Office of Credit Risk Management (OCRM) to ensure that specific lender

deficiencies are monitored and incorporated into Risk Based Reviews;

- Collaborating with the Office of Financial Assistance (OFA) to ensure that associated deficiencies are incorporated into any policy, regulatory, or standard operating procedure rewrite or update; and
- External training for lenders on policy requirements governing change of ownership, requirements governing cash injection, application of collateral, policy requirements governing loan structure, and appropriate documentation to determine loan program eligibility.

The corrective actions are currently underway. The Office of Financial Program Operations (OFPO) will share the loan level and lender deficiencies identified during the reviews with OCRM and OFA in the first quarter FY 2021 and will continue its efforts through the fiscal year to ensure lender deficiencies are monitored and incorporated into OCRM's Risk Based Reviews and OFA's policy rewrites and updates.

Corrective actions for specific loans are tracked at the loan level through a centralized database. The Quality Control Specialist for 7(a) loan guaranty approvals monitors errors from identification through completion of the corrective actions. OFPO management headquarters provides oversight to ensure milestones are met. All improper payment identified as a result of the FY 2020 IPERA reviews have been resolved through a reduction or cancellation of the loan guaranty. Corrective actions were generally completed without having to refer the loan for further review. Corrective actions are initiated within 120 days and all corrective actions are taken within the fiscal year.

504 CDC Loan Guaranty Approvals

Statistical Sampling

For 504 CDC approval reviews, the sample cases were selected using PPS sampling with replacement from all loan guaranties approved during the 12-month period ended March 31, 2020. The approval population was not stratified. The SBA determined the appropriate total sample size to be 191 loans from the population. The sample included net approval outlays of \$266,661,000 and improper payments of \$7,243,000 within the sample. Using the Hansen-Hurwitz estimation method, the estimated improper payments rate for the annual period ending March 31, 2020 was calculated as 3.81 percent. This represents an increase from the FY 2019 rate of 0.56 percent and an increase from the established reduction target of 2.04 percent.

The increase was primarily due to CDC's not providing appropriate documentation for loan eligibility.

The FY 2020 improper payment rate estimate of 3.81 percent for this program is greater than the target reduction rate of 2.04 percent published in the FY 2019 AFR. SBA's sampling method is a statistically valid and rigorous plan, with a 95 percent confidence interval, plus a 3 percent margin of error, the upper and lower bounds of the confidence interval. Because the lower bound of its confidence interval, of 1.14 percent, is lower than the reduction target rate of 2.04 percent, in accordance with OMB Memorandum 18-20, the 504 loan guaranty approval program is considered to have met the reduction target.

The 504 CDC approval reviews were conducted to determine whether CDCs complied materially with the program's origination requirements, including statutory provisions, SBA regulations, any agreement the CDC executed with the SBA, standard operating procedures, loan authorizations, and official SBA notices and forms applicable to the 504 loan program. The reviews were to determine whether CDCs (1) originated the loan in a prudent and commercially reasonable manner, (2) misrepresented or failed to disclose a material fact to the SBA, and/or (3) put the SBA's financial interest at risk.

Corrective Action

The most prevalent root cause stemmed from the CDC's failure to authenticate borrower's eligibility at origination in compliance with loan program requirements. The primary reasons for 504 approval errors in FY 2020 included:

- Lack of appropriate documentation for eligibility verification; and
- Eligible Passive Company did not comply with policy requirements

As a means to reduce and/or eliminate the occurrence of future improper payments, a Corrective Action Plan has been formalized for the 504 approval center. Specific corrective actions are determined based upon the primary reason for the error with the purpose of both remedying the error and ensuring the error does not occur in the future. Plans for improvement include:

- Collaborating with the Office of Credit Risk Management to ensure specific lender deficiencies are monitored and incorporated into Risk Based Reviews; and External training for lenders to ensure appropriate documentation is obtained and analyzed prior to loan

approval and to ensure that Eligible Passive Company policy requirements are met.

The corrective actions are currently underway. OFPO intends to share the loan level and lender deficiencies identified during the reviews with OCRM in the first quarter of FY 2021 and will continue its efforts to ensure CDC deficiencies are monitored and incorporated into lenders' Risk Based Reviews. External training will be provided by the end of the second quarter of FY 2021.

Specific corrective actions on loans reviewed are tracked at the loan level through a centralized database. The Quality Control Specialist for 504 approvals monitors errors from identification through completion of the corrective action. Headquarters management provides oversight to ensure milestones are met. All improper payments identified as a result of the FY 2021 IPERIA reviews have been resolved through obtaining additional documentation, loan modification, and reduction and cancellation of the loan guaranty. Corrective actions were generally completed at the loan level within 180 days with all actions taken by the end of the fiscal year.

Disaster Direct Loan Program

Statistical Sampling

The Office of Disaster Assistance (ODA) performs a Quality Assurance Review (QAR) of the approved loan portfolio annually. A part of the QAR is to identify any deficiency that would result in an improper payment. The scope of the ODA's review covers three primary compliance areas: (1) basic eligibility; (2) adherence to relevant laws, rules, regulations, and standard operating procedures; and (3) credit worthiness. The statistical methodology used followed widely accepted practices and was approved by the Office of Management and Budget in 2012. For FY 2020, the reporting period covered April 1st through March 31st. The review population consisted of disaster loan disbursements made during the 12-month period ending March 31, 2020, with total disbursements of approximately \$790,688,565. A sample of 518 payments were selected for testing which yielded a weighted estimated improper payment rate of 11.98 percent. Based on the sample results, the estimated amount of improper payments was approximately \$94,753,828. The increase from the FY 2019 rate of 6.30 percent can be attributed to an increase in non-monetary process and documentation errors.

Corrective Action

In FY 2020, the most prevalent root cause for the disaster direct loan improper payments stemmed from process and documentation errors. Approximately 65 percent of the improper payments was made because the loan processing and disbursement staff did not consistently follow the guidance provided in the standard operating procedure to verify eligibility data. The remaining 35 percent of the improper payments was due to documentation errors. While the improper payments resulting from the longstanding issue concerning insurance documentation was reduced, one other documentation error was also found. The types of process and documentation errors included:

- Lack of justification for repayment ability that met SBA guidelines,
- Failure to document estimated total project cost,
- Failure to perform adequate follow-up on borrower's credit report,
- Disbursement made in excess of eligible loan amount due to duplication of benefits,
- Lack of insurance documentation, and
- Failure to obtain properly executed closing documents.

To prevent these errors noted in the improper payment review, the SBA plans to perform the following corrective actions:

- Including specific results-driven performance elements tied to reducing the improper payment rate in the FY 2021 performance plans for the Director and Deputy Director of the Processing and Disbursement Center, Assistant Center Director for Application Processing and Assistant Center Director for Accounts
- Continuing to employ the professional training staff from the Office of Disaster Strategic Engagement and Effectiveness to assist in the creation of effective insurance review and other training materials and assist the trainers in the Accounts Department in the presentation of training materials;
- Requiring all training materials be reviewed and approved by SBA headquarters;
- Expanding training efforts to include one-on-one training with Application Processing Team Leads; and

- Requiring all departments performing any form of quality assurance/control checks to report their findings monthly inclusive of:
 - The specific loan data,
 - loan numbers
 - amounts
 - issues uncovered
 - Tracking and resolution of uncovered issues
 - Provide monthly summary report to the Quality Control Supervisor
- Conduct monthly improper payment meetings that includes all teams responsible for ODA quality assurance/control. Meeting should have a written agenda and meeting minutes to capture the development.

The corrective actions will be monitored on a monthly basis by the Deputy Associate Administrator for Disaster Assistance.

Supplemental Disaster Relief Administrative Funds - Payroll

Statistical Sampling

The disaster relief payroll administrative expense samples were chosen using PPS with replacement methodology from payments completed during the 12 months ending September 30, 2019. The total dollar amount expended was \$198,009,844.74. The SBA determined the appropriate sample size to be 45 line items having total outlays of \$289,399.36. Based upon the sample results, the estimated FY 2020 improper payment rate was 0.00 percent for a total of \$714.86.

Corrective Action

The improper payment rate of 0.00 percent and \$714.86 does not exceed the 1.5 percent and \$10 million threshold for reporting a corrective action plan.

Supplemental Disaster Relief Administrative Funds - Travel

Statistical Sampling

The disaster relief travel administrative expense samples were chosen using PPS with replacement methodology from payments completed during the 12 months ending

September 30, 2019. There were 18,814 expenditures with a total dollar amount of approximately \$26,329,651. Using the PPS approach, the SBA determined the appropriate sample size to be 130 line items having total outlays of approximately \$800,306. Based upon the sample results, the estimate FY 2020 improper payment rate was 0.13 percent for a total of approximately \$35,515.

Corrective Action

The improper payment rate of 0.13 percent and \$35,515 does not exceed the 1.5 percent and \$10 million threshold for reporting a corrective action plan.

Payment Recovery Effort

Agency efforts to recapture improper payments are discussed by program or activity.

7(a) Loan Program Purchases

Overpayments identified in the improper payments reviews are recaptured from the lender. The Quality Control staff tracks and collects any monetary overpayment. Refer to Part I above for corrective action plans to prevent future improper payments.

7(a) Loan Program Approvals and 504 Loan Guaranty Approvals

Overpayments recaptured outside of payment recapture audits are not applicable to 7(a) loan guaranty approval and 504 loan approval as no payment is made at the time of approval. Improper payments identified through both the annual improper payment and continuous quality control reviews are remediated through the cancellation of the SBA guaranty, or loan modification, as appropriate. This determination is made on a case-by-case basis, which varies substantially depending on the circumstances of the loan approval and lender authority.

Disaster Direct Loan Program

Overpayments are the result of the borrower receiving both an SBA loan and insurance payments or other benefits as a result of the disaster. If the duplication of benefit is recognized prior to the final disbursement, the loan amount is modified to reflect a lower amount and no repayment is required. If the duplication of benefit is identified after the final disbursement of the loan, then the borrower is given 30

days to provide evidence to prove that the disaster loan was not over-disbursed. For example, the borrower can provide documentation demonstrating that insurance funds received did not duplicate the disaster loan purpose. If the borrower has not provided the appropriate evidence within the 30-day period, a demand is made for the over-disbursed funds. Collection efforts continue at the disaster loan servicing centers, but if these efforts fail, the borrower will still be liable for the over-disbursed amount in the form of monthly payments in accordance with the loan agreement. Thus, any actual loss, if any, is the cost of funds related to the over-disbursement.

Supplemental Disaster Relief Administrative Funds – Payroll and Travel

For supplemental disaster relief payroll expenses, the total improper payment was only \$0.48, which appeared to be the result of rounding. The SBA determined that further examination or recovery effort for such a trivial amount is not deemed necessary. For supplemental disaster relief travel expenses, a significant amount of the identified overpayment resulted from travel expenses with no supporting documentation or travel expenses claimed over allowable per diem. These errors should have been detected during the approval process, but the manual paper-based voucher process and the high volume of the transactions hindered the effective review prior to payment. This issue should be eliminated in the future as the disaster loan program moved from a paper-based system to an electronic travel reimbursement system with the implementation of Concur Travel on July 29, 2019. The SBA will initiate recovery actions on the identified improper payments for repayment or credit on future travel voucher reimbursements from the responsible individuals as applicable. All of the improper payments found have had or will have full travel reconciliations performed; most have already been completed and the employees and the appropriate Centers notified. For any reconciliations not performed yet, the SBA will complete them and notify the employee/Center regarding the findings.

Payment Recapture Audits

On September 15, 2011, the SBA submitted a *Payment Recapture Audit Cost-Effective Analysis* to the Office of Management and Budget. The analysis discussed the 7(a) Loan Program, the 504 Certified Development Company Loan Program, the Disaster Direct Loan Program,

Disbursements for Goods and Services, the Small Business Investment Company Program, the Surety Bond Guaranty Program, and Grants, which included all grant programs. The analysis described the program, the controls over financial disbursements, and the size of the program and concluded for each program that recapture audits would not be cost effective due to low error rates, complexity of the program, or limited amount of outlays. A subsequent cost analysis for the 7(a) loan guaranty purchase program was submitted to OMB on September 13, 2017, to include the results of a payment recapture audit performed in 2015 which again concluded that such an audit is not cost effective.

The specific justification and analysis are discussed by program.

7(a) loan guaranty purchase improper payment reviews, continuous Quality Control Reviews, and OMB Circular A-123 Appendix A reviews in FY 2014 warranted a reconsideration of the cost effectiveness of a payment recapture audit for the 7(a) Loan Guaranty Purchase program. As a result, in FY 2015, the SBA performed a payment recapture audit, and the results revealed that the cost of labor hours for performing and reporting the payment recapture audit exceeded the actual overpayments identified. This was reported in the FY 2015 AFR with the statement that no additional payment recapture audits would be performed. In September 2017, the SBA submitted a cost analysis to OMB and the OIG to support this decision.

7(a) loan guaranty approval and 504 CDC loan approval are not subject to payment recapture audits as no payment is made at the time of approval.

Disaster direct loans recapture audits would not be cost effective. Improper payments due to loan documentation errors do not result in a disaster survivor receiving funds for which they are not eligible; therefore, these improper payments are not eligible for recovery. The FY 2020 improper payment review identified 23 ineligible disbursements totaling \$1,689,400. Twenty-two of these disbursements were improper because of errors made by the SBA during loan processing by not following SBA policy to determine and document eligibility. The remaining one disbursement was ineligible because the disaster damaged property was not the borrower's primary residence. Given that the most errors were made by the SBA, any attempt to recoup money from these borrowers would most likely result in litigation, which may not be favorable to the Agency. Additionally, borrowers often will not have the resources

to pay off the loans. As of October 1, 2020, all 23 loans are being paid as agreed and \$564,738 has been already recovered through regular monthly payments. The improper payment audit was completed using 4,080 hours of staff time at an approximate labor cost of \$533,125. In consideration of the cost to audit, strong possibility of litigation for recovery, and uncertainty over the borrower's ability to repay the loan with a lump-sum payment, further expenditures for a separate recovery audit is not cost effective.

Supplemental Disaster relief administrative payroll expenses recapture audits would not be cost effective. The improper payment testing required approximately 40 labor hours at a cost of approximately \$2,000. No payment was identified as eligible for recapture during the improper payment review; thus the cost of the review exceeds the return.

Supplemental Disaster relief administrative travel expenses recapture audits would not be cost effective. ODA approximated that it would cost \$454,000 to complete the travel audits. Payments identified during the improper payment review as eligible for recapture totaled approximately \$926; thus the cost of the review exceeds the return.

Table 3 presents a summary of Improper Payment Recaptured without Audit Programs.

TABLE 3: Improper Payment Recaptures without Audit Programs (Dollars in Millions)

Program or Activity	Overpayments Recaptured outside of Payment Recapture Audits			Source
	Amount Identified \$	Amount Recaptured \$	Amount Recaptured %	
7(a) Guaranty Purchase ¹	12.76	0.99	7.76	Statistical samples conducted under IPIA
TOTAL	12.76	0.99	7.76	

¹ Period of review is for the 12-month period ending March 31, 2020.

Agency Improvement of Payment Accuracy with the Do Not Pay Initiative

The SBA has implemented the Do Not Pay (DNP) Initiative and incorporated the use of the DNP post payment services using the data source Death Master File. The Agency has also implemented limited use of the online portal for processing of manual 7(a) loan applications as part of pre-award eligibility and will be implementing a pre-award

eligibility for the Surety Bond Guarantee program. The SBA is working to enhance its use of the DNP data sources by exploring an interface with SBA systems to identify ineligible recipients at the time of pre-award in lieu of manually entering requests for information as is done currently.

Information Systems and Other Infrastructure

7(a) loan guaranty purchases are supported by the Guaranty Purchase Tracking System. It is continually updated to enhance the overall integrity of the purchase process. Resources as they relate to human capital are currently adequate.

7(a) loan guaranty approvals and 504 CDC loan guaranty approvals have adequate internal controls and are supported by E-Tran, the SBA's electronic loan processing/servicing system. Both the SBA and delegated lenders process applications through the system and lenders may also handle unilateral servicing actions electronically. The system provides increased efficiency and decreased costs in the loan guaranty origination and servicing processes. The loan programs are also supported by SBA One, an automated lending platform, which helps to streamline the lending process. Resources as they relate to human capital are currently adequate.

Disaster direct loan program has the information systems and other infrastructure it needs to reduce improper payments to targeted levels. For example, the Office of Disaster Assistance has an integrated, electronic loan processing system, the Disaster Credit Management System (DCMS), to streamline, enhance and improve the loan-making process. This system supports workflow management, electronic file management and document generation functions. Many of the business rules governing DCMS have been designed to improve the quality assurance process by incorporating internal controls policy measures. In fact, the ODA quality assurance team works continually with the DCMS development team to improve the quality assurance process with a goal to minimize future improper payments as much as possible. The Disaster direct loan program has adequate human capital to maintain its internal controls.

SUMMARY OF FINANCIAL STATEMENT AUDIT AND MANAGEMENT ASSURANCES

As required by OMB Circular A-136, Section II.4.4, the following summarizes the SBA's Financial Statement Audit and Management Assurances:

Summary of Financial Statement Audit

Audit Opinion	Disclaimer					
Restatement	No					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Risk Assessment for Internal Control over Financial Reporting	1	0	1	N/A	N/A	0
Approval of PPP Loan Guarantees	0	1		N/A	N/A	1
Reporting of PPP Loan Guarantees	0	1		N/A	N/A	1
Subsidy Reestimate of PPP Loan Guarantees	0	1		N/A	N/A	1
Approval of COVID-19 EIDLs and Grants	0	1		N/A	N/A	1
Service Organization Used for COVID-19 EIDLs and Grants	0	1		N/A	N/A	1
Service Organizations Used for Loan Guarantee Programs	0	1		N/A	N/A	1
Entity Level Controls	0	1		N/A	N/A	1
Total Material Weaknesses	1	7	1	N/A	N/A	7

Summary of Management Assurances

Effectiveness of Internal Control over Financial Reporting (FMFIA § 2)						
Statement of Assurance	Unmodified					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
None	0	0	0	N/A	N/A	0
Total Material Weaknesses	0	0	0	N/A	N/A	0

Effectiveness of Internal Control over Operations (FMFIA § 2)						
Statement of Assurance	Unmodified					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
None	0	0	N/A	N/A	N/A	0
Total Material Weaknesses	0	0	N/A	N/A	N/A	0

Conformance with Financial Management System Requirements (FMFIA § 4)						
Statement of Assurance	Federal Systems conform to financial management system requirements.					
Non-Conformances	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
None	0	0	N/A	N/A	N/A	0
Total Non-conformances	0	0	N/A	N/A	N/A	0

Compliance with Section 803(a) of the Federal Financial Management Improvement Act (FFMIA)		
	Agency	Auditor
1. Federal Financial Management System Requirements	No lack of compliance noted	Lack of compliance noted
2. Applicable Federal Accounting Standards	No lack of compliance noted	Lack of compliance noted
3. USSGL at Transaction Level	No lack of compliance noted	No lack of compliance noted

FRAUD REDUCTION REPORT

The Fraud Reduction and Data Analytics Act of 2015 (FRDAA) mandates that agencies take steps to improve their financial and administrative controls and procedures to assess and mitigate fraud risks, and to improve their development and use of data analytics for identifying, preventing, and responding to fraud, including improper payments. Each agency is required to report its progress in implementing: (1) the financial and administrative controls, (2) the fraud risk principle in the GAO Standards for Internal Control in the Federal Government (Green Book), and (3) management of fraud risk in accordance with OMB Circular A-123.

In accordance with the Payment Integrity Information Act of 2019, the Agency has made progress in implementing financial and administrative controls relating to fraud and improper payments. Specifically, the Agency's Enterprise Risk Management Board conducted its annual risk profile validation process which included a discussion of key programs that are highly susceptible to fraud. The SBA is developing response plans to manage any critical fraud risks identified through this process. The Agency's Fraud Risk Management Council (Fraud Council), created in FY 2019, held several meetings throughout FY 2020 to reinforce and increase awareness and support of program fraud risk mitigation. The Agency developed and evaluated tools to assess fraud risk for possible agency-wide use and held program-specific fraud risk management workshops. The Agency received quarterly OIG fraud reports and supported the identification and prosecution of fraud cases and regularly reported on ongoing fraud activity to the Fraud Council to share high level summary understanding of ongoing fraud identification, trends, investigation, and prosecution efforts.

Additionally, the Agency also looks at programmatic risks of improper payments and vulnerabilities to fraud during the improper payment review process. As mentioned in the Payment Integrity section of the AFR, the Agency conducts risk assessments on the Agency's programs and activities. This year, nine risk assessments were conducted on SBA programs and activities—to include contracts, microloans, payroll, travel, STEP grants, as well as other SBA programs. One of the considerations in the risk assessment is the susceptibility of fraud at the program level, and whether programs and activities have a process in place to identify and report on fraud. Of the nine programs assessed, none of the programs identified any significant vulnerabilities to fraud.

The SBA initiated specific collaborative actions to address fraud risk in the Coronavirus Aid, Relief, and Economic Security (CARES) Act, Paycheck Protection Program (PPP), and Economic Injury Disaster Loan (EIDL) programs. The Agency, in coordination with the Department of Justice (DOJ), reviewed various loan data sets including from the DOJ, General Services Administration, Federal Bureau of Investigation, Internal Revenue Service, and lending institutions. A joint SBA, Secret Service, and Financial Crimes Enforcement Network (FinCEN) alert relating to PPP and EIDL loans was issued to depository institutions and peer-to-peer payment platforms to inform them of the need to verify suspicious deposits and withdrawals. To combat entities fraudulently representing that they were authorized to process PPP or EIDL loans, the SBA initiated a joint effort with the Federal Trade Commission to expedite the filing of litigation to prevent harm to borrowers. For additional information related to Inspector General activities, please visit: <https://www.sba.gov/about-sba/oversight-advocacy/office-inspector-general>.

REAL PROPERTY

Within the SBA, effective real property asset management begins with an accurate inventory that is verified and validated on a continual basis to ensure real-time data is available for timely and quality decision-making. As a fully-leased agency, close coordination between GSA and the SBA is required regarding cyclical lease expirations,

space requests related to program activities and missions, security assessments, and facility-related deficiencies and emergencies. More information on the SBA's real property can be found at www.performance.gov/real-property-metrics/.

GRANTS PROGRAMS

Category	2-3 Years	3-5 Years	More than 5 Years
Number of Grants/Cooperative Agreements with Zero Dollar Balances	47	203	14
Number of Grants/Cooperative Agreements with Undisbursed Balances	0	0	0
Total Amount of Undisbursed Balances	\$0	\$0	\$0

The SBA Office of Grants Management assembled a team to close-out older grants and ensure all program offices properly close-out grants in compliance with 2 C.F.R. 200, *Uniform Administrative Requirements, Cost Principles, And Audit Requirements For Federal Awards*.

CIVIL MONETARY PENALTY ADJUSTMENT FOR INFLATION

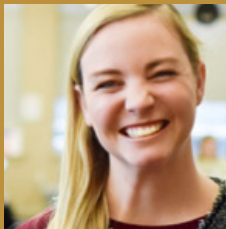
The Federal Civil Penalties Inflation Adjustment Act of 1990 (Act), as amended, requires agencies to make regular and consistent inflationary adjustments of civil monetary penalties to maintain their deterrent effect. A civil monetary penalty is defined as any penalty, fine, or other sanction that is for a specific monetary amount as provided by federal law or has a maximum amount provided for by federal law, is assessed or enforced by an agency pursuant to federal law, and is assessed or enforced pursuant to an administrative proceeding or a civil action in the federal courts. To improve compliance with the Act and in response to multiple audits and recommendations, agencies must report the most recent inflationary adjustments to civil monetary penalties to ensure penalty adjustments are both timely and accurate. Pursuant to the Act, the SBA reviewed each of the penalty amounts under its statutes and adjusted them for inflation when required under the law. The SBA applied a prescribed formula from the Act for calculating the penalty.

The following table reflects the authorities imposing the penalties, the basis for imposing the penalties, the year the penalties were authorized, the current penalty levels, the program offices responsible for imposing the penalties, and the citation for the most recent publication of the penalty updates.

SBA Federal Civil Penalties						
Statutory Authority	Penalty (Name or Description)	Year Enacted	Latest Year of Adjustment (via Statute or Regulation)	Current Penalty Level (\$ Amount or Range)	Sub-Agency/Bureau/Unit	Location for Penalty Update Details
Small Business Investment Act, 15 USC 687g	Failing to File Report Timely for a Small Business Investment Company (SBIC)	1966	2020	\$271	Office of Investment and Innovation	85 Federal Register 13725 (March 10, 2020)
Small Business Act, 15 USC 650(j)(1)	Failing to File Report Timely for a Small Business Lending Company (SBLC)	2004	2020	\$6,740	Office of Capital Access	85 Federal Register 13725 (March 10, 2020)
Small Business Act, 15 USC 634(b)(6) and Program Fraud Civil Remedies Act 31 USC 3802(d)	Administrative Remedies for False Statements and Claims	1986	2020	\$11,665	Multiple offices	85 Federal Register 13725 (March 10, 2020)
Small Business Act, 15 USC 634(b)(6) and Program Fraud Civil Remedies Act 31 USC 1352	Penalty for Violation of Lobbying Restrictions	1990	2020	\$20,489 to \$204892	Multiple offices	85 Federal Register 13725 (March 10, 2020)

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APPENDICES



— start

— grow



— expand

— recover

 **RECOVER**

**TERRY & HOPE
BOURQUE**
SUCCESS STORY



**2020 PHOENIX AWARD
FOR OUTSTANDING
SMALL BUSINESS DISASTER RECOVERY**

TLR Homes
Vidor, TX

TERRY AND HOPE BOURQUE's recovery story is a tale of tenacity. The couple was in the business of selling manufactured homes in Vidor, a town near Beaumont, Texas. TLR Homes' entire inventory, which included 28 new mobile homes staged for sale, as well as their office and storage buildings, was destroyed in the flooding caused by Hurricane Harvey in August 2017.

Terry undertook a recovery strategy that included disposing of destroyed inventory and salvaging those that could be sold. He created a makeshift office, negotiated with his bank to restructure his credit line and worked with suppliers to get commitments for future inventory. He adjusted his marketing and sales strategy to save money and used new technology to reach a larger clientele.

By February 2018, Terry had grown sales and proved that the recovery of his business was sustainable. TLR Homes further cut costs by relocating to a new location and making changes to the way they showcase their inventory. In March 2018, Terry was approved for a \$1 million SBA loan for TLR Homes, which he used to purchase more mobile homes. This boosted the business toward long-term recovery and success.

APPENDIX 1 – CONTACT SBA: USEFUL WEBSITE AND NUMBERS

The SBA home page is www.sba.gov. Information on SBA programs may be accessed from this website. Several of the more frequently visited websites are listed here:

SBA and Business Information	
About the SBA	www.sba.gov/aboutsba
SBA Performance, Budget & Finances	www.sba.gov/performance
Small Business USA	www.usa.gov/business
Local Assistance	www.sba.gov/local-assistance
Qualifying as a Small Business	www.sba.gov/content/am-i-small-business-concern
Starting a business?	www.sba.gov/thinking-about-starting
Capital	
Small Business Loans & Grants	www.sba.gov/financialassistance
Lender Resources	www.sba.gov/lender_resources
Surety Bonds	www.sba.gov/content/surety-bonds-explained
Export Products	www.sba.gov/exporting
Fund Your Business	www.sba.gov/business-guide/plan/fund-your-business
Contracting	
Government Contracting	www.sba.gov/contracting
Register as a Contractor	www.sam.gov
Contracting Certifications	https://certify.sba.gov/
Counseling	
SBA Learning Center	www.sba.gov/training
Small Business Development Centers	www.sba.gov/tools/local-assistance/sbdc
Women's Business Centers	www.sba.gov/tools/local-assistance/wbc
SCORE	www.sba.gov/tools/local-assistance/score
Veterans Business Outreach Centers	www.sba.gov/tools/local-assistance/vboc
Disaster Assistance	
Disaster Assistance	www.sba.gov/disaster
Disaster Center Office Locations	www.sba.gov/about-offices-list/4
Coronavirus (COVID-19): Small Business Guidance & Loan Resources	www.sba.gov/page/coronavirus-covid-19-small-business-guidance-loan-resources
SBA Information	
SBA National Answer Desk (Toll Free)	(800) 827-5722
Disaster Assistance Customer Service Center (Toll Free)	(800) 659-2955
Facebook	https://www.facebook.com/SBAgov
Twitter	https://www.twitter.com/sbagov
YouTube	https://www.youtube.com/sba
Blogs	https://www.sba.gov/blogs
Instagram	https://www.instagram.com/sbagov/

APPENDIX 2 – GLOSSARY

504 Loan	504 Certified Development Loan Program The 504 loan program provides small businesses with long-term, fixed-rate financing for the purchase of land, buildings, and long-life capital equipment.	B2B	Boots to Business An entrepreneurial education and training program offered by the U.S. Small Business Administration as part of the Department of Defense Transition Assistance Program.
7(a)	7(a) Loan Guaranty Program The 7(a) loan program is the SBA's primary loan program; it provides general loan financing for a wide variety of purposes.	BATF	Business Assistance Trust Fund A revolving trust fund in which all donated funds are to be deposited
7(j)	7(j) Management and Technical Assistance Program The 7(j) program provides specialized assistance to underserved small businesses.	BLIF	Business Loan and Investment Fund The BLIF assists eligible small businesses through various loan programs
7(m)	7(m) Microloan Program The microloan program provides small, short-term loans to small businesses and certain types of nonprofit childcare centers.	CAP Goals	Cross-Agency Priority Goals CAP Goals are a limited number of Presidential priority areas where implementation requires active collaboration among multiple agencies.
8(a)	8(a) Business Development Program The 8(a) program assists firms owned and controlled by socially and economically disadvantaged individuals compete for federal contracts.	CARES Act	Coronavirus, Aid, Relief and Economic Security Act A \$2.2 trillion economic stimulus bill passed in response to the economic fallout of the COVID-19 pandemic in the United States.
A-123	Designation for OMB Circular on Internal Control Systems The A-123 guidance prescribes policies and procedures to be followed by federal agencies in establishing, maintaining, evaluating, improving, and reporting on internal controls in their program and administrative activities.	CJ	Congressional Justification The CJ is a federal agency's annual budget request to Congress.
AA	Associate Administrator An Associate Administrator is a senior leadership position responsible for major SBA programs	CDC	Certified Development Company CDCs are nonprofit corporations, certified and regulated by the SBA, that work with participating lenders to provide financing to small businesses.
AFR	Agency Financial Report The AFR is an annual report that provides to OMB, Congress, and the public an overview of the Agency's financial and performance data.	CEAR	Certificate of Excellence in Accountability Reporting The CEAR is awarded to federal agencies that are considered to have excellent Agency Financial Reports.
AGA	Association of Government Accountants The AGA is the member organization for government financial management professionals.	CFO	Chief Financial Officer The CFO is the financial leader whose duties include overseeing all Agency disbursements, management and coordination of Agency planning, budgeting, analysis, and accountability processes.
APG	Agency Priority Goal GPRAMA requires federal agencies to establish a set of 2-year APGs that reflect the highest priorities of agency leadership.	COVID-19	Coronavirus Disease 2019 Highly contagious respiratory disease caused by the SARS-CoV-2 virus.
APR	Annual Performance Report The APR is required by the Government Performance and Results Act and presents a federal agency's progress in achieving the goals in its strategic plan and performance budget.	CTI	Cyber Threat Intelligence Information an organization uses to understand the cyber threats that have, will, or are currently targeting the organization.
		DATA Act	The Digital Accountability and Transparency Act The DATA Act is a law that aims to make

	information on federal expenditures more easily accessible and transparent.	FBO	FedBizOps FBO is the Federal Government's website that posts all federal procurement opportunities with a value over \$25,000.
DCMS	Disaster Credit Management System DCMS is the electronic system used to process loan applications for all new disaster declarations.	FCRA	Federal Credit Reform Act The FCRA is a law enacted to provide a more realistic picture of the cost of U.S. Government direct loans and loan guaranties.
DLF	Disaster Loan Fund The DLF assists eligible small businesses impacted by disasters.	FEMA	Federal Emergency Management Agency The primary purpose of FEMA is to coordinate the response to a disaster that has occurred in the United States.
DNP	Do Not Pay Initiative The DNP was established by IPERIA to support federal agencies with their efforts to prevent and detect improper payments.	FEVS	Federal Employee Viewpoint Survey An OPM survey administered to federal employees that measures perceptions of whether, and to what extent, conditions characteristic of successful organizations are present in their agencies.
DO	District Office The SBA's District Offices are responsible for the delivery of the SBA's many programs and services throughout the country.	FFMIA	Federal Financial Management Improvement Act FFMIA is a law that requires each federal agency to implement and maintain financial management systems that comply substantially with federal financial management system requirements, applicable federal accounting standards and the United States Standard General Ledger.
DoD	Department of Defense The DOD is the federal agency charged with coordinating national security and the armed services.	FISMA	Federal Information Security Management Act FISMA is a law that defines a comprehensive framework to protect government information, operations, and assets against natural or man-made threats.
DTI	Debt-to-Income DTI ratio is derived by dividing monthly debt payments by monthly gross income	FITARA	Federal Information Technology Acquisition Reform Act FITARA is legislation to improve the acquisition and management of federal information technology assets.
EDAP	Expedited Disaster Assistance Loan Program The EDAP is a loan guarantied by SBA for up to \$150,000.	FMFIA	Federal Managers Financial Integrity Act FMFIA is a law that primarily requires ongoing evaluations and reports on the adequacy of the internal accounting and administrative control systems of executive agencies. It also requires evaluations and reports on the conformance of financial management systems.
EDP	Entrepreneurial Development Program The EDP account reports entrepreneurial development expenses.	FR	Financial Report of the U.S. Government A record of the United States government's financial activities.
ECS	Enterprise Cybersecurity Services Cybersecurity strategies designed to safeguard data as it travels between distant wireless devices and onto cloud servers.	FRDAA	Fraud Reduction and Data Analytics Act FRDAA is a law to improve federal agency financial and administrative controls and procedures to assess and mitigate fraud risks, and to improve federal agencies' development and use of data analytics for the purpose of identifying,
EIDL	Economic Injury Disaster Loan A grant to provide economic relief to businesses experiencing a temporary loss of revenue due to the COVID-19 pandemic		
ELA	Enterprise Learning Agenda The ELA is a plan that aligns with the Agency's strategic goals to identify where evaluations could provide insights about program effectiveness.		
ERM	Enterprise Risk Management The ERM provides a framework to manage risks and seize opportunities related to the achievement of their objectives.		
FAST	Federal and State Technology (FAST) Grants One year funding opportunity to help increase the number of SBIR and STTR proposals.		

	preventing, and responding to fraud, including improper payments.		
FTE	Full-Time Equivalent FTE indicates the workload of an employed person. An FTE of 1.0 means that the person is equivalent to a full-time worker while an FTE of 0.5 means that the worker is only half-time.	HUBZone	Historically Underutilized Business Zone HUBZone is an SBA program that encourages economic development by the establishment of federal contract award preferences for small businesses located in historically underutilized business zones.
FY	Fiscal Year The Federal Government fiscal year begins October 1 and ends the following September 30.	ICOR	Internal Control Assessment Over Reporting A reporting methodology that manages assets (including data), improves data quality, and reduces compliance-oriented burdens shifting activities to support attaining high quality data.
GAAP	Generally Accepted Accounting Principles GAAP is the standard framework of guidelines for financial accounting generally known as accounting standards or standard accounting practice.	IDAP	Immediate Disaster Assistance Program IDAP is a guaranteed disaster loan program for small businesses that have suffered physical damage or economic injury to a Declared Disaster.
GAO	U.S. Government Accountability Office The GAO is an independent, nonpartisan agency that investigates how the federal government spends taxpayer dollars and reports their findings to Congress.	IPERA	Improper Payments Elimination and Recovery Act IPERA requires that agencies examine the risk of, and feasibility of, recapturing improper payments in all programs and activities.
GONE Act	Grants Oversight and New Efficiency Act A law that requires federal agencies close expired grants.	IPERIA	Improper Payments Elimination and Recovery Improvement Act IPERIA is an act to intensify efforts to identify, prevent, and recover payment error, waste, fraud, and abuse within federal spending.
GPRAMA	Government Performance and Results Act (GPRAMA) Modernization Act The GPRAMA modernizes the federal government's performance management framework, retaining and amplifying some aspects of the Government Performance and Results Act (GPRAMA) of 1993 while also addressing some of its weaknesses.	IPIA	Improper Payment Information Act The IPIA is a law enacted in 2002 to identify and reduce erroneous payments in the government's programs and activities.
GSA	General Services Administration The GSA is a federal agency of the Executive Branch whose mission is to deliver the best value real estate, acquisition, and technology services to government agencies.	ISS	Industrial Specialists for Size Specialists who perform size determinations for protests
GTAS	Governmentwide Treasury Account Symbol Adjusted Trial Balance System: A system used by government entities to provide proprietary financial reporting information and information about budget execution to the Department of the Treasury.	IT	Information Technology IT refers to matters concerned with the design, development, installation, and implementation of information systems and applications.
HHS	U.S. Department of Health and Human Services The goal of HHS is to protect the health of all Americans and provide essential human services.	JAAMS	Joint Administrative Accounting Management System Also known as the Oracle Administrative Accounting System, JAAMS is a financial management system used to keep records of the SBA's administrative funding and expenditures.
HIM	Hurricanes Harvey, Irma, and Maria The HIM Hurricanes caused significant physical damage to Texas, Louisiana, Florida, Puerto Rico, and the U.S. Virgin Islands.	LGPC	Loan Guarantee Processing Center The 7(a) LGPC has two physical locations (one in Hazard, Kentucky and one in Citrus Heights, California) that are linked technologically into one process for efficiency and optimal staff utilization.
		LSP	Lender Service Provider An LSP carries out functions in originating, dispersing, servicing, or liquidating a specific SBA

	business loan or loan portfolio for compensation from the lender.		disaster losses for individuals and businesses.
MAFD	Maximum Accepted Fixed Debt MAFD are standards used to calculate the risk of loan approvals.	OFA	Office of Financial Assistance
MAT	Modification Adjustment Transfer A transfer made between the financing account and the general fund.	OFPO	Office of Financial Program Operations The OFPO leads the financial services industry in quality products and services to SBA partners and customers and protects the integrity of SBA programs.
MRA	Master Reserve Account The SBA's fiscal agent maintains this escrow fund to facilitate the operation of the Certified Development Company program.	OGC	Office of General Counsel The OGC provides comprehensive legal services to the Administrator and all Agency offices.
MRF	Master Reserve Fund The SBA's fiscal and transfer agent maintains this reserve fund to facilitate the operation of the 7(a) secondary market program.	OGCBD	Office of General Contracting and Business Development The Office of Government Contracting & Business Development works to create an environment for maximum participation by small, disadvantaged, and woman-owned businesses in federal government contract awards and large prime subcontract awards.
OBD	Office of Business Development The OBD assists small, disadvantaged businesses to gain access to federal and private procurement markets.	OIC	Office of Internal Controls The OIC ensures managers comply with internal control standards.
OCA	Office of Capital Access The OCA is responsible for small business loans, lender oversight, and the Surety Bond Guaranty program.	OIG	Office of Inspector General The OIG conducts and supervises audits, inspections, and investigations relating to SBA programs and operations.
OCFO	Office of the Chief Financial Officer The OCFO is responsible for the financial leadership of the Agency, including all disbursements, management, and coordination of planning, budgeting, analysis, and accountability processes.	OMB	U.S. Office of Management and Budget The OMB is the White House office that oversees preparation of the federal budget and supervises its administration in Executive Branch agencies.
OCIO	Office of the Chief Information Officer The OCIO is responsible for the management of information technology for the Agency, including the design, implementation, and continuing successful operation(s) of information programs and initiatives.	OPM	U.S. Office of Personnel Management The OPM is the Federal Government's human resources agency.
OCRM	Office of Credit Risk Management The OCRM manages program credit risk, monitors lender performance, and enforces lending program requirements.	OPSM	Office of Performance and Systems Management The OPSM manages the Capital Access Financial System (CAFS), Lender Loan Management System (LLMS), Central Servicing Agent system, and Fiscal Transfer Agent system.
OCORM	Office of Continuous Operations and Risk Management OCORM ensures enterprise-wide disaster planning, readiness, and implementation of ERM best practices for the SBA.	OSDBU	Office of Small Disadvantaged Business Utilization OSDBU's located within each federal agency enable small disadvantaged businesses to gain access to economic opportunity through federal contracts.
ODA	Office of Disaster Assistance The ODA is the SBA's office that promotes economic recovery in disaster-ravaged areas. Disaster loans are the Agency's primary form of federal assistance for non-farm, private sector	PPP	Paycheck Protection Program A loan designed to provide a direct incentive for small businesses to keep their workers on the payroll.

PPS	Probability Proportional to Size PPS is a method of sampling that takes the varying size of each item within the population into account when selecting the audit sample.	SE	Salaries and Expense Operating expenses of the agency.
QAR	Quality Assurance Review The QAR is a review to identify any deficiencies, to include improper payments.	SMC	Senior Management Council SMC was established by the Administrator to ensure the SBA had an effective system of internal controls.
RISE	Recovery Improvements for Small Entities After Disaster Act This law amends the Small Business Act to authorize a small business, homeowner, nonprofit entity, or renter that was located within a declared major disaster area during Superstorm Sandy in 2012 to apply for an SBA loan.	SOP	Standard Operating Procedure An SOP is the primary source of the Agency's internal control.
SBA	U.S. Small Business Administration The SBA is the federal agency whose mission is to maintain and strengthen the nation's economy by enabling the establishment and vitality of small businesses and by assisting in the economic recovery of communities after disasters.	STEP	State Trade Expansion Program STEP is a program that makes matching fund awards to states to help small businesses enter and succeed in the internal marketplace.
SBDC	Small Business Development Center SBDCs provide management and technical assistance, economic development, and management training to existing and prospective small businesses through cooperative agreements with universities and colleges and government organizations.	TAP	Transition Assistance Program A collaborative program between federal agencies to assist active duty service members' transition to civilian life through access to employment workshops and other services.
SBG	Surety Bond Guarantee The SBG program provides guaranties, bid, performance, and payment bonds for contracts up to \$2 million for eligible small businesses that cannot obtain surety bonds through regular commercial channels.	USEAC	U.S. Export Assistance Center USEACs are located nationwide and help firms grow internationally by assisting in developing a plan of action with solutions tailored to their needs.
SBGRF	Surety Bond Guaranty Revolving Fund All the contractor and surety fees collected by the SBA are deposited in the SBGRF at the U.S. Department of the Treasury, which is used to pay claims.	USSGL	The United States Standard General Ledger USSGL provides a uniform chart of accounts and technical guidance for standardizing federal agency accounting.
SBIC	Small Business Investment Company An SBIC provides long-term loans, debt-equity investments, and management assistance to small businesses, particularly during their growth stages.	VBOC	Veterans Business Outreach Center VBOCs provide entrepreneurial development services such as business training, counseling, and mentoring, and referrals for eligible veterans owning or considering starting a small business.
SBIR	Small Business Innovation Research The SBIR is a highly competitive SBA program that encourages domestic small businesses to engage in federal research/research and development that has the potential for commercialization.	WBC	Women's Business Center WBCs provide long-term training and advising to women who own or manage a business, including financial, management, marketing, and technical assistance and procurement.
SBLC	Small Business Lending Company SBLCs are non-depository small business lending companies listed by the SBA Office of Capital	WCF	Working Capital Fund Fund for IT modernization efforts
		WOSB	Women-Owned Small Businesses The WOSB program allows federal agencies to set aside certain contracts for competition only among small businesses owned and controlled by women.
		WOSBP	Women-Owned Small Business Federal Contracting Program The WOSB Federal Contracting Program supports women-owned small businesses competing for federal contracts.

APPENDIX 3 – OIG AUDIT FOLLOW-UP ACTIVITY

Throughout the year, the Office of Inspector General conducts audits of the SBA's processes, procedures, and programs, and makes recommendations for improvement. Many of these recommendations are not material, relative to their dollar impact on SBA's financial and administrative operation, but are beneficial to the SBA's management. If SBA management disagrees with an OIG recommendation, the OIG may revise the recommendation or refer the issue to a higher level of SBA management. When both SBA management and the OIG agree on the recommendation, SBA management develops a corrective action plan, including a target date for completion. This recommendation is identified as having a "Management Decision." When the corrective action plan is implemented and the recommendation has been fully addressed, the recommendation is identified as having a "Final Action."

The OCFO maintains a database to track the recommendations through to the conclusion, or Final Action. During FY 2020 there were 89 Final Actions, resulting from two monetary and 87 non-monetary recommendations.

The following tables depict the SBA's Final Action activity for FY 2020 and the status of corrective action plans not implemented within one year:

- Table I: Final Action on Audit Recommendations with Disallowed or Questioned Costs.
- Table II: Final Action on Audit Recommendations with Funds Put to Better Use.
- Table III: Final Action on Audit Recommendations Not Completed within One Year.

**TABLE I: Final Action on Audit Recommendations with Disallowed or Questioned Costs
October 1, 2019 – September 30, 2020**

Column 1	Number of Recommendations	Disallowed Costs
A. Recommendations with management decisions on which final action had not been taken at the beginning of the period.	18	\$236,761,518
B. Recommendations on which management decisions were made during the period.	4	\$64,796,672
C. Total recommendations pending final action during period.	22	\$301,558,190
D. Recommendations on which final action was taken during the period.		
1. Recoveries:		
(a) Collections and Offsets	2	\$363,460
(b) Property		
(c) Other		
2. Write-Offs	1	\$29,712
3. Total	3	\$393,172
E. Recommendations needing final action at the end of the period.	19	\$301,165,018

**TABLE II: Final Action on Audit Recommendations with Funds Put to Better Use
October 1, 2019 – September 30, 2020**

	Number of Recommendations	Funds to be Put to Better Use
A. Recommendations with management decisions on which final action had not been taken at the beginning of the period.	0	\$0
B. Recommendations on which management decisions were made during the period.	0	\$0
C. Total recommendations pending final action during period.	0	\$0
D. Recommendations on which final action was taken during the period.		
1. Value of recommendations implemented (completed).	0	\$0
2. Value of recommendations that management concluded should not or could not be implemented or completed.	0	
3. Total	0	\$0
E. Recommendations needing final action at the end of the period.	0	\$0

**Table III: Final Action on Audit Recommendations Not Completed within One Year
As of September 30, 2020****Report #13-01, Audit of SBA's Section 8(a) Program's Use of Internal Revenue Service Tax Verification Form 4506T****Program:** OGCBD**Date Issued:** 10/4/12**Management Decision Date:** 3/11/13

Explanation: The four recommendations are to the Office of Government Contracting and Business Development (OGCBD) and require changes to SOP 80 05 A to ensure (1) completion of Form 4506T and prompt submission; (2) completion of Form 4506T prior to the start of the annual review and prompt submission; (3) suspension of the firm if tax returns submitted to the SBA do not agree with those submitted to the IRS; and (4) comparison of IRS transcripts with the tax return and advise the OIG of discrepancies. Throughout FY 2020, OGC and GCBD were in contact with the SBA liaison at IRS to explore alternative forms or programs that would give SBA personal income information for 8(a) applicants and Participants. The IRS has recently eliminated the option to deliver tax transcripts to third-party recipients (i.e., SBA) under the 4506-T, which has caused several federal agencies to contact IRS for alternatives. The IRS liaison does not have an estimate on when, and if, an alternative will be available. GCBD has provided extensive status updates to the OIG and has exhausted the available alternatives with IRS. This recommendation will require SBA Senior Leadership and OIG to develop alternatives to address this open recommendation.

Report #13-06i, Audit of SBA's Section 8(a) Annual Review**Program:** OGCBD**Date Issued:** 11/13/12**Management Decision Date:** 3/11/13

Explanation: The two recommendations are to the OGCBD and require that SOP 80 05 3 be revised to extend time for annual reviews, subject firms to termination if information is not provided, and allow the SBA to place an 8(a) firm in a "decision pending" category during the additional period. OGCBD proposed, and OIG accepted, management actions, in FY 2020. The management actions required an update to the 8(a) SOP which was submitted for Agency clearance in May 2020. The OIG reviewed the SOP in August and the Office of Business Development will submit a request to close this recommendation to the OIG as soon as the SOP is signed by the SBA Administrator.

Report # 15-16, Audit of Oversight of Loan Agents**Program:** OCA**Date Issued:** 9/25/15**Management Decision Date:** 9/20/18

Explanation: OIG's only remaining recommendation requires the Office of Capital Access (OCA) to develop benchmarks for contractor performance and require the Fiscal Transfer Agent (FTA) to implement appropriate application controls and follow-up procedures with lenders to ensure integrity of the Form 159 database. SBA's response: The FTA contract was awarded in May 2020 and the FTA transition and migration effort between the incumbent and new FTA is in implementation. The estimated completion time is 07/31/2021.

Report # 17-19, Audit of SBA's Microloan Program**Program:** OCA**Date Issued:** 9/28/17**Management Decision Date:** 1/4/18

Explanation: OIG's remaining two recommendations require (1) continued efforts to improve the information system to effectively monitor the program's compliance, performance, and integrity; and (2) update the reporting system manual to reflect current technology capabilities. SBA's response: The system's portion is currently in the process of migrating the microloan underwriting and review process of local databases to an agency system. The estimated completion time is 06/30/2021.

Report # 18-03, FY 2017 Financial Statement Audit**Program:** OCA**Date Issued:** 11/14/17**Management Decision Date:** 1/10/18

Explanation: OIG's only remaining recommendation requires the OCA to monitor and perform procedures over the service organization's attestation report regarding user control considerations on an annual basis. SBA's response: The FTA contract was awarded in May 2020 and the FTA transition and migration effort between the incumbent and new FTA is in implementation. The estimated completion time is 03/31/2021.

Report # 18-07, Accuracy of the FY 2015 7(a) Loan Guaranty Purchase Improper Payments Rate**Program:** OCA**Date Issued:** 12/11/17**Management Decision Date:** 1/3/18**Questioned Cost:** \$1,903,213

Explanation: OIG's only remaining recommendation requires that the lender bring a loan into compliance or that the Office of Financial Program Operations (OFPO) seek recovery of the guaranty paid by SBA. Complex legal and financial issues have delayed the resolution of this issue. SBA's response: The OFPO has been granted an extension from OIG to allow collection on the guaranty. A supplemental package of information was provided to OIG 8/31/2020. Estimated completion date is 12/21/2020.

Report # 18-13, Evaluation of SBA 7(a) Loans Made to Poultry Farmers**Program:** OCA**Date Issued:** 3/6/18**Management Decision Date:** 3/1/18

Explanation: OIG's only remaining recommendation requires the Office of Financial Assistance (OFA) to review the arrangements between integrators and growers under the revised regulations and establish and implement controls, such as supplemental guidance, to ensure SBA loan specialists and lenders make appropriate affiliation determinations. SBA's response: SBA originally published a proposed rule on 9/28/18 to clarify affiliation rules for the business loan programs. IFR pub. 2/10/20 (85 FR 7622). SBA/COO approved the request to close on 03/18/20. On 03/27/20 CARES Act rescinded the IFR in its entirety. SBA is publishing the rescission rule at this time and will review and consider how to proceed. The estimated completion time is 03/31/2021.

Report # 18-18, Audit of SBA's Women-Owned Small Business Federal Contracting Program**Program:** OGCBD**Date Issued:** 6/20/18**Management Decision Date:** 9/28/18

Explanation: The one remaining recommendation requires the OGCBD to implement a Women-Owned Small Business (WOSB) Federal Contracting Program certification process as required by the National Defense Authorization Act for FY 2015. As noted in the OIG's recent "Report on the Most Serious Management and Performance Challenges Facing the Small Business Administration in Fiscal Year 2020," the OGCBD made substantial progress in FY 2019 toward implementing a WOSB certification program. This year, the OGCBD closed three recommendations from this report. For the remaining open recommendation, the WOSB program final rule was published in May 2020. The effective date of the WOSB certification program is 08/15/2020. OGCBD will submit a request to close the recommendation following the implementation of the WOSB certification program.

Report # 18-21, Audit of High Risk 7(a) Loans**Program:** OCA**Date Issued:** 8/15/18**Management Decision Date:** 8/7/18**Questioned Costs:** \$799,159 and \$552,406

Explanation: OIG's remaining two recommendations require two lenders to bring the loans into compliance or that the OFPO seek recovery of the guaranty paid by SBA. Complex legal and financial issues have delayed the resolution of this issue. SBA's response: The OFPO has been granted an extension from OIG to allow collection on the guaranty. Supplemental package of information provided to OIG 8/31/2020. Estimated completion date for both recommendations is 12/21/2020.

Report # 18-22, Audit of SBA's of 8(a) Continuing Eligibility Process**Program:** OGCB**Date Issued:** 9/7/18**Management Decision Date:** 9/7/18

Explanation: The five remaining recommendations require the OGCB to (1) revise its current process to ensure that it accurately identifies all high risk firms to receive continuing eligibility reviews from the Office of Certification and Eligibility, (2) establish and implement clear policies and procedures for evaluating 8(a) continuing eligibility, (3) develop and implement an oversight plan to ensure completion of continuing eligibility reviews of all 8(a) firms and monitor the quality of the reviews and eliminate duplication between OCE and OFO, (4) establish and implement policies and detailed procedures consistent with 13 CFR 124.11(c), and (5) to establish and implement clear policies and procedures that include timelines for sending Notices of Intent to Terminate and to Graduate Early firms after eligibility issues are first identified. To address the open recommendations, OGCB updated the 8(a) SOP, which was submitted for Agency clearance in May 2020. The OIG reviewed the SOP in August and the Office of Business Development will submit requests to close the recommendations to the OIG as soon as the SOP is signed by the SBA Administrator. Concurrently, OGCB is providing the OIG additional information regarding remaining recommendations.

Report # 18-23, Audit of a High Risk 7(a) Loan**Program:** OCA**Date Issued:** 9/13/18**Management Decision Date:** 9/20/18**Questioned Costs:** \$448,287 and \$855,116

Explanation: OIG's remaining two recommendations require two lenders to bring the loans into compliance or that the OFPO seek recovery of the guaranty paid by SBA. Complex legal and financial issues have delayed the resolution of the issues. The OFPO has been granted an extension from the OIG to allow collection on the guaranties. OGC opinions were received on 9/18/2020. Estimated completion dates are 12/21/2020 for both recommendations.

Report # 19-06, SBA's District Offices' Customer Service**Program:** OFO**Date Issued:** 12/19/18**Management Decision Date:** 12/19/18

Explanation: One remaining recommendation requires the OFO to coordinate with the OCPL to revise SOP 90 75 4, Outreach Activities, to clarify the expectation for using SBA Form 20, Outreach Survey, and establish a process to collect and analyze customer feedback. This year, the OFO closed three recommendations from this report. With the SOP open for revisions, many other, less time sensitive, but still important changes were and are being made to the document to improve efficiency or clarify operations. This has led to multiple drafts and ongoing discussions to clarify issues—at times bringing up new issues which must be clarified. In addition, the head of OSA, who was managing the changes, transferred to a new role mid-process, and a new Director of OSA was hired; that along with COVID-19 and delays in NSBW has caused additional delays in finalizing the documents. The SBA expects to complete the last revisions to the draft and finalize all clearances before the end of 2020.

Report # 19-08, SBA's HUBZone Certification Process**Program:** OGCBD**Date Issued:** 3/28/19**Management Decision Date:** 3/29/19

Explanation: One remaining recommendation requires the OGCBD to implement a plan to mitigate IT issues affecting the HUBZone certification process. This year, the OGCBD closed four recommendations from this report. For the remaining recommendation, OGCBD, OCIO and OCFO are conducting a strategic review of the Certify investment and will provide an updated timeline for HUBZone functionality by January 1, 2021. The systems currently used by HUBZone will be sustained until a new platform is delivered.

Report # 19-14, SBA's Cash Contribution and Gifts**Program:** OCPL**Date Issued:** 6/19/19**Management Decision Date:** 6/26/19

Explanation: Two remaining recommendations require (1) OCPL develop and implement controls to oversee and monitor excess cash held by the fiscal agent for recurring activities, such as NSBW, on behalf of SBA and incorporate controls into SOP 90 75 4, including review of bank statements and (2) Associate Administrator (AA) of OCPL implement a process to ensure that responsibilities stipulated in the NSBW co-sponsorship agreement are aligned with requirements in SOP 90 75 4. The OIG report which initiated the update and revision of the OCPL/OSA Outreach SOP ensured that OSA addressed the issues of concern raised in the audit, but it also, inadvertently, led to much larger revisions to the document. With the SOP open for revisions, many other, less time sensitive, but still important changes were and are being made to the document to improve efficiency or clarify operations within OSA. This has led to multiple drafts and ongoing discussions to clarify issues—at times bringing up new issues which must be clarified. In addition, the head of OSA, who was managing the changes, transferred to a new role mid-process, and a new Director of OSA was hired; that along with COVID-19 and delays in NSBW has caused additional delays in finalizing the documents. The SBA expect to complete the last revisions to the draft and finalize all clearances before the end of 2020.

Report # 19-15 7(a), High Risk Loan**Program:** OFPO**Date Issued:** 7/10/19**Management Decision Date:** 7/11/19**Questioned Costs:** \$3,000,297

Explanation: OIG's remaining recommendation requires the lender to bring the loan into compliance or, if not possible, seek recovery of \$3,000,297 plus interest on the guaranty paid by SBA. SBA's response: This year, the OFPO closed one recommendation from this report. OGC opinion for the remaining loan was received on 9/18/2020. Estimated completion date is 12/21/2020.

Report # 19-16, 7(a) High Risk Loan**Program:** OFPO**Date Issued:** 8/14/19**Management Decision Date:** 8/15/19**Questioned Costs:** \$1,367,417 and \$691,715

Explanation: OIG's remaining two recommendations require (1) the lender to bring the loan into compliance or, if not possible, seek recovery of \$1,367,417 plus interest on the guaranty paid by SBA and (2) lender to bring the loan into compliance or, if not possible, seek recovery of \$691,715 plus interest on the guaranty paid by SBA. SBA's response: OGC opinion received on 9/18/2020 for one of the two loans. Estimated completion date is 12/21/2020 for both recommendations.

Report # 19-17, SBA's All Small Mentor-Protégé Program**Program:** OGCBD**Date Issued:** 9/17/19**Management Decision Date:** 9/17/19

Explanation: Four remaining recommendations require (1) the AA of GCBD to develop and implement application review and annual evaluation procedures to ensure mentors are qualified, including implementing mandatory use of the mentor certification form, (2) the AA of GCBD to develop and implement procedures to ensure quality and consistency in application reviews and annual evaluations, including maintaining adequate documentation, (3) the AA of GCBD to prioritize staff resources to ensure application reviews and annual evaluations are conducted in accordance with regulatory and program requirements and (4) the AA of GCBD to ensure that certify.SBA.gov has the functionality needed for program officials to conduct application reviews and annual evaluations. The Office of Business Development placed a revised ASMPP SOP, which addresses open recommendations 1 and 2 in Agency clearance and will incorporate OIG feedback when received. The estimated completion date is 3/31/2021 for recommendation 3 and 4 and 8/31/2021 for recommendation 1 and 2.

Report # 19-18, SBA's Suspension and Debarment Process**Program:** OCA**Date Issued:** 9/18/19**Management Decision Date:** 11/13/19**Questioned Costs:** \$2,900,000

Explanation: OIG's only remaining recommendation requires that the AA of OCA rescind the SBA loan guaranty of the \$2.9 million loan and assess the lender's eligibility for continued participation in the SBA lending program. SBA's response: This year, the OCA closed five recommendations from this report. Estimated completion date is 12/31/2020.

Report # 19-19, 7(a) High Risk Loan**Program:** OCA**Date Issued:** 9/19/2019**Management Decision Date:** 9/16/19**Questioned Costs:** \$1,267,223

Explanation: OIG's only remaining recommendation requires that the lender bring the loan into compliance or, if not possible, seek recovery of \$1,267,223 plus interest on the guaranty paid by SBA. SBA's response: OGC opinion received on 9/18/2020. Estimated completion date is 3/31/2021.

Report # 19-23, Desktop Loss Verification Process**Program:** ODA**Date Issued:** 9/26/2019**Management Decision Date:** 9/25/19**Questioned Costs:** \$2,524,400

Explanation: One remaining recommendation requires that ODA implement controls to require loss verifiers to provide sufficient documentation to support their post desktop review conclusions regarding the validity of the initial desktop verification and their assessment. This year, the ODA closed three recommendations from this report. The recommendation is being reviewed by the OIG for closure as of 9/30/2020.

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