

U.S. Small Business Administration Office of Inspector General

FY 2022 Congressional Budget Justification



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Overview

The U.S. Small Business Administration (SBA) Office of Inspector General (OIG) provides auditing, investigative, and other services to support and assist SBA in achieving its mission. As a result of its oversight efforts, OIG provides dozens of recommendations each year to SBA leadership aimed at improving the integrity, accountability, and performance of SBA and its programs for the benefit of the American people. Similarly, OIG's investigative efforts result in dozens of convictions and indictments as we aggressively pursue evidence of fraud in SBA's programs. In doing so, OIG provides taxpayers with a significant return on investment as it roots out fraud, waste, and abuse in SBA programs. During fiscal year (FY) 2019, OIG achieved \$111.0 million in monetary recoveries and savings—a fivefold return on investment to the taxpayers, and during FY 2020, OIG achieved \$142.5 million in monetary recoveries and savings—a sixfold return on investment to the taxpayer.

The mission of SBA under the Small Business Act, as amended, is to maintain and strengthen the nation's economy by enabling the establishment and vitality of small businesses and assisting in the economic recovery of communities after disasters. The Agency's strategic plan for FYs 2018–2022 has four core strategic goals:

1. Support small business revenue and job growth;
2. Build healthy entrepreneurial ecosystems and create business friendly environments;
3. Restore small businesses and communities after disasters; and
4. Strengthen SBA's ability to serve small businesses.

SBA is organized around four key functional assistance areas: financial, contracting, entrepreneurial development, and disaster assistance. The Agency also represents small businesses through an independent advocate and an ombudsman.

SBA's programs are essential to strengthening America's economy; however, the Agency faces a number of challenges in carrying out its mission. Challenges include fraudulent schemes affecting all SBA programs, significant losses from defaulted loans, procurement flaws that allow large firms to obtain small business awards, excessive improper payments, and outdated legacy information systems. OIG plays a critical role in addressing these and other challenges by conducting audits to identify wasteful expenditures and program mismanagement; investigating fraud and other wrongdoing; and taking other actions to deter and detect fraud, waste, abuse, and inefficiencies in SBA programs and operations.

Baseline Budget and Proposed Increases

OIG's FY 2021 base operating budget is \$21.9 million, with an additional \$1.6 million transferred to OIG from SBA's Indirect Disaster Assistance Program account for oversight of SBA's Disaster Assistance Program. The baseline budget provides resources to oversee SBA's programs and operations. Significantly, approximately 85% of OIG's budget is allocated to personnel costs associated with salaries and benefits. As such, OIG's staffing levels can be disproportionately impacted to cost increases in this category, as increased salary and benefit costs directly impact full time equivalent (FTE) staffing levels within OIG.

SBA's role in the nation's pandemic response has provided an oversight challenge for which this OIG nor any OIG in history has ever faced. OIG is grateful that the Congress recognized the need for oversight and the value of OIG in performing this oversight. The CARES Act appropriated \$25 million dollars; the Consolidated Appropriations Act, 2021 appropriated \$20 million dollars for oversight of the Economic Injury Disaster Loan (EIDL) program; and \$25 million was appropriated to OIG to supplement its resources pursuant to the American Rescue Plan Act of 2021. These supplemental funds are available until expended. As reflected in this budget request, OIG requests additional increases in its base budget to provide oversight of base and COVID-19 relief programs. OIG expects billions of dollars in loans will perform in SBA's portfolios for up to 30 years, and statute of limitations for fraud associated with CARES Act lending and programs will allow for prosecutions for more than a decade into the future.

SBA has exercised over a trillion dollars in lending authority and entrepreneurial assistance in the wake of the pandemic. It is noteworthy that SBA executed over 14 years' worth of lending within 14 days, and this was just the beginning of the pandemic response effort. The speed and reduced controls surrounding this lending authority brought with it substantially increased risk. OIG sought to inform SBA before the lending even happened with our 'risks and lessons learned' white paper reports. OIG published a robust oversight plan and immediately initiated its first reviews focusing on implementation and eligibility of Paycheck Protection Program (PPP), EIDL, and the entrepreneurial development programs. The oversight challenges are continuing to evolve with hundreds of fraud cases being initiated, more than 150,000 allegations of wrongdoing being received by OIG's Hotline, and concerns surrounding internal controls mounting based on our review findings. Hundreds of wrongdoers already have been brought to justice through arrest and indictments. OIG currently is charged with providing oversight of an unprecedented amount of SBA lending authority. OIG also is providing oversight of billions in subsidy loan payments and hundreds of millions of dollars in entrepreneurial development efforts by SBA.

OIG has been aggressive and measured in execution of its base operating budget and supplemental funding. Our FY 2022 budget request acknowledges SBA's portfolio has grown significantly during the pandemic. SBA has exercised over a trillion dollars in lending authority and entrepreneurial assistance in the wake of the pandemic. While lending in PPP is anticipated to resolve within several years, the systemic weaknesses that were evidenced by the strain on SBA's program and operations for its pandemic response will take many years to resolve, possibly decades, and will require robust oversight. Additionally, SBA's Disaster Assistance Program lending for the pandemic response, principally through EIDL, is in the hundreds of billions—amounts that exceed all of SBA's disaster assistance lending since 1953 combined—will remain in SBA's portfolio for decades and will also require continuing oversight by OIG.

OIG's pandemic oversight efforts already have identified billions of dollars in potential fraud and improper payments. Additionally, in concert with our law enforcement partners, over 200 fraudsters have been brought to justice, with hundreds of millions of dollars being seized and recovered to make the taxpayer whole. OIG also has received over 150 years' worth of Hotline complaints pertaining to waste, fraud, and abuse in SBA's programs and operations, which will result in thousands of additional investigations in addition to the several hundred currently ongoing. Investigations pertaining to SBA's pandemic response programs will last nearly a decade due to the 5-year statute of limitations for fraud.

It is important to consider the execution of OIG's base funding in context of the additional funding provided in the FY 2020 and FY 2021 supplemental appropriations, which are available until expended and intended for immediate and robust oversight of SBA's pandemic response efforts. Foremost, OIG is executing at least \$2.2 million of the CARES Act supplemental funds annually to support staffing and oversight needs on COVID-19 relief programs.

For FY 2022, OIG operating plans warrant a base budget submission of \$24.905 million and a \$1.6 million transfer from the SBA's Indirect Disaster Assistance Program account for oversight of SBA's Disaster Assistance Program. This request enables OIG to staff 125 positions (an increase of seven positions over FY 2020) on its table of organization, account for inflationary costs and mandatory FERS contribution rates, increase oversight capacity to address risks and fraud in the massive increases in SBA's lending and counseling programs, address increased costs to the independent public accountant contract, and provide continuing oversight of SBA's Disaster Assistance Program. The office's strategic use of awards and recognition will remain a priority and will be executed in accordance with the Agency Workforce Fund Plan.

Additional efforts supported by OIG's 2022 base budget authority request include:

- With more than 150,000 allegations of wrongdoing having been received from the Hotline alone, in conjunction with outreach from financial institutions across the nation, it is evident that OIG's current investigative workforce requires additional resources to investigate and partner with other federal law enforcement organizations to bring wrongdoers to justice and to maintain the public trust in SBA. OIG has a statutory responsibility to present evidence of fraud to the Attorney General and existing resources are strained in meeting this responsibility.
- SBA's pandemic response programs transcend the agency. OIG's Audits Division requires additional resources within its Credit Programs Group, IT and Financial Information Group, and Contracting and Business Development Groups. These resources will provide oversight capacity for the loans and programs that will be managed within SBA's portfolios potentially for decades. SBA's pandemic response has exposed systemic weaknesses within its programs that OIG seeks to address through continuing oversight. A position planned for the IT and Financial Information Group will address the burgeoning oversight of SBA's financial statement audit and other mandated reviews.
 - OIG will award a new contract to an independent public accounting firm for the purpose of conducting reviews pursuant to the annual financial statement, IPERA, FISMA, and DATA Act mandates in FY 2021. The contract is expected to be a base contract with four option years, and the increase costs for the new contract are anticipated to be an additional \$1.0 million dollars, based on the additional costs levied on the contract for the FY 2020 financial statement audit. SBA's loan portfolios are anticipated to swell to over one trillion dollars in the near term, with the disaster assistance loan portfolios performing at nearly \$500 billion for decades to come.

Baseline Resource Utilization

The funding requested for FY 2022 will allow OIG to continue to address critical areas and issues, in support of the President's Management Agenda for SBA. Planned key functions and demonstrated impact of OIG activities are summarized below.

- Work an active caseload of approximately 400 criminal and civil fraud investigations of potential loan and contracting fraud and other wrongdoing. Many of these investigations involve complex, multimillion-dollar fraudulent financial schemes perpetrated by multiple suspects. During FY 2019, OIG investigations resulted in 49 indictments/informations, 36 convictions, and more than \$72.6 million in potential recoveries, fines, asset forfeitures, civil fraud settlements, or loans/contracts not

being approved or being canceled. During FY 2020, OIG investigations resulted in 63 indictments/informations, 32 convictions, and more than \$51.4 million in potential recoveries, fines, asset forfeitures, civil fraud settlements, or loans/contracts not being approved or being canceled.

Conduct risk-based audits and reviews of SBA activities with a focus on systemic, programmatic, and operational vulnerabilities. During FY 2019, OIG issued 23 reports with 94 recommendations for improving the Agency's operations, identifying improper payments, and strengthening controls to reduce fraud and unnecessary losses in SBA programs. For FY 2019, the Audits Division achieved \$33.6 million in dollar accomplishments relative to recommendations that costs were disallowed and agreed to by management or that funds be put to better use and agreed to by management. For FY 2020, OIG issued 20 reports with 91 recommendations for improving the Agency's operations, identifying improper payments, and strengthening controls to reduce fraud and unnecessary losses in SBA programs. During this period, the Audits Division achieved \$64.8 million in dollar accomplishments relative to recommendations that costs were disallowed and agreed to by management or that funds be put to better use and agreed to by management.

- OIG's Audits Division will staff three groups to oversee SBA's principal, high-risk programs—Business Development and Contracting Programs, Credit Programs, and Financial Management and Information Technology—and will staff one team to focus on efficiency and effectiveness of SBA management challenges and internal operations.

Of note, the Audits Division's Credit Programs Group is comprised of three auditing teams, one of which is responsible for the oversight of SBA's Disaster Assistance Program. The resources dedicated to disaster oversight consist of one audit manager, and seven full-time auditors and analysts, supported by one administrative support professional, and one criminal investigator. Our request to mandate the transfer of \$1.6 million from SBA's Indirect Disaster Assistance Program account to OIG will pay for salary and expense costs of these permanent OIG staff dedicated to oversight of the Disaster Assistance Program. This transfer has been fully supported for more than 20 years in the President's budget.

- OIG contracts with an independent public accountant to ensure SBA's financial statements are prepared in accordance with generally accepted government auditing standards and to monitor the Agency's compliance with the Federal Information Security Management Act, Federal Information Technology Acquisition Reform Act, the Digital Accountability and

Transparency Act of 2014 (DATA Act) and the Improper Payments Elimination and Recovery Act of 2010.

- OIG will conduct mandated reviews to maintain integrity of SBA programs and to meet information needs of stakeholders. OIG performs a review semiannually to determine the adequacy of SBA controls over the solicitation, acceptance, holding, and utilization of cash contributions and gifts, and an annual review of Government Purchase Card Transactions.
- OIG will continue to provide oversight and monitoring of SBA's IT security and application development activities, including new systems under development and the Agency's compliance with the Federal Information Security Modernization Act (FISMA). OIG has identified systemic problems with SBA's IT systems, and this remains one of the most serious management challenges facing the Agency.
- OIG is integrating its data analytics initiative into its audit and investigative processes and is committed to creating an infrastructure that will enable a robust data strategy for the future. SBA uses numerous data systems to manage its loan processes and activities, and this data changes constantly. To proactively address issues and respond to fraud, waste, abuse, inefficiencies and misconduct, OIG will continue to invest in new data analytics tools that can examine data in near real-time.

The data analytics function works with OIG audit teams and investigators to help improve the organization's overall efficiency and effectiveness. It promotes the production of higher quality audit and investigative evidence and better correlating audit and investigative approaches to risks and assertions. To date, OIG's initial data analytics efforts have identified billions of dollars of potential fraud in SBA's lending programs involved in the pandemic response. Data analytics also has bolstered our investigative capacity with findings that have led to investigation and quick arrest of fraudsters across the nation. Additional funding and specialized staff will allow us to:

- Enhance current tools and deploy additional data analytic capabilities to develop a data warehouse, increase staff training in the software tools, continue to partner with federal agencies, and initiate our use of AI and visual software.
- Produce actionable reports that, using data analytics, can be issued quickly to identify control breakdowns. This will allow Audits staff to efficiently highlight systemic issues and drive our audit work, as well as promote corrective action by program officials to strengthen internal

controls and prevent further loss to taxpayers.

- Maintain a robust OIG Hotline to receive and process allegations of fraud, waste, abuse, or serious mismanagement in SBA or its programs from employees, contractors, and the public. During FY 2019, the OIG Hotline received 742 complaints, and in FY 2020, the OIG Hotline received 104,913 complaints. OIG's Hotline staff review and analyze these complaints to determine and to coordinate the appropriate course of action.
- Educate SBA employees, through a designated Whistleblower Coordinator, about prohibitions on retaliation for whistleblowing, as well as employees' rights and remedies if anyone retaliates against them for making a protected disclosure.
- Review proposed revisions to SBA regulations, policies, procedures, and other directives with an emphasis on strengthening internal controls to preclude potential fraud and wasteful, confusing, or poorly planned initiatives. During FY 2019, OIG provided recommendations to improve 37 of the 112 proposed revisions it reviewed. During FY 2020, OIG provided recommendations to improve 28 of the 140 proposed revisions it reviewed.
- Make present responsibility referrals that may result in debarments, suspensions, and other administrative enforcement actions to foster integrity in SBA programs. During FY 2019, OIG sent 38 present responsibility referrals to SBA and was involved with 19 actions other agencies pursued. During FY 2020, OIG sent 47 present responsibility referrals to SBA and was involved with 15 actions other agencies pursued.
- Serve as an educational resource, ensuring that oversight and lending officials develop or maintain technical proficiency in small business issues, suspension and debarment, the Program Fraud Civil Remedies Act, and other topics related to deterring and detecting fraud in government lending and contracting programs. During FY 2019, OIG delivered 165 training and outreach sessions for approximately 1,482 attendees. During FY 2020, OIG delivered 194 training and outreach sessions for approximately 4,964 attendees.
- Support the strategic use of awards and recognition throughout the performance year, address workforce challenges and recognize high-performing employees, and recognize those employees with talent critical to mission achievement.
- Pay for required OIG employee and contractor background investigations to achieve a high level of integrity in OIG's workforce.
- Adjudicate OIG employees and contractors for issuance of personal identity verification cards pursuant to Homeland Security Presidential Directive 12 background investigations requirements.

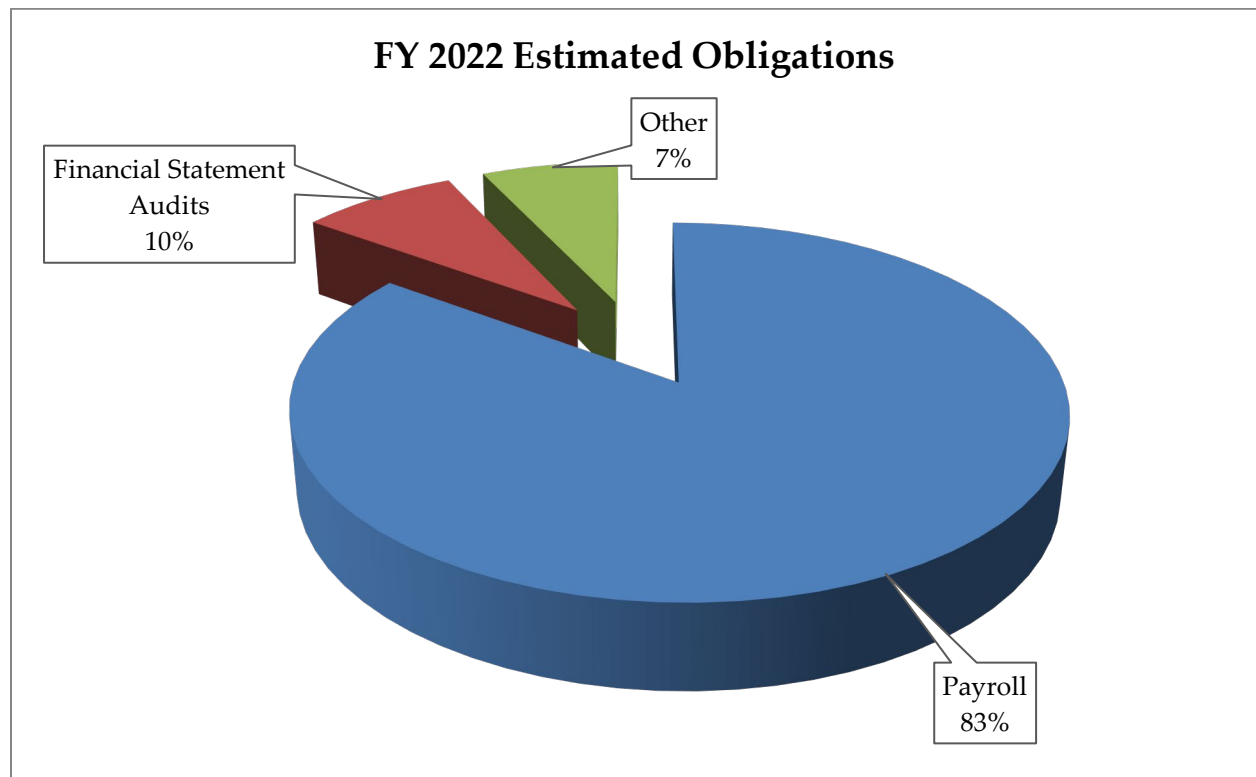
Budget Request

To address the challenges and risks discussed above and in the critical risks section below, OIG requests a total appropriation of \$26.5 million for FY 2022.

Table 1: FY 2022 Budget Request

Dollars in Millions	FY 2020 Actual	FY 2021 Enacted	FY 2022 Request	FY 2022 Increase/ Decrease
New Budget Authority	\$21.9	\$22.011	\$24.905	\$2.894
Transfer from Disaster Loan Program	\$1.6	\$1.6	\$1.6	\$0.0
Total	\$23.5	\$23.611	\$26.505	\$2.894

Most of the funds requested for FY 2022 will be used for salary and benefits for 145 positions, as well as the cost of the annual audit of SBA’s financial statements by an independent public accountant.



Critical Risks Facing SBA

Within available resources, OIG must focus on the most significant risks to SBA and the taxpayer. Many of these risks are addressed in OIG’s Report on the Most Serious Management and Performance Challenges Facing SBA, which OIG issues annually in accordance with the Reports Consolidation Act of 2000. Access the management challenge report under Reports on our [SBA OIG web page](#).

Management challenges represent areas that OIG considers particularly vulnerable to fraud, waste, abuse, or mismanagement, or which otherwise pose significant risk to the Agency, its operations, or its credibility. Each management challenge generally has originated from one or more reports issued by OIG or the U.S. Government Accountability Office (GAO). Table 2 provides a summary of this year’s management challenges.

Table 2: 2020 Management Challenges

Challenge #	Challenge	Status at End of FY 2019				Change from Prior Year	
		Green	Yellow	Orange	Red	Up	Down
1	Small Business Contracting	0	2	0	0	0	0
2	IT Leadership	1	5	0	0	1	0
3	Human Capital	1	0	0	0	1	0
4	SBA Loan Program Risk Management and Oversight	2*	0	0	0	1	0
5	8(a) Business Development Program	0	3	2	0	0	2
6	Ensuring Quality Deliverables and Reducing Improper Payments at SBA Loan Operation Centers	1	0	0	0	0	0

Challenge #	Challenge	Status at End of FY 2019				Change from Prior Year	
		Green	Yellow	Orange	Red	Up	Down
7	Disaster Assistance Program	1	3	0	0	1	0
8	Grants Management Oversight	3	1	0	0	0	0
--	Total	9	14	2	0	4	2

*Note: For challenge 4 recommendation 1, 7(a) was rated green, while 504 was rated yellow. For challenge 4 recommendation 2, 7(a) was rated yellow, while 504 was rated green. For simplicity, they are reflected as green in this table.

Small Business Access to Capital

SBA provides small businesses with capital and financial assistance through several key programs and has a financial assistance portfolio of guaranteed and direct loans totaling nearly a trillion dollars—a nearly sevenfold increase since 2019. Over the years, OIG has worked closely with the Agency to identify potential points of risk and to improve SBA’s oversight and controls to ensure that eligible participants most in need of assistance benefit from these programs.

For example, the Agency’s largest lending program, the Section 7(a) Loan Program, is SBA’s principal vehicle for providing small businesses with access to credit that cannot be obtained elsewhere. Proceeds from a 7(a) loan may be used to establish a new business or to assist in acquiring, operating, or expanding an existing business. This program relies on numerous outside parties (e.g., borrowers, loan agents, and lenders) to complete loan transactions, with most loans being made by lenders to whom SBA has delegated loan-making authority. Additionally, SBA has centralized many loan approval and servicing functions and reduced the number of staff performing these functions, placing more responsibility on—and giving greater independence to—its lenders. Past OIG reviews have reported on these trends, and OIG continues to identify weaknesses in SBA’s lender and loan agent oversight processes.

Criminals use a wide array of techniques to fraudulently obtain—or induce others to obtain—SBA-guaranteed loans. These include submitting fraudulent documents, making fictitious asset claims, manipulating property values, using loan proceeds contrary to the terms of the loans, and failing to disclose debts or prior criminal records. Consequently, there is a greater chance of financial loss to the Agency and its lenders.

OIG dedicates a significant portion of its resources to identifying wrongdoers and, whenever possible, to recovering funds.

Disaster Assistance Program

Disaster assistance has been part of the Agency since its inception in 1953. Through its Office of Disaster Assistance, SBA provides long-term, low-interest financial assistance to businesses of all sizes, private nonprofit organizations, homeowners, and renters following a disaster. Each year, SBA approves hundreds of millions of dollars in disaster assistance loans.

The Disaster Loan Program is the only form of SBA assistance not limited to small businesses; the program's disaster loans are the primary form of federal assistance for repairing and rebuilding nonfarm, private sector disaster losses. The program includes four categories of loans for disaster-related losses: home disaster loans, business disaster loans, EIDL, and military reservist economic injury loans.

Unfortunately, the need to disburse such loans quickly poses many complications and may create opportunities for dishonest applicants to commit fraud. OIG and GAO audits have identified that SBA's disaster loans have been vulnerable to fraud and losses in the past because loan transactions are often expedited to provide quick relief to disaster survivors, and disaster lending personnel, who are brought into the workforce quickly, may lack enough training or experience. Additionally, the volume of loan applications may overwhelm SBA's resources and its ability to exercise careful oversight of lending transactions. OIG audits and investigations have identified specific instances of fraud as well as necessary systemic improvements to reduce fraud and provide effective and efficient loan delivery and protect taxpayer dollars.

Procurement Assistance

Each year, the federal government spends hundreds of billions of dollars in federal contracts to procure goods and services. SBA has worked to maximize opportunities for small business firms to receive these contract awards. For the current FY, the federal government aims for 23 percent of these award dollars to go to small businesses. SBA reported that the federal government exceeded the goal in FY 2019, awarding 26.50 percent or \$132.9 billion in federal contract dollars to small businesses—over \$12 billion more than the previous FY.

To accomplish this goal, SBA has specific programs that focus on strengthening particular types of small businesses, including firms owned and controlled by service-disabled veteran-owned small businesses (SDVOSBs) and women-owned small businesses (WOSBs), and small businesses that are disadvantaged or located in historically underutilized business zones (HUBZones). For example, the HUBZone Program helps small businesses stimulate their economically challenged local economies. Similarly, to help small, disadvantaged businesses gain access to federal and private procurement markets, SBA's Section 8(a) Business Development Program offers a broad range of business development support, such as mentoring, procurement assistance, business counseling, training, financial assistance, surety bonding, and other management and technical assistance.

Even with effective controls, some businesses misrepresent their eligibility for the HUBZone, WOSB, SDVOSB, and 8(a) programs in order to wrongfully receive preference for government contracts. OIG and other federal investigations have identified schemes in which companies owned or controlled by non-disadvantaged persons falsely claim to be disadvantaged firms or use actual disadvantaged firms as fronts. In other schemes, perpetrators use bribery or fraudulent procurement documents to achieve their ends.

Entrepreneurial Development

SBA provides training, mentoring, and counseling services to small businesses through a variety of strategic partnerships. The Office of Entrepreneurial Development (OED) oversees a network of programs and services that support the training and counseling needs of small business. OED manages and leverages three major resources: Small Business Development Centers (SBDCs), SCORE, and Women's Business Centers (WBCs). Additionally, the Office of Veteran Business Development partners with Veteran's Business Outreach Centers (VBOCs) to administer veteran technical assistance and training programs, mainly the Boots to Business Program. Although each resource program's goals and target audiences may vary, they share a common mission: to provide business advice, mentoring, and training to small businesses and

entrepreneurs. Primarily, SBA administers these programs through grants and cooperative agreements.

OIG has identified weaknesses in SBA's oversight of recipient use of federal funds and performance outcomes. Notably, the SBDC program is the largest grant program in the Agency's portfolio. OIG has identified problems with comingling SBDC grant funds with private-enterprise contributions and accounting for required matching funds. Some SBDCs are also collocated with Women's Business Centers, which makes it difficult to determine what services are associated with each grant program. In addition, having two grant programs delivering similar services increases the risk of duplicating services and contributes to government waste. Our review of the SCORE program also identified similar significant weaknesses in SBA's oversight of federal funds, including funds used for unallowable, unallocable, and unreasonable expenses, and reported inaccurate performance results.

Under the Disaster Relief Appropriations Act of 2013, SBA awarded additional grants to these resource partners. OIG found that SBA did not enhance its internal controls to ensure that program goals were achieved and expenditures were allowable. As a result, SBA developed guidance to mitigate these risks in the event of future, similar grants for disaster assistance.

SBA should follow this guidance while it administers and oversees the additional \$240 million provided under the CARES Act for the resource partners to provide counseling, training, and related assistance to small businesses effected by the Coronavirus (COVID-19) pandemic. SBA is also overseeing a \$25 million cooperative agreement to resource partner associations to establish a single centralized hub for information related to COVID-19, including a training program to educate resource partners counselors and mentors on the COVID-19 information available to effectively assist affected small businesses. OIG plans to assess SBA's implementation of these programs to include the effectiveness of corrective actions identified in prior audits and reviews.

SBA also provides grants to states through its State Trade Expansion Program, previously piloted as the State Trade and Export Promotion grant program, as part of its strategic objective to help small business exporters succeed in global markets. At Congress' request, OIG reviewed both the pilot program and its replacement. OIG found that SBA's oversight of the program did not ensure that it achieved intended results. Further, SBA relied on unverified performance data and did not ensure that the grant recipients performed the activities as planned, leaving federal funds unexpended at the end of the grant. As international business and travel are impacted by the pandemic, the CARES Act provided extensions for the STEP program funding that will require additional oversight to ensure funds are used for their intended purposes.

Agency Management

OIG is responsible for ensuring that Agency management appropriately safeguards SBA from fraud, waste, and abuse, and that SBA activities directly further Agency goals. As part of these efforts, OIG works with the Offices of the Chief Financial Officer, the Chief Information Officer, and the Chief Operating Officer to review financial reporting and performance management, human resources, procurements and grants, space and facilities, and maintenance of SBA's information systems and related security controls.

Congress supplemented SBA's appropriations by approximately \$4.6 billion to administer over one trillion dollars of authorized economic stimulus for small businesses. SBA used most of these funds to procure goods and services to support SBA's prompt implementation of the CARES Act programs. This spending is a sixfold increase to typical annual procurements for the Agency.

SBA's IT systems play a vital role in managing the Agency's operations and programs, including nearly one trillion dollars in its loan portfolios. However, OIG audits and other reviews have identified serious shortcomings in SBA's information systems and related security controls. OIG reviews have found that SBA has not fully implemented adequate oversight of its IT systems, has not established an effective process to remediate security vulnerabilities, and has not developed an effective process to upgrade IT capabilities. OIG has issued management challenges recommending corrective actions in SBA's IT security and acquisition processes.

OIG Oversight Activities

Through audits and other reviews, OIG provides independent oversight of critical aspects of SBA's programs and operations to improve the Agency's efficiency and effectiveness. OIG also supports SBA's mission by detecting, investigating, and deterring fraud and other wrongdoing in the Agency's programs and operations. The OIG Hotline operations are poised to receive complaints of fraud, waste, and abuse from the public, Agency employees, and stakeholders. OIG serves as a governmentwide training resource for small business fraud and enforcement issues. These activities help to ensure that SBA employees, loan applicants, and program participants possess a high level of integrity. This is critical to the proper administration of SBA programs because it helps ensure that the Agency's resources are used only by those who deserve and need them the most.

During FYs 2021 and 2022, in addition to conducting audits and reviews that are required by statutes and other directives, OIG will continue to focus on the most critical

risks facing SBA and conducting investigations to root out fraud, waste, and abuse. Several areas of emphasis are discussed below.

Pandemic Response Oversight

With Congress authorizing SBA to make over \$1.0 trillion dollars of PPP and EIDL lending authority to mitigate the economic damage to the nation resulting from the COVID-19 pandemic, there is no higher oversight priority within OIG than pandemic response oversight. In mid-April, OIG published a Supplemental Oversight Plan for 2020, and published its Audits Division 2021 Oversight Plan in January 2021. Our aggressive oversight plan utilizes all available OIG resources to provide timely objective and independent oversight of the PPP, the EIDL programs, and entrepreneurial development resources being implemented and executed by SBA pursuant to the CARES Act. When this plan was published, the PPP was authorized for \$349 billion dollars, and with the passage of the Paycheck Protection Program and Health Care Enhancement Act, P.L. 116-139 and the American Rescue Plan Act of 2021, the PPP lending authority was expanded to \$659 billion.

Section 1110 of the CARES Act authorized SBA to issue a \$10,000 advance within three days to applicants for loans being requested under the Small Business Act (15 U.S.C. 636(b)(2)). The CARES Act initially made \$10 billion available for the advance grant program. The Paycheck Protection Program and Health Care Enhancement Act increased available budget authority to \$20 billion, with an additional \$35 billion appropriated for the Targeted EIDL Advance Program. Under the Coronavirus Preparedness and Response Act, Paycheck Protection Program and Health Care Enhancement Act, the Consolidated Appropriations Act, 2021, the American Rescue Plan Act of 2021, and administrative actions taken by SBA, approximately \$470 billion is available for loans made through SBA's EIDL program.

SBA response to the COVID-19 pandemic made FY 2020 a historic year in loan applications, loans approved, and loan dollars disbursed. To put SBA's effort in FY 2020 and going into FY 2021 in perspective, SBA had approved \$2.2 million in disaster loans, which is included in a total of \$66.7 billion in SBA's entire history since 1953. As of June 26, 2020, SBA had approved and distributed more disaster loans for COVID-19 than for all other disasters combined in the history of SBA. For Hurricanes Katrina, Rita, and Wilma, the Agency approved 160,845 loans for \$11 billion; for Superstorm Sandy, the Agency approved 38,094 loans for \$2.6 billion; for Hurricanes Harvey, Irma, and Maria, the Agency approved 25,991 loans for \$1.16 billion. As of July 31, 2020, the Agency had approved over 3.5 million COVID-19 EIDL loans for over \$187.2 billion. By April 12, 2020, SBA had received more than 15 million loan applications, well above the average of 65,000 per year before the pandemic. These loans will perform in the portfolio for up

to 30 years. As loans go into default, whistleblowers come forward, and data analysis continues, OIG will continue to identify prosecutable fraud charges for up to 10 years.

The Disaster Loan Program is the only form of SBA assistance not limited to small businesses; the program's disaster loans are the primary form of federal assistance for repairing and rebuilding nonfarm, private sector disaster losses. In addition, the CARES Act and Paycheck Protection Program and Healthcare Enforcement Act expanded eligible entities for COVID-19 relief to include businesses, cooperatives, Employee Owned Stock Ownership Plans, and tribal concerns with not more than 500 employees; sole proprietorships with or without employees; independent contractors; and agricultural enterprises.¹ The program includes four categories of loans for disaster-related losses: home disaster loans, business disaster loans, economic injury disaster loans, and military reservist economic injury loans.

OIG's resources are currently focused on providing oversight of PPP funds and combating fraud, waste, and abuse in PPP and the other programs. We currently have ten ongoing reviews involving PPP, EIDL, entrepreneurial development programs. These reviews are focused on SBA's implementation of PPP, duplicate PPP loans, SBA's initial disaster assistance response to COVID-19, SBA's implementation of subsidy for 7a loan payments, and SBA's oversight of the resource partner associations' implementation of the CARES Act requirements and another focused on award procedures for cooperative agreements. Additionally, OIG identified several areas that will warrant future audits and reviews, including duplication of benefits between the PPP and EIDL programs, use of loan proceeds, loan forgiveness, lender loan activities, and reviews of the SBDC's and WBC's compliance with CARES Act cooperative agreement requirements. OIG will also assess SBA's use of contractors and its contracting practices in implementing pandemic response responsibilities, as well as IT security and infrastructure. OIG's robust oversight of these programs will continue for the foreseeable future.

Criminals are using a wide array of techniques to fraudulently obtain PPP and EIDL loans. Since March 2020, we have initiated hundreds of investigations involving complaints of fraud, with noteworthy results in the way of arrests, indictments and convictions being reported daily by the U.S. Department of Justice. Among these accomplishments was the first in the nation charges against individuals fraudulently seeking PPP loans, which was announced on May 5. This achievement was the result of dedicated work by OIG criminal investigators and its law enforcement partners. With the tens of thousands of allegations of wrongdoing coming into the Hotline and our

¹ Agricultural enterprises means small business concerns engaged in the production of food and fiber, ranching and raising of livestock, aquaculture, and all other farming and agricultural-related industries, as defined by section 18(b) of the Small Business Act (15 U.S.C. 647(b)).

data analysis efforts, the number of criminal investigations is anticipated to increase rapidly. Further changes of the program terms (such a loan terms) could extend the surge of new complaints; however, we anticipate a resurgence of allegations of wrongdoing when the PPP shifts to forgiveness, with documentation to substantiate eligibility and use of proceeds facing scrutiny. Even though the term on these loans is only up to 5 years, statute of limitations for this fraud will be active through 2030.

Small Business Access to Capital

SBA paid guaranty claims totaling \$1.2 billion in FY 2020 for defaulted 7(a) loans and 504 debentures. Some of SBA's losses correlate to similar root causes reported in the mortgage industry, such as limited SBA oversight of lenders and loan agents, poor lender loan processing, unscrupulous borrowers, and complicit brokers and lenders.

OIG will continue to address financial losses in SBA's lending due to lender errors and various fraud schemes. Notwithstanding significant resources dedicated to oversight of SBA's PPP, OIG also plans to continue conducting audits and reviews to assess whether SBA processed loans in accordance with established policies and procedures and ensured borrowers met eligibility requirements. Additionally, we will continue to perform in-depth analyses of high risk 7(a) loans that default within approximately 18 months of final disbursement. When lender negligence is found, this group will recommend recovery of the guaranty. OIG also will target the most offending lenders to attain corrective actions and identify trends for operational improvement by SBA. When OIG identifies suspected fraud, those loans will be investigated.

OIG will continue to focus on detecting fraud committed by loan agents, such as packagers, brokers, and lender service providers. A loan agent is sometimes hired by an applicant or lender to assist the applicant in obtaining an SBA loan or to perform some lender functions. Although honest loan agents help small businesses gain access to capital, some dishonest ones have perpetrated fraudulent schemes involving tens of millions of dollars in loans. These fraudulent loans often default for nonpayment, and SBA is forced to use taxpayer funds to purchase the guaranteed portions of the loans.

OIG also will continue to conduct audits of SBA's internal loan program operations and oversight, including audits of SBA's loan origination, closing, servicing, and liquidation processes, SBA's oversight of Small Business Investment Companies, and SBA's oversight of loan agents and lender service providers. Past work has shown that loans were not always properly originated and that effective controls and procedures were not in place to prevent improper payments.

Disaster Assistance Program

OIG audits of SBA's Disaster Loan Program will continue to focus on applicant eligibility, loan origination, disbursements, repayment ability, loan servicing, liquidation activities related to disaster loans, and SBA's initial response to major disasters. Our focus in recent years has been on providing oversight to SBA's disaster assistance to Hurricane Sandy victims. As SBA responded to Hurricane Sandy, our oversight plans took shape, and our work began to root out fraud, waste, and abuse. Aided by vital, supplemental funding, our Audits Division initially focused its reviews on timeliness, eligibility, technical assistance grants, and early defaults. OIG issued 10 reports pertaining to our oversight efforts of SBA's Hurricane Sandy disaster assistance, including a review pertaining to loans made pursuant to the RISE After Disaster Act of 2015.

In addition to reviews of Hurricane Sandy loans, OIG has performed audits to assess SBA's response associated with more recent disasters. During 2017, three additional devastating hurricanes occurred. In August, Hurricane Harvey struck Texas. While the storm's full cost remains to be seen, the state's governor estimated losses at \$180 billion. Two weeks later, Hurricane Irma caused significant damage to the U.S. Virgin Islands, Puerto Rico, Florida, Georgia, and South Carolina. Two weeks after that, Hurricane Maria struck the U.S. Virgin Islands and Puerto Rico. The National Oceanic and Atmospheric Administration estimates damages for the three hurricanes at \$265 billion. They rank among the top five costliest U.S. hurricanes on record. In 2018, OIG issued three inspection reports assessing SBA's initial response to Hurricanes Harvey, Irma, and Maria. In 2019, OIG also assessed SBA's initial response to Hurricane Florence.

In 2019, we also assessed SBA's desktop loss verification process. The process consisted of an initial desktop verification to estimate the cost of repairs and a post desktop review, which is used to verify the initial estimate. We found that SBA had disbursed more than 36,000 loans for more than \$594 million without validating the cause and extent of damages.

In 2020, despite our primary focus on COVID-19 related matters, we also assessed the Office of Disaster Assistance improper payment appeal process and its compliance with the Debt Collection Improvement Act. We will continue to evaluate potential risks in the program, such as SBA's continued response to COVID-19 EIDLs, eligibility requirements, use of proceeds, proof of insurance, early COVID-19 defaulted loans, timely program delivery, loan affordability, and training of reserve workforce. Our Disaster Loan Program audits will assess whether SBA processed homeowner and business loans in accordance with the Agency's procedures and established goals and ensured applicant eligibility.

For investigations, OIG will focus efforts on areas of known risk, such as unauthorized use of loan proceeds, overstatement of financial losses, material false statements in the application process, false or counterfeit supporting documentation, and false assertions regarding primary residency in affected areas at the times of the disasters. As of September 30, 2019, OIG had 48 open cases involving disaster loans with potential dollar losses of nearly \$9.0 million. From FY 2006 through FY 2019, SBA OIG, in conjunction with other law enforcement agencies, produced 152 arrests, 165 indictments/informations, and 163 convictions related to wrongdoing in SBA's Disaster Loan Program. As of September 30, 2019, these investigations have resulted in over \$26.5 million in court-ordered restitution and related recoveries. In addition, \$7.2 million in loans was denied to potentially fraudulent borrowers through FY 2019.

Specific to Hurricane Sandy, in response to the potential for fraud, OIG joined other law enforcement organizations in support of the New Jersey Attorney General's Office Sandy Fraud Task Force. From FY 2014 through FY 2019, OIG, in conjunction with other law enforcement agencies, produced 61 indictments/informations and 47 convictions related to wrongdoing in SBA's Disaster Loan Program for Hurricane Sandy. The first OIG Sandy investigation was opened in May 2013. Subsequently, OIG has had 87 Sandy investigations, totaling nearly \$15.0 million in potential fraud. As of September 30, 2019, OIG had 17 Sandy cases open with potential fraud totaling nearly \$3.9 million.

In the aftermath of Hurricane Harvey, OIG is collaborating with federal and local agencies to coordinate responses to disaster assistance fraud. These partners include the National Center for Disaster Fraud (NCDF) in Baton Rouge, Louisiana, as well as the U.S. Attorney's Office (USAO). OIG also is working with SBA program offices to alert Hurricane Harvey victims about possible fraud schemes, particularly identity theft. From FY 2018 through FY 2019, nine Hurricane Harvey cases had been opened, with potential dollar losses exceeding \$1.6 million. During that time, there were five indictments and two convictions.

In the case of the geographically widespread Hurricanes Irma and Maria, OIG is coordinating its efforts with task forces consisting of other law enforcement agencies and USAOs, as well as following up on leads from NCDF. OIG also is working with SBA program offices to alert hurricane victims about possible fraud schemes, particularly identify theft. In addition, OIG is exploring data analytic initiatives to combine SBA's and other agencies' data to identify possible fraud. Moreover, OIG has made field visits to promote its investigative mission to stakeholders in the affected areas. From FY 2018 through FY 2019, 18 cases related to Hurricanes Irma and Maria had been opened, with potential dollar losses of nearly \$753,000. During that time, there were five indictments and four convictions.

Finally, in 2017 and 2018, wildfires across California were responsible for numerous deaths and billions in property losses. OIG's response plan is based on leveraging strong existing relationships with SBA and law enforcement partners to deter, detect, and prosecute disaster fraud schemes. Consistent with this, OIG was asked to join the Disaster Relief Fraud Task Force of federal, state, and local agencies. OIG also is working with SBA program offices to alert wildfire victims about possible fraud schemes, particularly identity theft.

Procurement Assistance

SBA directs significant efforts toward helping small businesses obtain federal contracts and providing other business development assistance. SBA's Office of Government Contracting and Business Development is tasked with helping small businesses obtain federal contracting opportunities and helping small, disadvantaged, veteran-owned, and women-owned businesses build their potential to compete more successfully in a global economy. During FYs 2021 and 2022, OIG will focus on SBA's oversight of—and current issues affecting—government contracting and business development programs, including investigating allegations that ineligible companies are fraudulently benefitting from these programs.

As of September 30, 2020, OIG had 59 open government contracting cases, with potential dollar losses of more than \$2.3 billion based on the total dollar value of the contract. The funding requested for FY 2022 will allow OIG to continue investigating fraudulent schemes that take improper advantage of SBA's contracting assistance programs. In addition, OIG has handled several qui tam cases brought by private-sector whistleblowers alleging fraud in SBA's small business and socioeconomically disadvantaged contracting programs. Although the number of such cases has fluctuated over the years, OIG must be prepared to expend considerable resources to provide both investigative and legal assistance to the government's prosecution of these cases.

OIG's audit work will continue to assess SBA's effectiveness in ensuring only eligible small businesses benefit from these programs. Our audit teams will focus on reviewing the following areas.

- The 8(a) Business Development Program continues to be susceptible to major vulnerabilities. These include limited program oversight; inequitable distribution of contracting opportunities among participants; insufficient measurable, consistent, and mandatory criteria pertaining to economic disadvantage; insufficient implemented criteria defining business success for purposes of program graduation; missed opportunities to study the long-term effects of the program on former participants; and misrepresentation by companies as small, minority-owned, or disadvantaged businesses to gain an unfair advantage in the federal marketplace.

During past reviews, we found that SBA did not consistently identify ineligible firms in the 8(a) program and did not always act to remove firms it had 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. Ineligible firms were awarded more than \$126.8 million in new 8(a) set-aside contract obligations in FY 2017 at the expense of eligible disadvantaged firms. OIG will continue to review these issues and SBA's management of the 8(a) program. In FY 2021, we plan to review the effectiveness of the 8(a) Business Development Program. We also will continue to pursue a number of fraud investigations relating to the 8(a) program and will continue to devote resources to these investigations in FYs 2021 and 2022.

- The HUBZone program provides federal contracting assistance to small businesses located in economically distressed areas with the intent of stimulating economic development. Previous OIG and GAO reviews of the program identified significant control weaknesses that have allowed ineligible firms to receive millions of dollars in contracts. Accordingly, SBA implemented a more rigorous HUBZone certification and recertification process in the hopes of preventing ineligible firms from achieving certification. However, in a November 2013 audit report on SBA's HUBZone certification process, OIG reported that 12 firms certified into the program, including 3 ineligible ones, received 94 percent (\$34.9 million) of federal contract dollars awarded during a 6-month period in 2012, even though 367 firms were certified during that period. Similarly, in a FY 2019 audit report, we again reported that SBA did not ensure that only eligible firms entered the HUBZone program. We found that 2 of 15 firms we reviewed did not meet the principal office eligibility requirement and the HUBZone employee residency requirement. These firms received \$589,000 in HUBZone contract obligations at the expense of eligible firms. OIG currently is investigating numerous fraud cases under the HUBZone programs and will continue to pursue prosecution, civil fraud recovery, and debarment of contractors who improperly obtain HUBZone contracts. For audit work, OIG plans to review SBA's HUBZone continuing eligibility review process.
- The Women-Owned Small Business (WOSB) Federal Contract program provides greater access to federal contracting opportunities for WOSBs and economically disadvantaged WOSBs (EDWOSBs). The program allows contracting officers to set aside specific contracts for certified WOSBs and EDWOSBs. Similar to other federal government programs, WOSB and EDWOSB contracting may be vulnerable to fraud and abuse. Previous OIG reviews have found false or incorrect WOSB self-certifications may be a significant governmentwide problem.
- The National Defense Authorization Act for FYs 2013 and 2015 made major

programmatic changes to the WOSB program and considerably increased SBA's oversight role. Specifically, the FY 2015 Act authorized grant contracting officers the authority to award sole-source awards to WOSB program firms, removed firms' ability to self-certify, and required firms to be certified. However, SBA has opted to implement the sole-source authority provision first—separate from a certification program. We believe that allowing sole-source contracting authority in the WOSB program, without implementing the contemporaneously required certification program, is inconsistent with SBA's statutory authorization and exposes the program to abuse. During our recent review of SBA's WOSB Federal Contract Program, we found that federal agencies contracting officers and firms did not comply with federal regulations for 50 of the 56 program sole-source contracts, valued at \$52.2 million. As a result, there was no assurance that these contracts were awarded to firms that were eligible to receive sole-source awards under the Program. SBA has issued its final rule to implement a WOSB certification program. SBA will begin to certify firms on October 15, 2020. OIG plans to review SBA's WOSB certification program after it has been implemented.

- The All Small Mentor-Protégé program expands the mentor-protégé program. OIG has conducted a number of fraud investigations involving the mentor-protégé programs under the 8(a) program. In August 2016, SBA issued regulations to implement a statutory mandate that expanded mentor-protégé programs to all other small businesses. The Agency accepted a number of OIG recommendations to revise these regulations to limit the opportunity for fraudulent acquisition of government contracts. Nevertheless, OIG anticipates that these expanded programs will create opportunities for additional fraud by large, non-disadvantaged contractors and that greater OIG resources will need to be devoted to investigating this fraud. During our recent evaluation of SBA's All Small Mentor-Protégé program, we found that SBA did not implement effective controls to ensure it conducted initial application reviews and annual evaluations to fully align with program regulations. Additionally, SBA did not fully adhere to established processes or ensure it appropriately documented assessments. Further, while SBA identified program performance indicators and a process to measure results, it did not effectively monitor and evaluate the results. As a result, SBA's program may not be developing small businesses as it intended and unqualified businesses, including large businesses, may improperly benefit from the program. OIG plans to continue monitoring SBA's management of this program.
- Suspension and debarment actions are designed to protect the federal government from potential harm posed by individuals or entities who demonstrate a lack of business integrity. During our recent review of SBA's suspension and debarment process, we found that SBA has not established sufficient controls over its

suspension and debarment process to prevent ineligible individuals or entities from participating in small business programs or to control the risk presented by potentially irresponsible entities participating in federal government programs. Specifically, an entity convicted of a Clean Water Act violation and included on the exclusion list received an SBA 7(a) loan valued at \$2.9 million. In addition, suspending and debarment officials' delayed action to process referrals for debarment resulted in \$80.3 million in contract awards to entities who demonstrated causes for debarment. OIG will continue to provide oversight of SBA's management of this program to ensure that firms identified as ineligible are effectively removed from these programs.

- There is a high level of congressional interest in the government meeting its small business contracting goals. OIG will continue to assess whether SBA is taking adequate steps to ensure the integrity of small business contracting. OIG's work will focus on issues such as the accuracy of reporting small business contract activity, the classification of large businesses as small, adherence to regulations to protect small businesses, training of government contracting personnel, deterring fraudulent acquisition of government contracts, and bundling of contracts.

Entrepreneurial Development

During FYs 2021 and 2022, OIG will focus on SBA oversight of and current issues affecting entrepreneurial and veterans business development programs, with emphasis on grants awarded to SBDCs and Microloan Technical Assistance programs.

Agency Management

OIG is responsible for ensuring that Agency management appropriately safeguards SBA from fraud, waste, and abuse, and that SBA activities directly further Agency goals. As part of these efforts, OIG works with the Offices of the Chief Financial Officer, the Chief Information Officer, and the Chief Operating Officer to review financial reporting and performance management, human resources, procurements and grants, space and facilities, and maintenance of SBA's information systems and related security controls. During FYs 2021 and 2022, OIG plans to assess the effectiveness of SBA's actions to mitigate its workforce challenge risk.

Top Management Challenges

As required by the Reports Consolidation Act, OIG annually develops the Report on the Most Serious Management and Performance Challenges Facing SBA. The management challenges focus on areas that are particularly vulnerable to fraud, waste, error, and mismanagement, or that otherwise pose a significant risk and generally have been the subject of one or more OIG or GAO reports. OIG will continue to identify and report

serious management challenges facing SBA and will work throughout the year with Agency management to resolve identified issues as quickly and efficiently as possible.

Financial Management and Information Technology

OIG will continue to oversee the audits of SBA's financial statements, as well as FISMA and Federal Information Systems Controls Audit Manual reviews, which are conducted by an independent public accountant under a contract with OIG. The scope and complexity of the audit increased as a result of growing direct and guaranteed loan portfolios and as the Agency complies with the DATA Act.

OIG will provide oversight and monitoring of SBA's cloud migration, IT security, and application development activities, including new systems under development and the Agency's compliance with FISMA. The scope of the FISMA evaluation is anticipated to expand as OIG evaluates Agency progress in implementing initiatives designed to strengthen and enhance federal cybersecurity. OIG and an independent public accountant have previously identified systemic problems with security controls over SBA's IT systems and this area remains one of the most serious management challenges facing the Agency.

OIG also plans to continue to monitor systems development activities related to improvements to financial and program related systems as well as investments, cost management, and reporting in cloud computing. Specifically, OIG will continue to assess Agency progress in implementing the Federal Information Technology Acquisition Reform Act. This Act requires the Chief Information Officer to play a critical leadership role in driving reforms to help control system development risks, better manage technology spending, and achieve measurable improvements in agency performance. Related to this effort will be a preliminary assessment of how the Agency is adopting technology business management reporting protocols initially required in the FY 2019 Capital Planning Guidance. Furthermore, the Chief Information Officer must ensure federal IT security is deployed in SBA's highly decentralized and dynamic IT environment.

OIG also will continue its mandated reviews of SBA's compliance with the DATA Act, the Improper Payments and Elimination Recovery Act, and purchase card and cash gifts acceptance and reporting guidelines.

Acquisition Processes

OIG audits will continue to focus on SBA's compliance with federal contracting regulations and its policies and procedures over IT systems acquisition and project oversight. OIG efforts also will include monitoring system development activities related to SBA's certify.gov. We will validate capital investment and data security

controls as well as assess whether software functionality was delivered to end users in accordance with project requirements.

Verification Inspection Program

Over the years, Congress and other stakeholders have expressed concern about unimplemented OIG recommendations governmentwide. Recognizing the importance of assuring the agency has implemented OIG recommendations, we instituted a verification inspection program. This program will involve follow-up reviews to ensure SBA has implemented agreed upon corrective actions and that they are operating as intended.

Given the magnitude and significance of our previous, ongoing, and planned work, particularly considering SBA's role in the COVID-19 response, it is imperative for us to have adequate funding and staffing to meet this organizational need.

Other OIG Activities

In addition to investigations, audits, inspections, and other reviews, OIG will provide leadership and coordination to recommend policies for activities designed to promote economy, efficiency, and effectiveness in the administration of, and to prevent and detect fraud and abuse in, such programs and operations. The activities described below ensure that OIG is able to fulfill this statutory mandate and leverage external entities through training and outreach activities.

Security Operations

OIG's Office of Security Operations will continue to perform required employee background investigations to achieve a high level of integrity in OIG's workforce and adjudicate OIG employees and contractors for issuance of personal identity verification cards pursuant to Homeland Security Presidential Directive 12 requirements.

OIG Hotline

Hotline staff conduct a preliminary review and analysis of all complaints received to determine the appropriate course of action. The OIG Hotline is staffed by OIG employees who process and analyze allegations of fraud, waste, abuse, or serious mismanagement in SBA or its programs from employees, contractors, and the public. As part of the hotline process, staff may coordinate reviews of allegations within OIG, with SBA program offices, or with other governmental agencies. Most hotline complaints are submitted through an online complaint submission system located on OIG's website. Those who report information can do so openly, anonymously, and confidentially, without fear of reprisal.

Pursuant to the Whistleblower Protection Coordination Act, OIG has designated a Whistleblower Coordinator within the hotline function to educate SBA employees about prohibitions on retaliation for whistleblowing, as well as employees' rights and remedies if anyone retaliates against them for making a protected disclosure. In addition, the National Defense Authorization Act of 2013, which was made permanent in December 2016, created a pilot program extending whistleblower protections to government contractors, subcontractors, and grantees. These provisions may result in the hotline receiving an increased number of complaints. Additionally, this law mandates OIG investigations of these complaints and a report to the SBA Administrator to consider corrective action on the part of the contractor/grantee.

Review of Proposed Regulations and Initiatives

As part of OIG's proactive efforts to promote accountability and integrity and reduce inefficiencies in SBA programs and operations, OIG reviews new or revisions to existing SBA program directives, such as regulations, internal operating procedures, policy notices, and SBA forms that are completed by lenders and the public. Frequently, OIG identifies concerns in these proposals and submits comments for the Agency's consideration to promote controls that are more effective and deter fraud, waste, or abuse.

Debarment and Administrative Enforcement Actions

As a complement to criminal and civil fraud investigations, OIG continually promotes the use of suspensions, debarments, and other administrative enforcement actions to protect taxpayer funds from those who have engaged in fraud or otherwise exhibited a lack of present responsibility. OIG regularly identifies individuals and organizations for debarment and other enforcement actions and submits detailed referrals with supporting evidence to the appropriate SBA officials. OIG also supports actions at other federal agencies through training and direct case assistance.

Training and Outreach

As demonstrated by the results discussed prior, OIG will continue to conduct training and outreach sessions on topics related to fraud in government lending and contracting programs. Providing such training will better equip the federal oversight community with the knowledge and skills necessary to pursue small business contracting fraud cases. During 2020, OIG cohosted the Small Business Procurement Integrity Seminar with the Council of the Inspectors General on Integrity and Efficiency (CIGIE) Training Institute. This seminar consolidated key program information with practical lessons learned for handling small business contracting fraud in a daylong interactive training.

In response to the pandemic, OIG shifted its training platform from onsite to a virtual training, with a successful offering occurring in April 2020.

Since March 2020, Investigation's Division has participated in over 140 liaison and outreach efforts related to the CARES Act. Immediately following the enactment of the CARES Act, OIG proactively reached out to Department of Justice and US Attorney's Offices to educate and coordinate efforts to investigate fraud involving the SBA PPP and EIDL Programs. OIG criminal investigators developed CARES Act specific training to educate the law enforcement community and financial institutions and presented the trainings throughout the country. These efforts have provided key stakeholders with the knowledge they require to effectively detect and deter fraud in the programs and respond accordingly.

OIG Performance and Statistical Accomplishments

During FY 2019, OIG achieved \$111.0 million in monetary recoveries and savings—a fivefold return on investment to the taxpayers. During FY 2019, OIG investigations resulted in 49 indictments/informations, 36 convictions, and more than \$72.6 million in potential recoveries, fines, asset forfeitures, civil fraud settlements, or loans/contracts not being approved or being canceled. During FY 2019, OIG issued 23 reports with 94 recommendations for improving the Agency’s operations, identifying improper payments, and strengthening controls to reduce fraud and unnecessary losses in SBA programs. For FY 2019, the Audits Division achieved \$33.6 million in dollar accomplishments relative to recommendations that costs were disallowed and agreed to by management or that funds be put to better use and agreed to by management.

During FY 2020, OIG achieved \$142.5 million in monetary recoveries and savings—a sixfold return on investment to the taxpayer. During FY 2020, OIG investigations resulted in 63 indictments/informations, 32 convictions, and more than \$51.4 million in potential recoveries, fines, asset forfeitures, civil fraud settlements, or loans/contracts not being approved or being canceled. During FY 2020, OIG issued 20 reports with 91 recommendations for improving the Agency’s operations, identifying improper payments, and strengthening controls to reduce fraud and unnecessary losses in SBA programs. For FY 2020, the Audits Division achieved \$64.8 million in dollar accomplishments relative to recommendations that costs were disallowed and agreed to by management or that funds be put to better use and agreed to by management.

Statistical Highlights in FY 2019

Table 3: 2019 Summary of OIG Dollar Accomplishments

Dollar Accomplishments as a Result of Investigations and Related Activities	Amount
Potential Investigative Recoveries and Fines	\$72,576,053
Asset Forfeitures Attributed to OIG Investigations	\$4,827,399
Loans/Contracts Not Approved or Canceled as a Result of Investigations	\$0
Investigations Subtotal	\$77,403,453
Dollar Accomplishments as a Result of Audit Activities	Amount
Disallowed Costs Agreed to by Management	\$33,567,403*
Recommendations That Funds Be Put to Better Use Agreed to by Management	\$0
Audit Subtotal	\$33,567,403
Total OIG Dollar Accomplishments	\$110,970,856

*Note: Includes \$18,733,799 in questioned costs retroactively disallowed by the Agency at the time of final action.

Table 4: 2019 Efficiency and Effectiveness Activities Related to Audit, Other Reports, and Follow-up Activities

Activities	Amount
Reports Issued	23
Recommendations Issued	94
Dollar Value of Costs Questioned	\$687,582,182
Dollar Value of Recommendations That Funds Be Put to Better Use	\$0
Recommendations for Which Management Decisions Were Made	91
Recommendations Without a Management Decision	11
Collections as a Result of Questioned Costs	\$408,496

Table 5: 2019 Indictments, Convictions, and Case Actions

Actions	Amount
Indictments From OIG Cases	49
Convictions From OIG Cases	36
Cases Opened	59
Cases Closed	66

Table 6: 2019 SBA Personnel Actions Taken as a Result of Investigation

Actions	Amount
Dismissals	2
Resignations/Retirements	2
Suspensions	1
Reprimands	1
Other	1

Table 7: 2019 Program Actions Taken During the Reporting Period as Result of OIG Action

Actions	Amount
Present Responsibility Referrals to the Agency	38
Pending at the Agency as of September 30, 2019	35
Suspensions Issued by the Agency	19
Proposed Debarments Issued by the Agency	9
Final Debarments Issued by the Agency	14
Proposed Debarments Declined by the Agency	1*
Administrative Agreements Entered by the Agency in Lieu of Debarment	1
Present Responsibility Actions by Other Agencies	19

*Note: OIG does not count matters where SBA has ceded lead agency as declinations.

Table 8: 2019 Agency Legislative and Regulatory Proposals Reviewed

Actions	Amount
Legislation, Regulations, Standard Operating Procedures, and Other Issuances Reviewed	112
Comments Provided by OIG to Improve Legislation, Regulations, Standard Operating Procedures, and Other Issuances	37

Reports Issued in FY 2019

Table 9: 2019 Top Management Challenges

Title	Report Number	Issue Date	Questioned Costs	Funds for Better Use
The Most Serious Management and Performance Challenges Facing SBA in FY 2019	19-01	10/11/2018	\$0	\$0
Program Subtotal	1	—	\$0	\$0

Table 10: 2019 Agency Management

Title	Report Number	Issue Date	Questioned Costs	Funds for Better Use
Consolidated Findings of OIG Reports on SBA's Grant Programs FYs 2014-2018	19-02	11/08/2018	\$0	\$0
Independent Auditors' Report on SBA's FY 2018 Financial Statements	19-03	11/14/2018	\$0	\$0
Independent Auditors' Report on SBA's FY 2018 Special Purpose Financial Statements	19-04	11/16/2018	\$0	\$0
KPMG Management Letter Communicating Matters Relative to SBA's FY 2018 Financial Statement Audit	19-05	12/18/2019	\$0	\$0
SBA's District Offices' Customer Service	19-06	12/19/2019	\$0	\$0
Weaknesses Identified During the FY 2018 Federal Information Security Modernization Act Review	19-09	4/9/2019	\$0	\$0
SBA's Cloud Migration and Oversight	19-10	4/9/2019	\$0	\$0
SBA's FY 2018 Compliance with the Improper Payments Elimination and Recovery Act of 2010 (IPERA)	19-13	5/23/2019	\$0	\$0
SBA's 2018 and 2019 Cash Contributions and Gifts	19-14	6/19/2019	\$0	\$0
Audit of SBA's Suspension and Debarment Process	19-18	9/18/2019	\$83,200,000	\$0
FY 2019 Risk Assessment of SBA's Charge Card Programs	19-21	9/25/2019	\$0	\$0
Program Subtotal	11	—	\$83,200,000	\$0

Table 11: 2019 Credit/Capital Programs

Title	Report Number	Issue Date	Questioned Costs	Funds for Better Use
Audit of SBA's Controls over 7(a) Loans Sold on The Secondary Market	19-07	3/14/2019	\$130,173	\$0
OIG High Risk 7(a) Loan Review Program	19-15	7/10/2019	\$5,335,790	\$0
The Office of Inspector General High Risk 7(a) Loan Review Program	19-16	8/14/2019	\$2,059,132	\$0
Office of Inspector General High Risk 7(a) Loan Review Program	19-19	9/19/2019	\$1,267,223	\$0
Consolidated Results of the OIG High Risk 7(a) Loan Review Program	19-22	9/26/2019	\$0	\$0
Program Subtotal	5	—	\$8,792,318	\$0

Table 12: 2019 Contracting/Counseling Programs

Title	Report Number	Issue Date	Questioned Costs	Funds for Better Use
SBA's HUBZone Certification Process	19-08	3/28/2019	\$589,000	\$0
Audit of SBA's Oversight of the SCORE Association	19-12	4/25/2019	\$713,986	\$0
Evaluation of SBA's All Small Mentor-Protégé Program	19-17	9/17/2019	\$0	\$0
Review of Women's Business Center, Inc., Compliance With Cooperative Agreement Requirement	19-20	9/19/2019	\$0	\$0
Program Subtotal	4	—	\$1,302,986	\$0

Table 13: 2019 Disaster Assistance

Title	Report Number	Issue Date	Questioned Costs	Funds for Better Use
Inspection of SBA's Initial Disaster Assistance Response to Hurricane Florence	19-11	4/17/2019	\$0	\$0
Audit of SBA's Desktop Loss Verification Process	19-23	9/26/2019	\$594,286,878	\$0
Program Subtotal	2	—	\$594,286,878	\$0

Statistical Highlights in FY 2020

Table 14: 2020 Summary of OIG Dollar Accomplishments

Dollar Accomplishments as a Result of Investigations and Related Activities	Amount
Potential Investigative Recoveries & Fines	\$51,389,743
Asset Forfeitures Attributed to OIG Investigations	\$69,000
Loans/Contracts Not Approved or Canceled as a Result of Investigations	\$26,293,440
Investigations Subtotal	\$77,752,183
Dollar Accomplishments as a Result of Audit Activities	Amount
Disallowed Costs Agreed to by Management	\$64,796,672
Recommendations That Funds Be Put to Better Use Agreed to by Management	0
Audit Subtotal	\$64,796,672
Total OIG Dollar Accomplishments	\$142,548,855

Table 15: 2020 Efficiency and Effectiveness Activities Related to Audit, Other Reports, and Follow-up Activities

Activities	Amount
Reports Issued	20
Recommendations Issued	91
Dollar Value of Costs Questioned	\$64,804,274
Dollar Value of Recommendations That Funds Be Put to Better Use	\$0
Recommendations for Which Management Decisions Were Made	88
Recommendations Without a Management Decision	13
Collections as a Result of Questioned Costs	\$393,172

Table 16: 2020 Indictments, Convictions, and Case Actions

Actions	Amount
Indictments from OIG Cases	63
Convictions from OIG Cases	32
Cases Opened	295
Cases Closed	118

Table 17: 2020 SBA Personnel Actions Taken as a Result of Investigation

Actions	Amount
Dismissals	1
Resignations/Retirements	1
Suspensions	0
Reprimands	1

Table 18: 2020 Program Actions Taken During the Reporting Period as Result of OIG Action

Actions	Amount
Present Responsibility Referrals to the Agency	47
Pending at the Agency as of September 30, 2018	36
Suspensions Issued by the Agency	24
Proposed Debarments Issued by the Agency	24
Final Debarments Issued by the Agency	27
Present Responsibility Matters Declined by the Agency	4
Administrative Agreements Entered by the Agency in Lieu of Debarment	1
Present Responsibility Actions by Other Agencies	15

Note: The Agency closed four of these referrals after the reporting period.

Table 19: 2020 Agency Legislative and Regulatory Proposals Reviewed

Actions	Amount
Legislation, Regulations, Standard Operating Procedures, and Other Issuances Reviewed	140
Comments Provided by OIG to Improve Legislation, Regulations, Standard Operating Procedures, and Other Issuances	28

Reports Issued in FY 2020

Table 20: Top Management Challenges

Title	Report Number	Issue Date	Questioned Costs	Funds for Better Use
The Most Serious Management and Performance Challenges Facing SBA in FY 2020	20-01	10/11/2019	\$0	\$0
Program Subtotal	1	—	\$0	\$0

Table 21: Agency Management

Title	Report Number	Issue Date	Questioned Costs	Funds for Better Use
Independent Auditors' Report on SBA's Compliance with Data Act Reporting	20-02	11/7/2019	\$0	\$0
Independent Auditors' Report on SBA's FY 2019 Financial Statements	20-04	11/15/2019	\$0	\$0
KPMG Management Letter Communicating Matters Relative to SBA's FY 2019 Financial Statement Audit	20-05	12/10/2019	\$0	\$0
SBA's FY 2019 Cash Contributions and Gifts	20-06	2/11/2020	\$7,602	\$0
Weakness Identified During the FY 2019 Federal Information Security Modernization Act Review	20-10	3/30/2020	\$0	\$0
Independent Auditors' Report on SBA's Compliance with Improper Payments Elimination and Recovery Act of 2010	20-15	5/12/2020	\$0	\$0
Evaluation of Certify.SBA.Gov	20-17	7/30/2020	\$0	\$0
Program Subtotal	7	—	\$7,602	\$0

Table 22: Credit/Capital Programs

Title	Report Number	Issue Date	Questioned Costs	Funds for Better Use
Audit of SBA's Oversight of High-Risk Lenders	20-03	11/12//2019	\$13,313,560	\$0
Audit of the SBA's Community Advantage Pilot Program	20-08	3/18/2020	\$51,472,944	\$0

Title	Report Number	Issue Date	Questioned Costs	Funds for Better Use
White Paper: Risk Awareness and Lessons Learned from Prior Audits of Economic Stimulus Loans	20-11	4/3/2020	\$0	\$0
Flash Report: Small Business Administration's Implementation of the Paycheck Protection Program Requirements	20-14	5/8/2020	\$0	\$0
Office of Inspector General High Risk 7(a) Loan Review Program	20-18	8/25/2020	\$0	\$0
Audit of SBA's Compliance with the Debt Collection Improvement Act, as Amended	20-20	9/30/2020	\$0	\$0
Program Subtotal	6	—	\$64,786,504	\$0

Table 23: Disaster Assistance

Title	Report Number	Issue Date	Questioned Costs	Funds for Better Use
Audit of the Office of Disaster Assistance Improper Payment Appeal Process	20-07	2/20/2020	\$0	\$0
White Paper: Risk Awareness and Lessons Learned from Audits and Inspections of Economic Injury Disaster Loans	20-12	4/3/2020	\$0	\$0
Serious Problems and Deficiencies in Internal Controls Over Economic Injury Disaster Loan Program Pertaining to the Response to COVID-19	20-16	7/28/2020	\$0	\$0
Program Subtotal	3	—	\$0	\$0

Table 24: Contracting/Counseling Programs

Title	Report Number	Issue Date	Questioned Costs	Funds for Better Use
Audit of SBA's Cooperative Agreement with Arsenal Business and Technology Partnership's Veterans Business	20-09	3/24/2020	\$10,168	\$0
White Paper: Risk Awareness and Lessons Learned from Prior Audits Entrepreneurial Development Programs	20-13	4/23/2020	\$0	\$0
SBA's Corrective Actions to Reduce 8(a) Firm Eligibility Risks	20-19	9/15/2020	\$0	\$0
Program Subtotal	3	—	\$10,168	\$0

Reporting Requirements Under the Inspector General Reform Act of 2008

The following information is provided in accordance with the Inspector General Reform Act of 2008, as amended (P.L. 110-409).

Table 25: FY 2022 Budget Request, Dollars in Millions

Actions	FY 2020 Actual	FY 2021 Enacted	FY 2022 Request	FY 2022 Increase/ Decrease
New Budget Authority	\$21.9	\$22.011	\$24.905	\$2.894
Transfer from Disaster Loan Program	\$1.6	\$1.6	\$1.6	\$0.0
Total	\$23.5	\$23.611	\$26.505	\$2.894

OIG's FY 2022 budget request includes \$430,000 for training, which is sufficient to satisfy all training needs for the FY, and \$110,160 for the operation of CIGIE.

OIG Organizational Structure

OIG has three divisions and several supporting program offices to carry out its functional responsibilities.

The **Audits Division** performs and oversees audits and reviews to review and assist SBA in administering its programs and operations economically, efficiently, and effectively. Key areas of emphasis are SBA's loan programs, disaster assistance, business development and government contracting programs, agency management, as well as mandatory and other statutory audit requirements involving computer security and financial reporting. The balance of the engagements is discretionary and focuses on high-risk activities and management issues facing SBA.

The **Investigations Division** conducts investigations to detect and deter illegal and improper activities involving SBA's programs, operations, and personnel. SBA OIG criminal investigators carry out a full range of traditional law enforcement functions. The security operations staff conducts required OIG employee background investigations to achieve a high level of integrity in its workforce and adjudicates OIG employees and contractors for issuance of personal identity verification cards pursuant to Homeland Security Presidential Directive 12 background investigations requirements. The OIG Hotline, under the purview of the Investigations Division, reviews allegations of waste, fraud, abuse, or serious mismanagement within SBA or its programs from employees, contractors, and the public. Hotline staff conduct a preliminary review of all complaints to determine the appropriate course of action and may coordinate reviews of allegations within OIG, SBA program offices, or other government agencies.

The **Management and Operations Division** provides business support (e.g., budget and financial management, human resources, IT, procurement, communications, and data analytics) for various OIG functions and activities.

The **Office of Counsel** provides legal and ethics advice to all OIG components; represents OIG in litigation arising out of or affecting OIG operations; assists with prosecuting criminal, civil, and administrative enforcement matters; processes subpoenas; responds to Freedom of Information and Privacy Act requests; provides training; and reviews and comments on proposed policies, regulations, legislation, and procedures.

OIG's headquarters is in Washington, DC. Its field staff are located in Atlanta, GA; Chicago, IL; Dallas-Fort Worth, TX; Detroit, MI; Denver, CO; Herndon, VA; Houston, TX; Los Angeles, CA; Miami, FL; New York, NY; Philadelphia, PA; Federal Way, WA; and Washington, DC.

An organizational chart for OIG is provided on the next page.

U.S. Small Business Administration

Office of Inspector General

