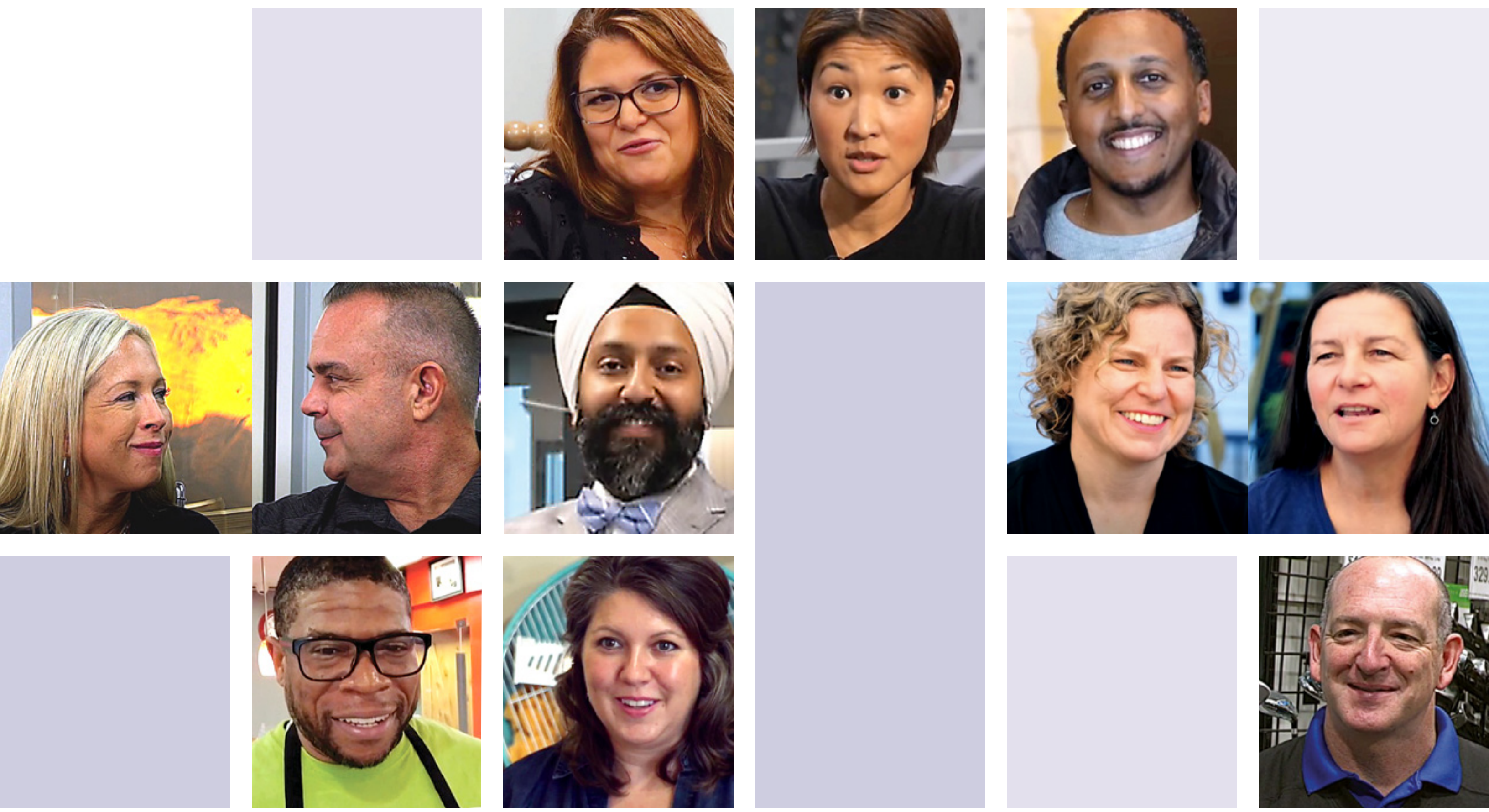
U.S. Small Business Administration

SMALL BUSINESS ADMINISTRATION

Agency Financial Report

FISCAL YEAR 2021



About This Report

The U.S. Small Business Administration's Agency Financial Report (AFR) for FY 2021 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 2021 Annual Performance Report* (APR) is the other report and is part of the *FY 2023 Congressional Justification* (CJ). The CJ/APR is scheduled for publication in February 2022. 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 corresponding pages of this report. From top left to bottom right, Jill Scarbro-McLaury (page 32), Alice Kao (page 166), Efrem Fesaha (page 166), Josh and Stephanie Bevans (page 102), Pushpinder Garcha (page 4), Nicole Carrier and Annette Lee (page 102), Christopher Finnick (page 32), Morgan Baum (page 4), and Richard Messina (page 32).

FY 2021 Highlights

(Dollars in Thousands)	FY 2018	FY 2019	FY 2020 (Unaudited)	FY 2021 (Unaudited)
Principal Program Portfolio[1]	$ 142,315,295	$ 143,516,446	$ 835,987,031	$ 713,196,138
Total Assets	$ 16,988,497	$ 16,718,652	$ 897,533,990	$ 562,417,681
Total Liabilities	$ 14,915,340	$ 15,085,044	$ 718,056,018	$ 503,539,063
Total Net Position	$ 2,073,157	$ 1,633,608	$ 179,477,972	$ 58,878,618
Total Net Cost of Operations	$ 621,675	$ 136,526	$ 554,231,547	$ 346,283,553
Total Budgetary Resources	$ 17,114,677	$ 12,342,598	$ 1,518,667,904	$ 1,347,118,849

(1) The total portfolio consists of guarantied business loans outstanding, guarantied 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

The 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:

performancemanagement@sba.gov

Or, you may write to:

U.S. Small Business Administration
Office of Performance, Planning, and the Chief Financial Officer
409 Third Street, S.W.
Washington, DC 20416

Or, you may call:

Brittany Borg,
Acting Director
Office of Program Performance, Analysis, and Evaluation
(202) 401-1354

Follow us on:

http://www.facebook.com/sbagov

www.youtube.com/sba

http://www.twitter.com/sbagov

Table of Contents

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.

SBA's Mission

How This Report Is Organized

The U.S. Small Business Administration's *FY 2021 Agency Financial Report* (AFR) provides financial and performance information for the fiscal year beginning October 1, 2020 and ending September 30, 2021. 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 featuring a small business entrepreneur and highlighting the impact of services provided by the SBA.

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 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 Acting Chief Financial Officer, the audit transmittal memorandum from the Inspector General, the Independent Auditors' report, and the unaudited financial statements and notes. Additionally, the required supplementary information provides a combined statement of budgetary resources.

Other Information

The Other Information section includes the Inspector General's report on the Agency's most serious 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

Isabella Casillas Guzman

November 15, 2021

On behalf of the dedicated and mission-driven team at the U.S. Small Business Administration, I hereby present our FY 2021 Agency Financial Report.

This year's report highlights the SBA's substantial impact and extensive growth helping our nation's entrepreneurs continue to fight a once-in-a-lifetime global pandemic and numerous natural disasters, while continuing to help small businesses recover, start, and grow. 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. While the Agency has received a disclaimed opinion from its auditor on its FY 2021 Consolidated Balance Sheet, the SBA under my leadership has taken action to implement internal controls to ensure that all of the SBA's programs are carried out at the highest standard and with the utmost integrity. My team and I remain committed to ensuring proper management of Agency resources by addressing the issues our auditor identified and continuing to strengthen management controls.

America's resilient small business owners and entrepreneurs are driving America's economic recovery. To help the small business sector stay viable during the economic shutdowns, the SBA continued to administer the Paycheck Protection Program and COVID-19 Economic Injury Disaster Loans, while also launching the newly authorized Shuttered Venues Operating Grant program, Restaurant Revitalization Fund, the COVID EIDL Targeted and Supplemental Advances, and the Community Navigator Pilot Program.

The SBA also launched a direct forgiveness portal for Paycheck Protection Program loans of $150,000 or less. In FY 2021, more than 1 million direct loan forgiveness applications were submitted by America's smallest businesses, most taking less than 10 minutes to complete. The SBA has fully forgiven more than 7 million loans, sending more than $553 billion dollars back into the economy this fiscal year.

As the SBA Administrator, I have personally seen the commitment, energy, and initiative that our employees bring to their jobs—especially this year, as small business recovery has been so critical. The dedication of our public servants to the SBA's mission is truly remarkable.

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. While more work remains in closing lending gaps, in FY 2021, the SBA approved more than 61,500 loans in the 7(a) and 504 loan programs, providing nearly $45 billion to small businesses and supporting over 675,000 American jobs in the process.

In order for our nation to fully recover from the pandemic, all entrepreneurs must have equitable access to the resources that they need to start, grow, and sustain their businesses. Minority business owners received $12.9 billion in combined 7(a) and 504 lending, or 26 percent of the SBA's loan portfolio. The SBA's 7(a) lending to women-owned businesses was nearly $5 billion in FY 2021. Lending from the 504 loan program to women-owned businesses was over $709 million. Lenders reported that loans to veterans totaled nearly $1.4 billion 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 $7.1 billion in financing. The SBA also increased SBIC financings to women-owned, minority-owned, and veteran-owned small businesses by 36 percent this year. Additionally, the SBA's microloan program, which offers loans up to $50,000, approved nearly $74.7 million in new loans in FY 2021 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. 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. These efforts are powered by our 68 district offices and strong resource partner network made up of Small Business Development Centers, Women's Business Centers, Veterans Business Outreach Centers, SCORE chapters, Regional Innovation Cluster, and Growth Accelerators. In FY 2021, 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 2020, the latest year of data available. More than 26 percent of federal contracts totaling $145.7 billion went to small businesses—an over $13 billion increase from the previous fiscal year. This marks the eighth consecutive year in a row that the Federal Government has exceeded this goal and we know we need to do more to ensure equity across socio-economic groups. Women-owned small businesses achieved contracting dollars of $27.1 billion—4.85 percent of the five percent federal goal.

For 67 years, when disaster strikes, the SBA joins with our federal partners to respond by helping businesses, nonprofits, homeowners, and renters recover from declared disaster events. Direct 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.

In FY 2021, the SBA approved over 139,000 direct disaster loans for natural disasters such as floods, hurricanes, and tornadoes, totaling $2 billion. For those impacted by Hurricane Ida alone, in FY 2021 the SBA approved over 7,600 loans and over $353 million dollars in relief. Additionally, the SBA continued to deliver timely and necessary relief to businessowners in response to the COVID-19 pandemic. During FY 2021, the SBA approved 250,000 new COVID EIDL loans for over $30 billion.

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 2022 and a future of possibilities, the SBA is devoted to delivering equitable results and the best possible customer service to America's small businesses.

Sincerely,

Isabella Casillas Guzman

Isabella Casillas Guzman
Administrator

Management's Discussion and Analysis

Success Stories

GOLDEN TECH SYSTEMS, INC.

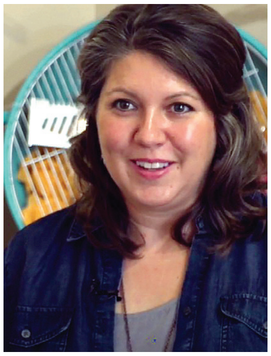
Pushpinder Garcha
Owner & CEO
Charlotte, NC

Pushpinder Garcha is originally from India and came to the United States on a student visa to further his education. Following graduation, he was granted a work visa and went on to become a naturalized citizen. Today, Pushpinder is the owner and CEO of **Golden Tech Systems**. The business focuses on digital capabilities such as cloud solutions, cyber operations, and data science.

At the start of the pandemic, Golden Tech Systems was just beginning their first contract with the U.S. Air Force. Pushpinder says that the SBA's 8(a) program was instrumental in allowing him to keep Golden Tech Systems operating by opening doors to federal contracting at a time when there was limited demand from the private sector, as the 8(a) program allows small businesses from disadvantaged groups to market their capabilities to federal agencies. "I strongly feel that if it had not been for the 8(a) award that we won with the Air Force, we would be in a different position, just because commercial spending shrunk considerably during COVID."

In addition to becoming 8(a) certified and participating in the SBA's Emerging Leaders and Mentor-Protégé programs, Pushpinder sought assistance from the SBA to weather the impact of COVID-19 through the Economic Injury Disaster Loan and Paycheck Protection Program.

CLAY COYOTE



Morgan Baum
Owner & CEO
Hutchinson, MN

Clay Coyote is a pottery studio and art gallery in rural Minnesota owned and operated by **Morgan Baum**. The small family business has worked with SBA microlender Southwest Initiative Foundation (SWIF) for many years and gotten help from them in the form of a microloan and small business training. In addition to the potters that work directly through Clay Coyote's studios, the art gallery provides a space for 25 local artists to showcase their work. Although they could continue their online work when the pandemic began using existing inventory, they had to send their potters home and could not immediately continue production. They took advantage of the disaster relief programs and went back to SWIF for more training and assistance.

To meet the challenges of the pandemic, Clay Coyote moved from their rural location into downtown Hutchinson and grew their online presence. "It helped us reach a new audience, doubled our studio space, made it easier for us to do shipping to all of our customers nationwide, and it gave the potters more room, which was really helpful when we needed to socially distance," indicated Morgan. Morgan cited the Paycheck Protection Program, COVID-EIDL program, and the assistance SWIF provided in supporting and strengthening her business. "The SBA helped us stay in business in the pandemic. In fact, I believe that without their support we wouldn't be here today."

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 contribute to one or more Agency-wide strategic goals as outlined in the SBA's *FY 2018–2022 Strategic Plan:*

MISSION STATEMENT

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.

GOAL 1
Support small business revenue and job growth

- **1.1** Expand access to capital
- **1.2** Help small business exporters succeed in global markets
- **1.3** Ensure federal contract and innovation set-aside goals are met and/or exceeded

GOAL 2
Build healthy entrepreneurial ecosystems and create business friendly environments

- **2.1** Develop small businesses through technical assistance
- **2.2** Build healthy entrepreneurial ecosystems
- **2.3** Create a small business friendly environment

GOAL 3
Restore small businesses and communities after disasters

- **3.1** Deploy disaster assistance effectively and efficiently

GOAL 4
Strengthen SBA's ability to serve small businesses

- **4.1** Ensure effective and efficient management of Agency resources
- **4.2** Build a high-performing workforce
- **4.3** Implement enterprise-wide information system modernization and cost-effective technology

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, bonds through the Surety Bond Guarantee program, Paycheck Protection Program Loans, Restaurant Revitalization Fund grants, and COVID-19 EIDL loans in support of pandemic relief.

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 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. The SBA also oversees the Shuttered Venue Operator Grant program in support of pandemic relief.

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, Planning, 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 32.5 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 equitable access to capital, federal contracting, counseling, and disaster assistance.

Throughout FY 2021, 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. Additional information can be found in the Analysis of Financial Results and Summary of Performance Results sections. The complete set of performance results will be reported in the Annual Performance Report to be released in February 2022.

Financial Results

For FY 2021, the SBA's total budgetary resources used for staffing, operations, and loan subsidy costs were $348.4 billion. Total nonbudgetary resources for loan financing used to make direct loans and purchase guarantied loans in default were $699.5 billion. The SBA's guarantied portion of the outstanding loan principal decreased $186.4 billion in FY 2021 to $435.3 billion. During FY 2021, new guaranties disbursed by SBA participating banks were $304.0 billion, a $234.0 billion decrease from last year. The decrease in the SBA's guarantied portion of outstanding loan principal and new guaranties disbursed is a direct result of a $240.9 billion decrease in Paycheck Protection Program loans offset by a $6.9 billion increase in 7(a) loans. In FY 2021, purchases of defaulted guarantied loans decreased from $1.2 billion last year to $874 million. The loans receivable portion of the SBA credit program portfolio increased in FY 2021 from $183.0 billion to $245.1 billion. The spike in loans receivable was caused by the increase in new COVID EIDL loan disbursements in response to the COVID-19 pandemic.

Performance Results

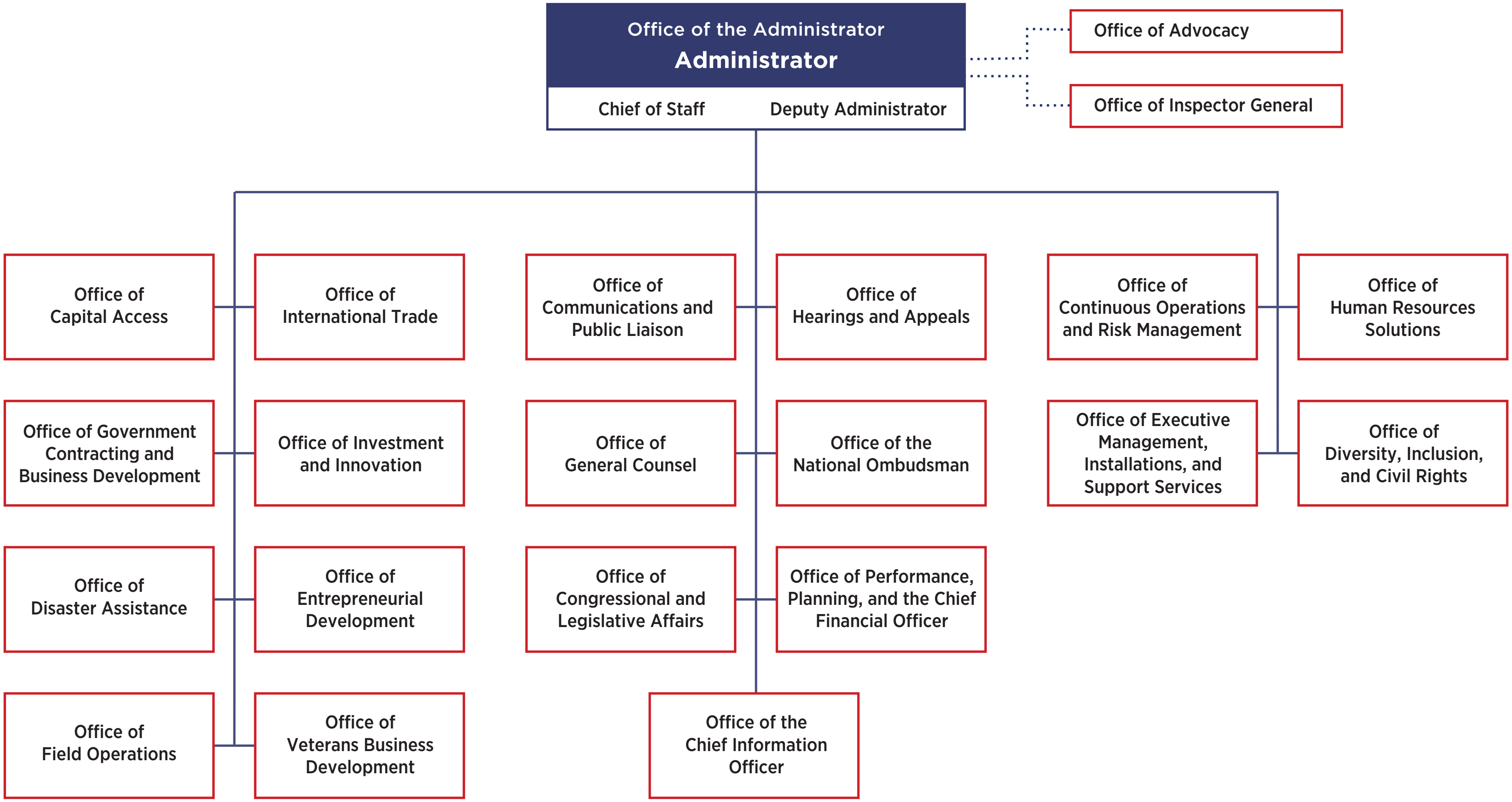
Capital: In FY 2021, the SBA approved nearly $45 billion or more than 61,500 loans to small businesses. The SBA supported nearly $8.2 billion in 504 loans, an increase of around $2.3 billion from FY 2020. The SBA invested more than $7.1 billion in 1,080 small businesses through the Small Business Investment Company program.

Contracting: The SBA continued to partner with agencies across the Federal Government to expand small business contracting opportunities. From FY 2016 through FY 2020, small businesses were awarded just under $600 billion in federal contracts (FY 2021 contracting numbers continue to be collected and certified). The Federal Government continues to exceed its small disadvantaged and service-disabled, veteran-owned small business contracting goals but faces challenges meeting its HUBZone and women-owned small business contracting goals.

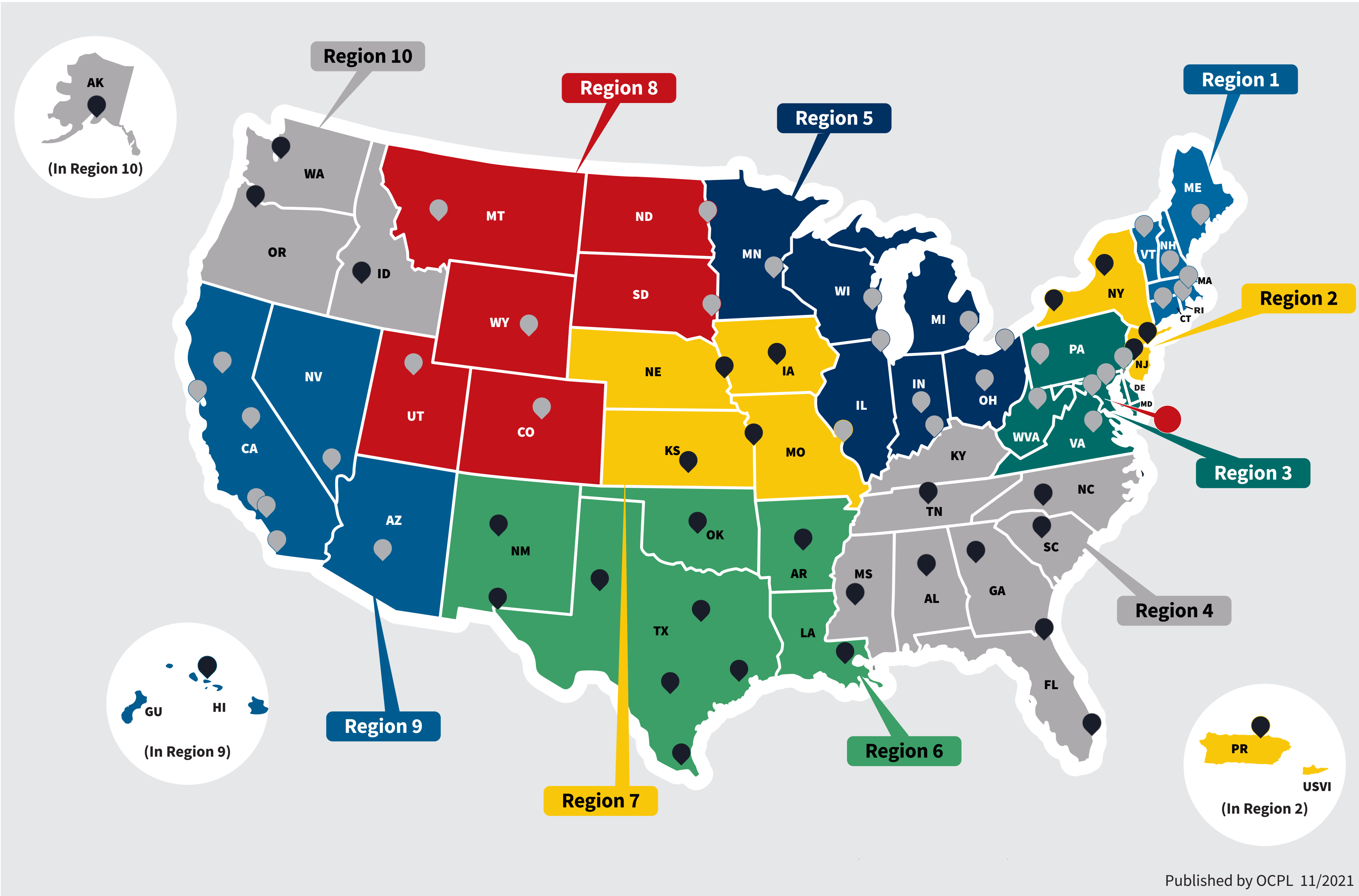
Counseling: The SBA provided mentoring, business advice, and training assistance to nearly 1,134,000 entrepreneurs and small businesses this year, which helped them start and grow their businesses, and create or retain jobs. Additionally, the SBA launched the Community Navigators Pilot Program to provide technical assistance to small businesses. Under the community navigator approach, traditional business assistance organizations enlist trusted, culturally knowledgeable partners to conduct targeted outreach to specific sectors of the entrepreneurial community.

Disaster Assistance: Disaster loan applications remained high even compared to the historic volume of FY 2020. The SBA continued to provide disaster relief to every state and territory during the COVID-19 pandemic. At the end of FY 2021, the Agency managed 279 active disaster assistance declarations and approved disaster loans totaling of $31 billion.

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 $150 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

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 guarantees 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.

Innovation

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.

Counseling 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 and Ascent — 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. Ascent is an online learning portal with materials and tools for women entrepreneurs.

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 because of the COVID-19 pandemic. These loans can be forgiven if the funds are used for payroll costs, interest on mortgages, rent, and utilities.

COVID EIDL Loans — The CARES Act modified the existing Economic Injury Disaster Loan within the Disaster Assistance program. In response to the COVID-19 pandemic, small businesses owners, including agricultural cooperatives and nonprofit organizations can apply for these loans, which go up to $2 million and must be repaid.

COVID EIDL Advance — These grants, up to $10,000 in value, went to small businesses that also applied for COVID-19 EIDL Loans and are not repaid.

Restaurant Revitalization Fund — The American Rescue Plan Act established the RRF to provide funding to help restaurants and other eligible businesses keep their doors open. This program provides restaurants with funding equal to their pandemic-related revenue loss up to $10 million per business and no more than $5 million per physical location. Recipients are not required to repay the funding provided funds are spent for eligible uses.

Shuttered Venues Operators Grant — The Economic Aid to Hard-Hit Small Businesses, Nonprofits, and Venues Act established funding to support shuttered venues because of the COVID-19 Pandemic. Recipients are not required to repay the funding provided that funds are spent for eligible uses within established timeframes.

Summary of COVID-19 Financial Impacts

In FY 2021, the SBA continued to respond to the COVID-19 pandemic and implement stimulus legislation to mitigate its impact. The pandemic has severely disrupted the national economy and led to a significant federal response that continued this year. In FY 2020, the SBA implemented Coronavirus Aid, Relief, and Economic Security Act (CARES Act) programs, including the Paycheck Protection Program, debt relief, COVID EIDL loans, and EIDL Advance grants for small businesses. These programs have supported millions of jobs and helped small businesses stay open.

In addition to ongoing implementation of CARES Act programs, the Economic Aid to Hard-Hit Small Businesses, Nonprofits, and Venues Act (Economic Aid Act) modified the 7(a) Loan program by providing temporary higher guaranty percentages, supporting fee relief on eligible 7(a) loans, and increasing the maximum SBA Express loan amount. The SBA also guaranteed additional PPP loans to eligible borrowers through "second draw loans," offered an expedited process for loan forgiveness for smaller dollar amounts (under $150,000) and created an online loan forgiveness application portal.

Additionally, the American Rescue Plan Act (ARPA) modified existing and created new programs to support small businesses and other entities affected by the pandemic. The SBA awarded $28.6 billion through the Restaurant Revitalization Fund, a new program to provide emergency assistance for eligible restaurants, bars, bakeries, and other qualifying businesses in the food and beverage service industry impacted by COVID-19 equal to their pandemic-related revenue loss up to $10 million.

The Shuttered Venue Operators Grant program was established by the Economic Aid Act, and amended by ARPA, includes over $16 billion in funding for shuttered venues. Eligible applicants may qualify for funding equal to 45 percent of their gross earned revenue, with a $10 million maximum amount available for a single award, and with $2 billion reserved for eligible applications with up to 50 full-time employees. In FY 2021, the SBA awarded nearly 11 billion.

The SBA continued to offer debt relief to existing SBA loan borrowers. The Economic Aid Act provided additional relief to businesses impacted by the pandemic and supported $3.5 billion in debt relief to 7(a) loan, 504 loan, and Microloan borrowers by paying principal, interest, and fees on existing loans. Additionally, the Economic Aid Act provided additional relief for covered loans and for loans in hard hit industries approved prior to March 27, 2020, as well as payments for covered loans made between February 1, 2021 and September 30, 2021.

While the SBA received the addition of ARPA and Economic Aid Act funds, overall total assets decreased by $335.1 billion for a FY 2021 total asset amount of $562.4 billion, due to a decrease in appropriations received for PPP, among other items. Total liabilities in FY 2021 were $504.0 billion compared to FY 2020 of $718.1 billion. The SBA's net position and net cost of operations decreased compared to FY 2020. Total budgetary resources decreased from $1.5 trillion in FY 2020 to $1.3 trillion in FY 2021. More information of the financial impacts can be found in the Analysis of Financial Results section.

Analysis of Performance Results

Summary of Performance Results

The following section presents key FY 2021 performance data. 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, including explanations of variances, will be presented in the FY 2021 Annual Performance Report to be published in February 2022.

Strategic Goal 1: Support small business revenue and job growth

S.O.	Performance Indicator	FY 2018 Actual	FY 2019 Actual	FY 2020 Actual	FY 2021 Goal	FY 2021 Actual
1.1	Number of Lender and Small Business Connections Through Lender Match	N/A	N/A	197,961	86,000	553,964
1.1	Number of Jobs Supported by 7(a) Loans, 504 Loans, Microloans, and SBICs	725,180	667,222	644,054	796,750	854,701
1.2[1]	Value of Small Business Export Sales (Billions)	N/A	3.2	3.3	4.7	Data N/A
1.3[2]	Percent of Federal Contracts Awarded to Small Businesses	25	26	26	23	Data N/A

Strategic Goal 2: Build healthy entrepreneurial ecosystems and create business friendly environments

S.O.	Performance Indicator	FY 2018 Actual	FY 2019 Actual	FY 2020 Actual	FY 2021 Goal	FY 2021 Actual
2.1	Number of Small Businesses Assisted by 8(a), 7(j), and HUBZone Programs	N/A	23,300	33,243	24,500	33,384
2.2	Number of Unique Clients Served through Partnerships, Virtual Resources, and Targeted Outreach	N/A	1,059,752	1,523,359	989,000	1,133,757
2.3	Number of Outreach Events through Federal Agencies, Trade Associations, and Resource Partners	119	45	41	50	55

Strategic Goal 3: Restore small businesses and communities after disasters

S.O.	Performance Indicator	FY 2018 Actual	FY 2019 Actual	FY 2020 Actual	FY 2021 Goal	FY 2021 Actual
3.1	Customer Satisfaction Rate for Disaster Loan Approvals	78	82	78	77	76

Strategic Goal 4: Strengthen SBA's ability to serve small businesses

S.O.	Performance Indicator	FY 2018 Actual	FY 2019 Actual	FY 2020 Actual	FY 2021 Goal	FY 2021 Actual
4.1	Customer Satisfaction Rate of Financial Management Services for SBA Employees	4.0	4.4	4.6	4.0	4.7
4.2[3]	Federal Employee Viewpoint Survey Job Satisfaction Rate	68	70	72	69	Data N/A
4.3	IT Cost Savings/Avoidance (Millions)	11.9	13.7	14.5	14.6	14.5

1 1.2: At time of publication State Trade Expansion Program (STEP) data is not yet available. FY 2021 data will be published in the FY 2021 Annual Performance Report.

2 1.3: Federal contracting data continues to be certified, and FY 2021 data will be certified by the SBA in summer 2022.

3 4.2 At time of publication, the Office of Personnel Management has not yet administered the FY 2021 Federal Employee Viewpoint Survey. FY 2021 data will be published in the FY 2021 Annual Performance Report.

Verification and Validation of Performance Data

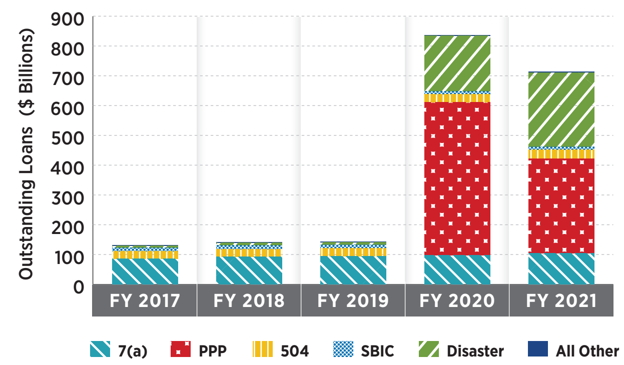
Managing for results and integrating performance, financial, and budgetary information requires valid, reliable, and high-quality performance measures and data. Improving data quality continues to be a priority for the SBA. The SBA's performance analysts work with program office leads across the Agency 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; fostering organizational commitment and capacity for data quality; assessing the quality of existing data; and responding to data limitations. For additional information regarding SBA's approach to verifying and validating performance data, see the Congressional Budget Justification and Annual Performance Report, updated each February.

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 direct loans with a portfolio of more than $713.2 billion.[4] During FY 2021, the portfolio decreased by $122.8 billion, or 15 percent. The largest decrease came through the reduction of the Paycheck Protection Program (PPP), a new loan program authorized in 2020 through the Coronavirus Aid, Relief and Economic Security Act (CARES Act) in response to the COVID-19 pandemic. The PPP portfolio decreased by $194.8 billion (-38 percent), whereas the SBA's 7(a) and 504 loan portfolios expanded by $6.6 billion (6.8 percent) and $1.7 billion (6.4 percent), respectively. The SBIC portfolio decreased by $448 million (-4 percent) and the Agency's disaster loan portfolio increased by $63.8 billion (34 percent), as the COVID-19 Economic Injury Disaster Loans (EIDL) program continued to grow. All other portfolios increased by $231 million (12.4 percent) (see **Chart I**).

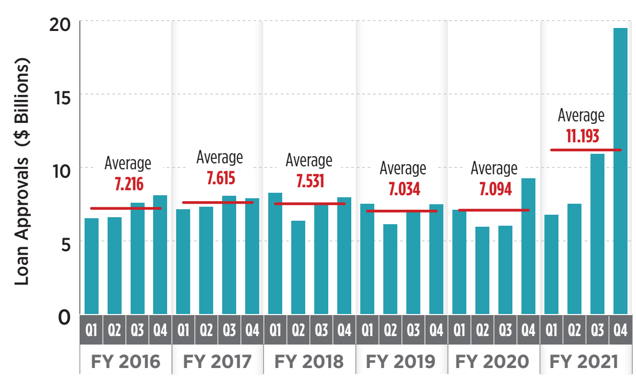
Chart I: Makeup of the SBA's Outstanding Loan Portfolio



New Guarantied Loans

The quarterly average loan volume increased in FY 2021 with an average of $11.2 billion. **Chart II** demonstrates the trend in loan approvals since FY 2016.

Chart II: Quarterly Gross 7(a) and 504 Loan Approvals



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 increased at an annual rate of 6.7 percent in the second quarter of 2021, reflecting the continued economic recovery, reopening of establishments, and continued government response related to the COVID-19 pandemic.[5]

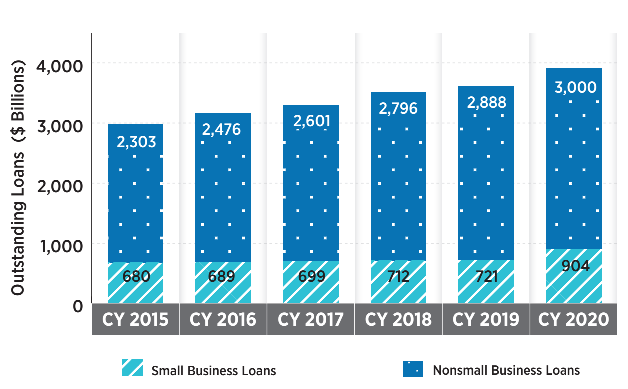
4 The total portfolio consists of guarantied business loans outstanding, guarantied debentures, direct business loans, and direct disaster loans. The data include all performing loans and defaulted loans that have not been charged-off.

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

Changes in Market Volatility — Inflation remained low throughout 2020 (on average 1.2 percent),[6] however it has picked up sharply in 2021 and is averaging 4 percent a month through September 2021. In the current inflationary environment, the prices of many goods and services have increased. While the unemployment rate surged to a peak of 14.8 in April 2020, it has decreased greatly throughout 2021 to 4.8 by the end of September 2021.[7]

Market for Small Business Lending — According to data from the Federal Deposit Insurance Corporation, the total market for business loans increased between 2015–2020 by 31 percent ($920 billion). However, 76 percent ($697 billion) of this increase is accounted for by loans to nonsmall businesses,[8] whereas total small business loans increased by nearly $224 billion. This means the ratio of small business loans compared with the total bank market has only slightly increased (see **Chart III**). Furthermore, there has been a trend in the banking industry toward consolidation, which is reflected in the reduction of commercial banks between 2015–2020 by 18 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.

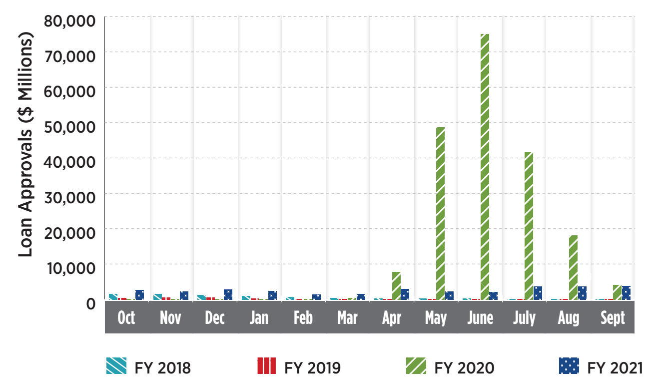
Chart III: Outstanding Commercial Loans to Small vs. Nonsmall Businesses



New Direct Loans

In FY 2021, the SBA approved $31 billion in the Disaster Assistance loan program. FY 2021 disaster loan activity continued to increase, despite FY 2020's increase of 8,736 percent compared with the FY 2019 total of $2.2 billion. Disaster lending in FY 2021 has continued to exceed all prior SBA disaster lending combined as a result of the COVID-19 pandemic. **Chart IV** illustrates the relative size of disaster loans in FY 2021 by month, compared with the prior two fiscal years.

Chart IV: Monthly Gross Disaster Assistance Loan Approvals



Aside from the COVID-19 EIDL loans of the FY 2020–2021 period, 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.

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 V**) 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

6 U.S. Department of Labor, Bureau of Labor Statistics: www.bls.gov/cpi/home.htm.
7 U.S. Department of Labor, Bureau of Labor Statistics: data.bls.gov/timeseries/LNS14000000.
8 Nonsmall businesses are firms that have more than 500 employees.
9 https://www.fdic.gov/bank/statistical/stats/.

for the 7(a) loan program declined from the 3.8 percent peak in January 2009 to .84 percent in February 2020, prior to the start of the COVID-19 pandemic. Similarly, delinquency rates for the 504 loan program likewise declined from the 5 percent peak in February 2010 to .9 percent in February 2020.

In the response to the pandemic, the CARES Act provided debt relief to current borrowers of 7(a) and 504 loans, authorizing the SBA to pay the principal, interest, and associated fees on existing loans for six months. This led to a delinquency rate of near 0 percent in the last six months of FY 2020. With the expiration of CARES Act funds, however, both programs have seen increases in the delinquency rate during FY 2021.

As of July 2021, the average FY 2021 YTD 7(a) delinquency rate of 0.6 percent is slightly below than the FY 2020 average delinquency rate of 0.7 percent. The 7(a) rate remained low during FY 2021, except for a brief surge during the November–December 2020 period.

The 504 delinquency rate began to trend upward starting in September 2020, and has continued to rise, except for a brief lull during January–February 2021. The average FY 2021 YTD 504 delinquency rate of 1.9 percent is significantly above the FY 2020 average delinquency rate of 0.8 percent. The SBA will continue to review delinquency rate over the coming months to develop a better understanding of post-CARES Act delinquency.

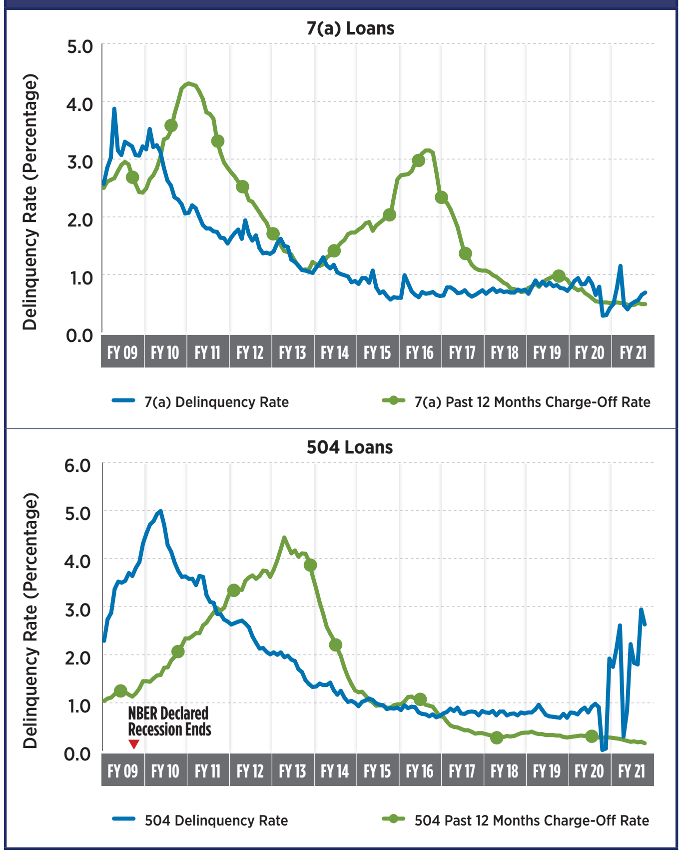
Portfolio Performance — Charge-Offs

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 2021 to 0.5 percent (see **Chart V**). 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 closely trends with the delinquency rate in FY 2021.

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 0.2 percent in July 2021. 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. The upward trend in the 504 delinquency rate during FY 2021 could impact the future trajectory of 504 charge-off rates in coming fiscal years.

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.

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



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, Business Adaptation, and Economic Recovery

America's small businesses are only just beginning to recover from the economic shock of the COVID-19 pandemic, and many continue to experience challenges. The SBA continues to administer programs that were implemented to lessen the impact of the pandemic and may be called upon to administer additional COVID-19 relief programs in the years ahead. The Agency will build on the improvements and advances made over the past two years in order to meet the needs of small businesses more efficiently and equitably, while also putting into place additional measures to reduce and respond to fraud.

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 SBA continues to invest in business innovation and in supporting innovative start-ups as part of its comprehensive programming to support a healthy business ecosystem.

Climate Crisis

A natural disaster can destroy lives, businesses, and communities. Moreover, natural disasters have become more intense and more costly with 2020 being the sixth consecutive year in which ten or more billion-dollar weather and climate disaster events have impacted the United States.[10] Although 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. In the coming years, the SBA will increase promotion of its disaster mitigation loan option in order to encourage more home and business owners to invest in their own preparedness. Furthermore, the SBA continues to modernize and respond to the threats posed by the climate crisis by updating technology and streamlining its ability to onboard staff.

Technology and Automation

Technology has evolved so that entrepreneurs have greater access to markets and more capabilities to start and expand their businesses. Increased access to technology also influences the way that entrepreneurs interact with the SBA. 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, and improvements that the SBA has made and will continue to make to its platforms will ensure that the agency is able to meet customer expectations, including during periods of high demand. Technological advancements will continue to shape how small businesses operate and how the Agency responds to the ever-changing environment.

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

10 www.ncdc.noaa.gov/billions/.

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 and with resource partners throughout the country.

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 Results

Highlights of Financial Results (as of September 30)

(Dollars in Thousands)

At End of Fiscal Year	2021	2020	$ Change
CONDENSED BALANCE SHEET DATA			
Fund Balance with Treasury	$ 316,852,301	$ 714,400,127	$ (397,547,826)
Credit Program Receivables and Related Foreclosed Property, Net	245,445,095	182,936,949	62,508,146
All Other Assets	120,285	196,914	(76,629)
Total Assets	**$ 562,417,681**	**$ 897,533,990**	**$ (335,116,309)**
Debt	262,654,877	176,173,660	86,481,217
Downward Reestimate Payable to Treasury	11,742,037	28,541,393	(16,799,356)
Liability for Loan Guaranties	227,831,513	512,712,498	(284,880,985)
All Other Liabilities	1,310,636	628,467	682,169
Total Liabilities	**503,539,063**	**718,056,018**	**(214,516,955)**
Unexpended Appropriations	69,132,143	183,460,572	(114,328,429)
Cumulative Results of Operations	(10,253,525)	(3,982,600)	(6,270,925)
Total Net Position	**58,878,618**	**179,477,972**	**(120,599,354)**
Total Liabilities and Net Position	**$ 562,417,681**	**$ 897,533,990**	**$ (335,116,309)**
For the Fiscal Year			
STATEMENT OF NET COST BY STRATEGIC GOAL			
Goal 1: Support Small Business Revenue and Job Growth			
Loan Subsidy Cost Including Reestimates	$ 296,810,691	$ 526,808,679	$ (229,997,988)
All Other Costs Net of Revenue	29,314,446	(1,543)	29,315,989
Goal 2: Build Healthy Entrepreneurial Ecosystems and Create Business Friendly Environments	456,701	27,523	429,178
Goal 3: Restore Small Business and Communities after Disasters			
Loan Subsidy Cost Including Reestimates	2,888,758	5,398,238	(2,509,480)
All Other Costs Net of Revenue	16,650,315	21,984,153	(5,333,838)
Goal 4: Strengthen SBA's Ability to Serve Small Businesses	131,155	11,976	119,179
Costs Not Assigned	31,487	2,521	28,966
Net Cost of Operations	**$ 346,283,553**	**$ 554,231,547**	**$ (207,947,994)**
CONDENSED STATEMENT OF NET POSITION			
Beginning Unexpended Appropriations	$ 183,460,572	$ 1,779,472	$ 181,681,100
Total Budgetary Financing Sources	(114,328,429)	181,681,100	(296,009,529)
Ending Unexpended Appropriations	**$ 69,132,143**	**$ 183,460,572**	**$ (114,328,429)**
Beginning Cumulative Results of Operations	$ (3,982,600)	$ (145,864)	$ (3,836,736)
Total Financing Sources	340,012,628	550,394,811	(210,382,183)
Less: Net Cost of Operations	346,283,553	554,231,547	(207,947,994)
Ending Cumulative Results of Operations	**$ (10,253,525)**	**$ (3,982,600)**	**$ (6,270,925)**
Ending Net Position	**$ 58,878,618**	**$ 179,477,972**	**$ (120,599,354)**
CONDENSED STATEMENT OF BUDGETARY RESOURCES			
Unobligated Balance Brought Forward	$ 699,661,256	$ 5,892,067	$ 693,769,189
Other Budgetary Resources, Net	3,120,760	(591,758)	3,712,518
Appropriations (discretionary and mandatory)	236,667,028	762,173,214	(525,506,186)
Borrowing Authority (discretionary and mandatory)	93,935,801	167,267,294	(73,331,493)
Spending Authority from Offsetting Collections	313,734,004	583,927,087	(270,193,083)
Total Budgetary Resources	**$ 1,347,118,849**	**$ 1,518,667,904**	**$ (171,549,055)**
Obligations Incurred, Budgetary	$ 348,440,145	$ 590,232,922	$ (241,792,777)
Obligations Incurred, Nonbudgetary	699,531,213	228,773,726	470,757,487
Unobligated Balances, Available and Unavailable	299,147,491	699,661,256	(400,513,765)
Total Status of Budgetary Resources	**$ 1,347,118,849**	**$ 1,518,667,904**	**$ (171,549,055)**

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). Although 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 guarantied loans is used in the Portfolio Analysis, but only the SBA's guarantied portion is used in the Analysis of Financial Results because it ties to balances in the financial statements.

During Fiscal Year 2021, the SBA continued to support the recovery of the American economy from the COVID-19 pandemic. The American Rescue Plan Act established the Restaurant Revitalization Fund to provide funding to help restaurants and other eligible businesses keep their doors open. This program provides restaurants with funding equal to their pandemic-related revenue loss up to $10 million per business and no more than $5 million per physical location. Recipients are not required to repay the funding as long as funds are used for eligible uses no later than March 11, 2023. The Shuttered Venue Operators Grant program was also established by the Economic Aid to Hard-Hit Small Businesses, Nonprofits, and Venues Act, and amended by the American Rescue Plan Act. The program includes over $16 billion in funding to shuttered venues, which is administered by SBA's Office of Disaster Assistance. Additionally, the Community Navigator pilot program was established under Public Law 117-2 to make grants to, or enter into contracts or cooperative agreements with, private nonprofit organizations, resource partners, States, Tribes, and units of local government to ensure the delivery of free community navigator services to current or prospective owners of eligible businesses in order to improve access to assistance programs and resources made available because of the COVID-19 pandemic by Federal, State, Tribal, and local entities. This public law appropriated $100 million for the program and $75 million for outreach and training. These programs are discussed further in Note 17 of the financial statements.

Background

The SBA is a major federal credit reform agency of the U.S. Government and the vast majority of the Agency's $1.3 trillion in budgetary resources support 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.

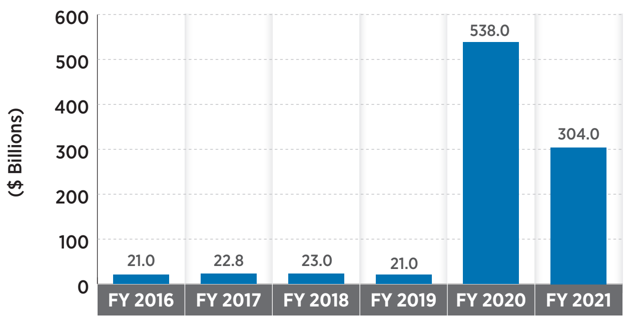
A Liability for Loan Guaranties is also reported using subsidy models with forecasted cash flows from user fees and defaulted guarantied loans. The direct loan allowance and loan guaranty liability for each loan program cohort is adjusted annually under FCRA through the subsidy model reestimate process. 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 guarantied 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 $435.3 billion as of September 30, 2021, a decrease of $186.4 billion from the $621.7 billion guaranteed as of September 30, 2020 (see Note 6.C in the financial statements). As shown in **Chart VI**, new guaranties disbursed by the SBA participating banks during FY 2021 were $304.0 billion, a $234.0 billion decrease compared to the FY 2020 figure of $538.0 billion. This net $234.0 billion decrease resulted from a $240.9 billion decrease in PPP loans combined with a $6.9 billion increase in 7(a) loans. This net decrease in FY 2021 guaranty disbursements contributed to the $186.4 billion decrease in outstanding guarantied principal.

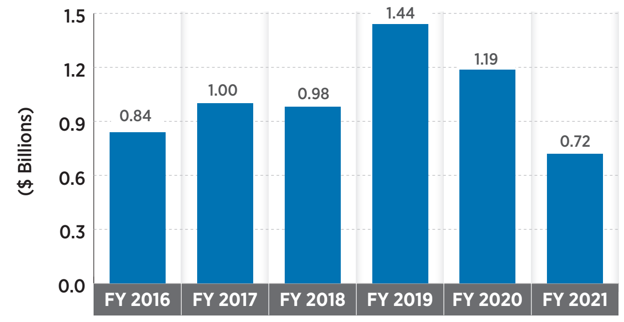
Chart VI: Guarantied Loans Disbursed



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, whereas 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 $245.4 billion in FY 2021, an increase of $62.5 billion from FY 2020. The change in the credit program receivables resulted from an increase of $62.7 billion in direct disaster loans as a direct result CARES Act funded loans. The amount of defaulted guarantied loans decreased by $0.2 billion as new guaranty purchases decreased. As reflected in **Chart VII**, guarantied loan purchases decreased $0.5 billion in FY 2021 to $0.7 billion.

Chart VII: Purchases of Guarantied Loans



Financial Position

Assets

The SBA had total assets of $562.4 billion at the end of FY 2021, down $335.1 billion from FY 2020. Total assets decreased due to a $397.5 billion decrease in Fund Balance with Treasury combined with a $62.5 billion increase in Credit Program Receivables and Related Foreclosed Property. The decrease in Fund Balance with Treasury is a largely a result of PPP forgiveness payments made in FY 2021 as well as a rescission of CARES act funding offset by increases associated with EIDL grant funding received in FY 2021. 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 $503.5 billion at the end of FY 2021, down $214.5 billion from FY 2020. Liabilities consist primarily of the Principal Payable to the Bureau of the Fiscal Service, Liability for Loan Guaranties, and Downward Reestimate Payable to Treasury.

The Principal Payable to the Bureau of the Fiscal Service increased $86.5 billion in FY 2021 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 Principal Payable to the 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 guarantied loans under its guarantied 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 decreased $284.9 billion primarily due to an increase in current year subsidy, loan modifications and subsidy reestimates offset by an increase in miscellaneous recoveries. Miscellaneous recoveries are largely driven by PPP forgiveness expense of $557.6 billion followed by $20.4 billion in PPP fees and $3.5 billion for debt relief expense. These large fluxes are a direct result of the PPP and Debt Relief programs. Note 6.E in the financial statements provides additional detail.

The Downward Reestimate Payable to Treasury decreased $16.8 billion in FY 2021. The decrease was a direct result of the Disaster Assistance program which had a net downward reestimate of $3.8 billion compared to $18.9 billion in FY 2020. This was the result of updates to the discount rate which resulted in reduced borrowing costs for FY 2021 lending. In addition, there was a net upward reestimate of $7.3 billion for the Paycheck Protection Program, a decrease of $14.5 billion from the FY 2020 net downward reestimate of $7.2 billion, as a result of updates to the discount rate for the 2021 cohort among other factors. 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 $6.3 billion primarily because unfunded upward subsidy reestimates at year-end for the Paycheck Protection Program was higher for FY 2021 compared with FY 2020 while 7(a) loan and disaster loan programs were lower. Upward subsidy reestimates determined at year-end are funded in the following year when they are received.

Unexpended Appropriations decreased $114.3 billion this year primarily because the amount of appropriations received and expended was less than the appropriations received and expended in FY 2021 for business, disaster, and administrative activities combined with a rescission of $146.5 billion. This affected Budgetary Financing Sources and the Ending Net Position.

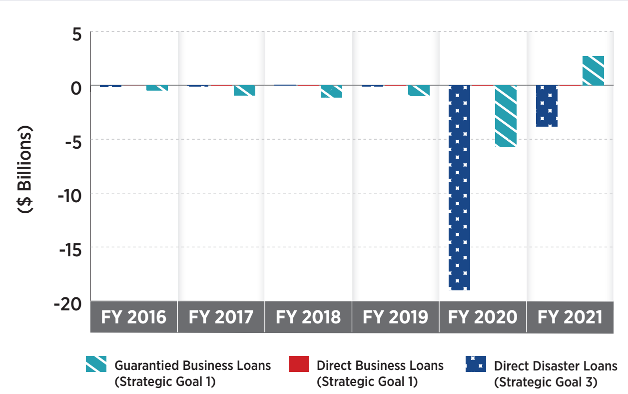
Net Costs of Operations

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 $207.9 billion decrease in net cost is largely attributable to Goal 1, which had an overall $200.7 billion decrease. The decrease is attributable to a $230.0 billion decrease in loan subsidy costs, including reestimates combined with an increase of $29 billion in costs related to the Restaurant Revitalization Fund. These decreased costs in FY 2021 are attributable to the PPP and Debt Relief programs under the CARES Act.

Net reestimates for the business loan programs were upward in FY 2021 comparatively to FY 2020 which was a net downward reestimate, which affected Strategic Goal 1 costs. **Chart VIII** reflects the change in the net subsidy reestimates for the guarantied business and direct disaster loan programs in FY 2021. The PPP program had a net upward reestimate of $7.3 billion for FY 2021 and is attributable to the FY 2021 cohort. The net downward reestimate in the 7(a) program of $2.7 billion is mostly due to better than expected loan performance in FY 2021 for cohorts 2015 through 2020. Further detail on subsidy reestimates can be found in Note 6.I of the financial statements in the Financial Reporting section of this report.

Chart VIII: Credit Program Subsidy Reestimates



The overall decrease in net cost is also driven by a $7.8 billion dollar decrease in Goal 3. This decrease is attributable to a $5.3 billion decrease in all other costs combined with a $2.5 billion decrease in loan subsidy costs. The decrease in all other costs is a result of a decrease in the FY 2020 CARES Act related Disaster Advance grant program offset by a slight increase due to the Shuttered Venue Operators Program. The decrease in loan subsidy is a result of decreased subsidy costs associated with CARES Act funded loans offset by a lower net downward reestimate. The Disaster Assistance program had a net downward reestimate of $3.8 billion in FY 2021 compared to $18.9 billion in FY 2020. The downward reestimate is a result of updates to the discount rate which results in reduced borrowing costs for FY 2021 COVID EIDL funded 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 2021, Total Budgetary Resources decreased from $1.5 trillion in FY 2020 to $1.3 trillion in FY 2021. This decrease was primarily due to a decrease 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) decreased $525.5 billion in FY 2021 as a result of the year over year decrease in appropriations to fund CARES Act programs. Borrowing Authority decreased $73.3 billion in FY 2021 due to a decrease in borrowing needed to cover disaster loan making. Borrowing authority initially granted to the SBA was $272.8 billion in FY 2021. The SBA withdrew $178.8 billion at year-end FY 2021, as the excess authority was not needed to fund future credit program operations. Spending Authority from Offsetting Collections decreased $270.2 billion in FY 2021. This decrease is primarily attributable to a decrease in the amount of subsidy collected in both the business and disaster programs.

Status of Budgetary Resources

The Total Status of Budgetary Resources decreased $171.5 billion in FY 2020 to $1.3 trillion in FY 2021. Nonbudgetary obligations increased by $470.8 billion, mainly resulting from the PPP forgiveness payments, PPP fees and increased downward reestimates for both disaster and business programs. Budgetary obligations decreased $241.8 billion largely in part due to decreased subsidy obligations for the business subsidy associated with the PPP program.

Unobligated balances as of September 30, 2021 and 2020 were $299.1 billion and $699.7 billion, which included $6.4 billion and $9.6 billion of unavailable unobligated balances. These balances were unavailable because they were unapportioned by the OMB. The SBA accumulates the majority of unobligated balances in its nonbudgetary financing accounts ($234.2 billion in FY 2021 and $525.3 billion in FY 2020) from subsidy estimates and reestimates that are used primarily to pay default claims in future years. The unobligated balances in the nonbudgetary accounts are directly attributable to the 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 demonstrating consistent responsible stewardship over assets and resources and 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 is required to implement or maintain 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 SBA's Office of the Inspector General (OIG).

The Office of Performance, Planning, and the Chief Financial Officer's (OPPCFO) Internal Controls Division (ICD) provides training and tools, including checklists designed specifically for program support 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, chaired by the Deputy Chief Financial Officer and composed of SBA managers from the major program and support offices. The SMC plans and executes the Agency's internal control activities that includes assessing and improving compliance with applicable guidance (e.g., Office of Management and Budget Circular A-123, *Management's Responsibilities for Enterprise Risk Management and Internal Control*), monitoring and remediation of identified deficiencies, and communicating the results of reviews to senior management.

SMC activities in FY 2021 included planning the annual internal controls assessments; identifying key processes and related control activities; documenting the scope, design, and methodology of risk and internal control assessments; testing of internal controls and monitoring corrective action plans for remediation. In addition, the SMC discussed any material information that should be considered for the Administrator's annual statement of assurance with the Enterprise Risk Management Board.

This year ICD developed and implemented a methodology to address pandemic programs as a result of new legislation. The methodology applied to all programs established by the Economic Aid Act, the American Rescue Plan Act, and subsequent legislation. ICD worked with applicable Program Offices to conduct risk assessments for new programs that reached a level of maturity in their program processes. Risk assessments were conducted to assess the impact and likelihood of different risk factors and identify an overall risk rating of low, medium, or high risk. Risk assessment will continue in FY 2022 for new programs that have been established.

Furthermore, ICD continued with the development and execution of the FY 2021 Annual Assessment Plan. Internal control assessments were conducted for PPP Loan Fees, Subsidy Payments, Service Center Guaranty and 504 Loans, Grants Management, Procurement, and a limited scope assessment of the Shuttered Venue Program. To support the implementation of new programs, end-to-end process documentation was developed to highlight key processes and controls.

The FY 2020 Financial Statement Audit results identified weaknesses and deficiencies that required corrective actions. For FY 2021 the ICD worked with responsible officials to develop corrective actions and process documentation to support the remediation of existing deficiencies. Efforts will continue beyond FY 2021 until remediation is complete.

The remediation efforts have resulted in improvements; however, internal controls continue to evolve since the inception of PPP and COVID EIDL programs. During the initial phase, time constraints required the SBA to leverage existing loan program controls to disburse funds to applicants with minimal checks and delays. In the second issuance of PPP loans, the SBA began to introduce additional fraud prevention controls for PPP by cross-referencing applicant information with the U.S. Treasury's Do Not Pay (DNP) list. The SBA also introduced a set of automated screening rules prior to the release of the SBA loan guarantee number. In the third issuance of PPP loans, the SBA was not required to process the PPP loan applications immediately upon their receipt, thus enabling the SBA to introduce additional prevention controls to review compliance and minimize ineligible and fraudulent PPP loans.

Like the PPP loan program, the SBA swiftly scaled its operations to receive an unprecedented volume of COVID EIDL applications. Since the program's inception, the SBA has worked to implement controls throughout the COVID EIDL transaction lifecycle to minimize fraud within the program. The SBA has implemented measures that include system data and validation controls, automated decision controls, access and workflow controls, credit check requirements, and ineligibility or potential fraud flags that require manual reviews and approval by team leads and loan officers prior to the disbursement of a COVID EIDL loan. To further support detection and response activities, the SBA has fraud analysis teams to assist with the recovery of fraudulent PPP and COVID EIDL loans funds.

The SBA's Enterprise Risk Management (ERM) Board, which is chaired by the Deputy Administrator and/or Chief of Staff, brings together senior leaders from the SBA's major program and support offices monthly to collectively share risk management best practices and discuss the management of the agency's top risks. The Office of Continuous Operations and Risk Management (OCORM) facilitates the ERM Board meetings and is responsible for implementing ERM, agency wide. This fiscal year, SBA (1) integrated the ERM process with the strategic planning process, (2) strengthened the agency-wide risk profile process, (3) developed agency-wide risk assessment tools for pandemic programs, and (4) as directed by OMB, approved the agency-wide risk profile, which resulted in the identification of cross-cutting risks related to fraud, technology, and reporting.

The SBA builds, delivers, and continues to mature resilient and robust Enterprise Cybersecurity Service (ECS) capabilities that can be consistently implemented, maintained, and leveraged throughout the agency. These cover areas such as cyber threat intelligence, network monitoring, penetration testing, risk management and assessment, vulnerability scanning and remediation, event log correlation, awareness training, and incident response.

Delivered at the enterprise level, the ECS allow the SBA to better support the Small Business Community by providing consistency of process, ensuring broad visibility, and facilitating efficiency through program offices' ability to consume a single solution. Institutionalization of the ECS has led to a steady increase in the Agency's CAP Goal Metrics and OMB Maturity Ratings over a multiyear period. These ECS capabilities make the SBA well-positioned to align to the initiatives outlined in Executive Order 14028, Improving the Nation's Cybersecurity, and enable the SBA to rapidly respond to recent well-publicized global cyber events with minimal impact and no indications of compromise.

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 2021 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.[11]

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 2021, the SBA played a key role in the continuing programs designed to bring emergency relief for America's small businesses such as additional funding for Paycheck Protection Program, COVID-19 Economic Injury Disaster Loans as well as implementing new programs such as Shuttered Venue Operators Grant and the Restaurant Revitalization Fund as a part of the American Rescue Plan Act. SBA systems continued to process a historic volume of transactions this fiscal year:

- General ledger line item transactions increased from 11 million in FY 2019 to more than 262 million in FY 2020 and 222 million in FY 2021.
- Payment volume increased from 250,000 in FY 2019 to more than 17.5 million in FY 2020 and 16.6 million in FY 2021.

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, Planning, 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.

11 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 FFMIA provides the basis for the continuing use of reliable financial management information by program managers, the President, Congress, and the public.

Management Assurances: FMFIA and FFMIA Assurance Statement for FY 2021

The Small Business Administration continued to strengthen its internal controls over core and COVID-related programs and operations during FY 2021. 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. While the SBA continued to strengthen internal controls, the SBA's independent auditor has issued a disclaimed opinion on the Agency's FY 2021 Consolidated Balance Sheet and is reporting material weaknesses in internal controls. Although the SBA believes that its efforts to develop and implement controls for its COVID-related programs in FY 2021 would have remediated material weaknesses identified from the FY 2020 audit, the SBA will continue to resolve findings next year. The SBA has provided responses outlining proposed corrective actions for identified deficiencies to the auditor in an effort to remediate.

The 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 2021 internal controls in their areas of responsibility. These assertions are supported by internal testing, checklists, and other management reviews.

FMFIA section 2 requires that the head of each Executive Agency annually submit to the President and Congress (i) a statement on whether there is reasonable assurance that the Agency's controls are achieving their intended objectives and (ii) a report on material weaknesses in the Agency's controls. Based on the results of the Agency managers' assessments, I can provide modified assurance over the internal controls over operations, reporting, and compliance with applicable laws and regulations, as of September 30, 2021. The internal controls over operations, reporting, and compliance with applicable laws and regulations were operating effectively except for certain controls noted below. The SBA has developed and implemented controls to remedy the material weaknesses identified in the FY 2020 audit but notes that the material weaknesses identified through the prior year audit remain because of the timing of corrective action plan implementation. The FY 2021 audit identified material weaknesses in the following areas:

- Controls over Paycheck Protection Program (PPP) Loan Guarantees
- Controls over COVID-19 EIDLs and Grants
- Controls over the Subsidy Reestimate
- Controls over the Evaluation of Service Organizations
- Controls over Monitoring and Accounting of Restaurant Revitalization and Shuttered Venues Operators Grant Programs
- Entity Level Controls

FMFIA section 4 requires agencies to report on whether the Agency's financial management systems comply with government-wide requirements. The SBA evaluated its financial management system; however, the auditor noted noncompliance with Federal Financial Systems Requirements and Federal Accounting Standards. As a result of this audit assessment, the Agency's financial management systems do not conform to the principles, standards, and related requirements prescribed by Section 4 of FMFIA; therefore, the SBA provides a modified assurance.

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. The SBA evaluated its financial management systems to determine conformance; however, the auditor identified that it does not comply with Federal Financial Systems Requirements and Federal Accounting Standards. Based on the FFMIA criteria and audit report, the SBA provides a modified assurance that its financial management systems substantially comply with FFMIA for FY 2021. The Agency is currently evaluating identified material weaknesses and non-conformances to make further adjustments necessary to bring its programs into compliance.

Isabella Casillas Guzman
Administrator
November 15, 2021

Summary of Material Weaknesses

1. **Controls over PPP Loan Guarantees** – The auditor identified deficiencies in the PPP loan guarantees process related to the approval, reporting, review, and forgiveness of the PPP loan guarantees. Specifically, the auditor identified deficiencies in: (a) the design and implementation of controls to ensure PPP loan guarantees approved were in conformance with legislation, (b) the design and implementation of controls to determine the status of PPP loan guarantees, (c) the design and implementation of controls to review and validate flagged PPP loan guarantees, and (d) the design and implementation of controls to ensure forgiveness process was accurate and in accordance with legislation. The SBA continues to implement Corrective Action Plan (CAP) that includes the development of a Paycheck Protection Program Loan Review Plan with a detailed review process to ensure the PPP Loans are accurately reported.
2. **Controls over COVID-19 EIDLs and Grants** – The auditor determined that SBA did not adequately design and implement controls to ensure approved COVID EIDLs and grants were provided to eligible borrowers and accurately recorded. The SBA implemented corrective actions utilizing a quality assurance team to manage the COVID EIDL loan and advance process review. The team sampled reviews against COVID legislation as well as SBA policy and provided results to loan/advance processors, disbursers, and management to determine which actions were made to ineligible recipients.
3. **Controls over the Subsidy Reestimate** – The auditor determined that SBA 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. The SBA will review and evaluate the reestimate of the PPP model, clarify elements supporting the FY 2020 reestimate, and expand upon the Assumption Development document to provide a more robust support assumptions for use in the FY 2021 reestimates.
4. **Controls over the Evaluation of Service Organization** – The auditor determined that the SBA did not obtain reasonable assurance on the operating effectiveness of internal controls in the service organization's control environment relevant to the processing of the SBA's COVID EIDL transactions. Additionally, the auditor determined that evaluations of SOC 1 reports over the fiscal transfer agent and the financial service provider were not sufficient or properly documented enough to aid in the SBA'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 Corrective actions related to COVID EIDL transactions include the development and implementation of a policy requiring new service organizations to provide a SOC 1 report over the control environment that was relevant and significant to the processing identified and that evaluated relevant controls at the service organizations that have had an impact on the SBA's internal controls over reporting. Corrective actions related to SOC 1 reports include the development of a SOC policy to address SOC complementary design controls, exception reporting, and impact analysis. The policy will include the organizations required to provide SOC reports.
5. **Controls over Monitoring and Accounting of Restaurant Revitalization and Shuttered Venues Operators Grant Programs**– The auditor determined that SBA did not adequately design and implement monitoring controls over the Restaurant Revitalization Fund and Shuttered Venues Operators Grant (SVOG) programs. The SBA will review and update where necessary the existing framework for each program and the design of the controls to ensure funds are used in accordance with legislative requirements and to ensure controls are monitored for accuracy of financial reporting.
6. **Entity Level Controls** – The auditor determined that SBA did not properly design and implement entity level controls to establish an internal control system that produces reliable and accurate financial reporting. Corrective actions include developing a detailed process documentation describing CARES Act programs' transaction lifecycles and related financial and internal controls. The documentation will describe how transactions are recorded in the financial system and the internal controls in place to confirm that transactions are recorded accurately and timely. In addition, an assessment plan will provide an evaluation of internal controls, and associated risk related templates will support conducting a preliminary assessment of the risks related to CARES Act business processes used to manage the new funding. The assessments will provide the SBA with information to determine the scope and magnitude of additional reviews needed and help maintain the overall control environment. Furthermore,

the assessment plan will outline guidance that identifies SBA personnel responsible for overseeing the design, implementation, and operation of the SBA's internal control system.

Financial Reporting

(UNAUDITED)

Success Stories

MAMA'S SOUTHERN STYLE BBQ II

Christopher Finnick, CEO
Vauxhall, NJ

Mama's Southern Style BBQ II is a family-owned southern BBQ restaurant that recently expanded to a new space with the assistance of an SBA-backed 504 loan and a microloan from the Regional Business Assistance Corporation, a Certified Development Company (CDC). CEO **Christopher Finnick** now owns and operates the family business, which was started by his uncle in 1997. In 2020, Mama's Southern Style BBQ II was named the SBA New Jersey Small Business of the Year.

Christopher was not sure how his restaurant would survive when COVID-19 hit and business slowed down. He received regular updates from Kean University's Small Business Development Center to help prepare his business and access SBA relief programs when they became available. The Paycheck Protection Program and COVID EIDL loans he received ensured that the restaurant did not lose any employees during the pandemic and allowed the business to stay open.

"Without [the SBA], I don't know where I would have been," says Christopher. "It was like a guy sent from heaven to just pick us up and carry us to the finish line."

PLAY IT AGAIN SPORTS

Richard Messina
Owner/Operator
Omaha, NE

March is normally the busiest time of year for **Play It Again Sports**, a retail franchise in Omaha, NE that buys, sells, and trades new and used sporting and fitness equipment. As the pandemic shut down team sports, the store pivoted to selling fitness equipment and yard games, helping people stay active while socially distanced.

Air Force Veteran **Richard Messina**, owner and operator of Play It Again Sports, was no stranger to the SBA's programs when the pandemic hit. After retiring from the Air Force, he participated in the Boots to Business training program offered through the SBA and the DOD's Transition Assistance Program. Messina also received mentoring from SCORE, an SBA resource partner that provides business counseling and training services.

During the pandemic, Messina obtained a Paycheck Protection Loan to keep his staff employed. Staying afloat during the pandemic proved crucial to the business's success. "Because our business continued to take off, we got a 7(a) loan through the SBA that helped us expand our footprint and our inventory, and the services we were able to offer," said Richard.

BRIGHT FUTURES LEARNING SERVICES

Jill Scarbro-McLaury
CEO
Winfield, WV

Bright Futures Learning Services was one of the first providers of Applied Behavior Analysis therapy to children with autism in the state of West Virginia. "We provide early intensive interventions, starting with children as young as two, and work one-on-one with them to really change their trajectory. To help them learn how to learn, so that they can achieve their best outcome," says **Jill Scarbro-McLaury**, CEO.

The COVID pandemic had a devastating impact on the families who relied on Bright Future's intensive therapy services. Because of Jill's familiarity with SBA's program, she was able to act quickly when the pandemic threatened her business. "Several of our SBA contacts will personally contact me and make sure that I have information available to us, and that we were one of the first in line for the Payroll Protection Program because our banker knew how important it was to keep us afloat."

Bright Futures Learning now houses programs in two locations, Foundations and McCoy Academy. The new location opened in April, with the assistance of the SBA's 504 loan program, after the pilot program was displaced for over a year due to COVID-19.

Message From the Acting Chief Financial Officer

Jason Bossie

November 15, 2021

I am pleased to issue the SBA's FY 2021 Agency Financial Report as of September 30, 2021. This report presents the Agency's financial results in accordance with U.S. Office of Management and Budget guidance, and the financial statements have been developed within Generally Accepted Accounting Principles.

This year the SBA continued to play a key role helping small businesses recover from the COVID-19 pandemic and building back a more equitable economy for all entrepreneurs through programs implemented in the American Rescue Plan Act. While the SBA made substantial progress strengthening internal controls for pandemic-focused programs implemented apace in FY 2020, the Agency continues to work on closures of material weaknesses and resolve a disclaimer of opinion on the Agency's FY 2021 Consolidated Balance Sheet.

The SBA has provided more than $1.1 trillion in economic relief since March 2020. With the passage of the American Rescue Plan Act, the SBA helped businesses in key industries keep their doors open by providing nearly $29 billion through the Restaurant Revitalization Fund and $10 billion through the Shuttered Venue Operator Grant program. The Agency also played a key role approving $277 billion in Paycheck Protection Program loans, forgiving more than $562 billion of them, and approving $74 billion in COVID EIDL loans in FY 2021. These figures represent an immense undertaking by the SBA to save millions of small businesses.

While the SBA continued to focus attention protecting the economy, the Agency realizes the importance of controls to prevent fraud, waste, and abuse. This year has been critical to establish robust procedures to ensure that taxpayer dollars have been appropriately awarded. The Agency took action to develop a fraud risk assessment, establish new checks to verify entities before making awards, and document processes for new programs.

In FY 2022, the Agency will continue to be a champion for small businesses as they recover from the pandemic and strengthen management over its operations. To achieve these goals, the SBA has started laying the groundwork for its *FY 2022-2026 Strategic Plan* to be published in February 2022. As an Agency dedicated to building robust evidence to inform decision making, the Strategic Plan presents an opportunity to further the Administration's vision to help all entrepreneurs achieve their dreams.

I look forward to sharing those achievements next year. I also want to thank the dedicated SBA team that achieved these great successes and developed the FY 2021 Agency Financial Report.

Sincerely,

Jason Bossie

Jason Bossie
Acting Associate Administrator for Performance, Planning,
and the Chief Financial Officer

Inspector General's Audit Report

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

DATE:	November 15, 2021
TO:	Isabella Casillas Guzman Administrator
FROM:	Hannibal "Mike" Ware Inspector General
SUBJECT:	Independent Auditors' Report on SBA's FY 2021 Financial Statements (Report 22-05)

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 2021 and 2020, 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 SBA's consolidated balance sheets as of September 30, 2021, and for 2020 and the related notes to these statements. KPMG was also engaged to audit the consolidated statements of net cost and changes in net position and combined statement of budgetary resources for the year ended September 30, 2020, as well as the related notes to those statements.

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. 21-04, 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, 2021. Accordingly, KPMG issued a disclaimer of opinion on the consolidated financial statements as of and for the year ended September 30, 2021, and for 2020.

The basis for the disclaimer was that, due to inadequate processes and controls, SBA was unable to provide adequate evidential matter in support of a significant number of transactions and account balances related to the expanded Paycheck Protection and Economic Injury Disaster Loan programs and the newly implemented Restaurant Revitalization and Shuttered Venues Operators Grant programs.

As a result, KPMG was unable to determine whether any adjustments might have been necessary with respect to the following:

- Loans Receivable (net)
- Advances and Prepayments
- Downward Reestimate Payable to Treasury
- Liability for Loan Guaranties

For the year ended September 30, 2021, KPMG identified six material weaknesses and two significant deficiencies in internal controls over financial reporting. Appendixes I and II of this report describe details of KPMG's conclusions about the material weaknesses and significant deficiencies. Appendix III describes instances of noncompliance or other matters required to be reported under Government Auditing Standards or OMB Bulletin No. 21-04.

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 November 15, 2021, and the conclusions expressed. However, 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 Acting Chief Financial Officer, who did not concur with the severity of five material weaknesses under "PPP Loan Guarantees," "COVID-19 EIDLs and Grants," "Subsidy Reestimate," "Restaurant Revitalization and Shuttered Venues Operators Grant program," and "Entity Level Controls." SBA partially agrees with the material weakness under "Evaluation of Service Organizations."

SBA's responses, as communicated to KPMG during the audit, detail their concerns with the analysis and conclusions drawn by the auditors. The Acting Chief Financial Officer's response is included in Appendix IV, and KPMG's response to the Acting Chief Financial Officer's response is included in Appendix 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: Antwaun Griffin, Chief of Staff
Arthur Plews, Deputy Chief of Staff
Jason Bossie, Acting Associate Administrator, Office of Performance, Planning, and the Chief Financial Officer
Patrick Kelly, Associate Administrator, Capital Access
John Miller, Deputy Associate Administrator, Capital Access
James Rivera, Associate Administrator, Disaster Assistance
Erica Gaddy, Deputy Chief Financial Officer
Peggy Delinois Hamilton, General Counsel
Michael Simmons, Attorney Advisor, Office of General Counsel
Tonia Butler, Director, Office of Internal Controls
Rafaela Monchek, Director, Office of Continuous Operations and Risk Management

Attachment

Independent Auditors' Report on FY 2021 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 were engaged to audit the accompanying consolidated balance sheets of the United States (U.S.) Small Business Administration (SBA) as of September 30, 2021 and 2020, and the related notes to these statements. We were also engaged to audit the consolidated statements of net cost and changes in net position, and combined statement of budgetary resources for the year ended September 30, 2020 and the related notes to these statements. These are referred to as 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 the 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 conducting the audit 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. 21-04, Audit Requirements for Federal Financial Statements. Because of the matter described in the Basis for Disclaimer of Opinion paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for Disclaimer of Opinion

During fiscal years 2020 and 2021, the Coronavirus Aid, Relief, and Economic Security Act of 2020 and related legislations authorized funding for SBA to expand or implement the Paycheck Protection Program, Economic Injury Disaster Loan program, Restaurant Revitalization program, and Shuttered Venues Operators Grant 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 related to Loans Receivable, Net; Advances and Prepayments; Downward Reestimate Payable to Treasury; and Loan Guarantee Liabilities.

Disclaimer of Opinion

Because of the significance of the matter 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. Accordingly, we do not express an opinion on these consolidated financial statements.

Other Matters

Report on Certain Fiscal Year 2021 Information

We were not engaged to audit the consolidated statements of net cost and changes in net position, and combined statement of budgetary resources for the year ended September 30, 2021 and the related notes to these statements and, accordingly we express no opinion on them.

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 Fiscal Year 2021 Agency Financial Report to provide additional information for the users of its consolidated financial statements. Such information is not a required part of the 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 consolidated financial statements. Such information, although not a part of the 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 consolidated financial statements in an appropriate operational, economic, or historical context. We were unable to apply certain limited procedures to the required supplementary 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 consolidated financial statements as a whole. The Table of Contents, How this Report is Organized, Message from the Administrator, Message from the Acting Chief Financial Officer, Other Information, and the Appendices are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information has not been subjected to the procedures applied in our engagement to audit the 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, 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 an 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 Appendices 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, KPMG

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 Appendix I to be material weaknesses.

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 Appendix II to be significant deficiencies.

Compliance and Other Matters

In connection with our engagement to audit SBA's consolidated financial statements, 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 consolidated financial statements. However, providing an opinion on compliance with those provisions was not an objective of our engagement to audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards or OMB Bulletin No. 21-04, and which are described in Appendix III.

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 engagement to audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances in which SBA's financial management systems did not substantially comply with the (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 consolidated financial statements, other instances of noncompliance or other matters 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 Appendix 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 Appendix 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 SBA's internal control or compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Washington, DC
November 15, 2021

Appendix I

U.S. Small Business Administration

Material Weaknesses

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

1. **Controls over Paycheck Protection Program (PPP) Loan Guarantees Need Improvement**
2. **Controls over COVID-19 Economic Injury Disaster Loans (EIDLs) and Grants Need Improvement**
3. **Controls over the Subsidy Reestimate Need Improvement**
4. **Controls over the Evaluation of Service Organizations Need Improvement**
5. **Controls over Accounting and Monitoring of Restaurant Revitalization and Shuttered Venues Operators Grant Programs Need Improvement**
6. **Entity Level Controls Need Improvement**

For purposes of presentation and as described below, material weaknesses (1) and (4) have multiple components. Material weakness (1) Controls over PPP Loan Guarantees Need Improvement, is comprised of: (A) Approval of PPP Loan Guarantees, (B) Reporting of PPP Loan Guarantees, (C) Review of PPP Loan Guarantees, and (D) Forgiveness of PPP Loan Guarantees. Material weakness (4) Controls over the Evaluation of Service Organizations Need Improvement, is comprised of: (A) Service Organization Used for COVID-19 EIDLs and Grants; and (B) Service Organizations Used for Loan Guarantee Programs.

During fiscal year 2021, Congress passed the Economic Aid to Hard-Hit Small Businesses, Nonprofits, and Venues Act and the American Rescue Plan Act to continue providing emergency assistance in response to the extensive effects of the public health and economic crisis arising from the Coronavirus Disease 2019 (COVID-19) pandemic. In addition to implementing the new and expanded provisions of the fiscal year 2021 referenced legislations, SBA processed forgiveness payments for the 2020 and 2021 cohort PPP loan guarantees and continued to issue additional COVID-19 EIDLs. The fiscal year 2021 funding expanded on the programs authorized by the Coronavirus Aid, Relief, and Economic Security Act of 2020 (CARES Act) and the Paycheck Protection Program and Health Care Enhancement Act during fiscal year 2020 specifically with additional PPP and COVID-19 EIDL Grants funding, and the authorization of the Restaurant Revitalization and Shuttered Venues Operators Grants (SVOG) programs. The referenced fiscal year 2020 and 2021 laws from this point forward are collectively referred to as the CARES Act and related legislation.

1. Controls over PPP Loan Guarantees Need Improvement

A. Approval of PPP Loan Guarantees

Management did not adequately design and implement controls to ensure PPP loan guarantees approved in fiscal year 2021 were in existence, accurate, and in conformance with CARES Act and related legislation. Specifically, management identified approved loans disbursed by its third-party lenders that, in many cases, were potentially not accurate and not in conformance with the CARES Act and related legislation. Additionally, we tested a sample of 383 PPP loan guarantees from the 2021 cohort and were unable to verify the existence and accuracy of 32 sampled items because we did not receive a confirmation response from the respective lenders.

Also, SBA's process was not designed to identify and resolve a complete list of potential noncompliance flags that should have been addressed prior to approving the loan guarantees. As of September 30, 2021, over 27,000 approved PPP loan guarantees (with an approximate total value of $488 million) were flagged by management in the loan repository system that potentially did not conform with the CARES Act and related legislation. More specifically, SBA did not ensure the 2021 cohort of PPP loan guarantee applications met select program eligibility requirements by verifying with all validation checks available within its case management system. Instead, only a limited number of checks were performed. Furthermore, for the flags that SBA identified for an application, SBA did not perform a sufficient review of the application to ensure that lenders followed established procedures and adequately addressed the eligibility concerns raised from the case management system's automated screening.

The deficiencies were caused by an inadequate entity wide control environment to implement processes 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 10, Design Control Activities; and Principle 16, Perform Monitoring 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 Loan Guarantee Liabilities, Downward Reestimate Payable to Treasury line items, and related elements in the consolidated financial statements.

<u>Recommendations – Approval of PPP Loan Guarantees</u>

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

1. Perform a thorough review of PPP loan guarantee approvals in the 2021 cohort. Based on the review, determine the impact on the outstanding loan guarantee and the eligibility for forgiveness of loans that are determined to not be in conformance with the CARES Act and related legislation and program requirements.

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

2. Based on the results of the loan guarantee review process for the 2021 cohort of PPP loan guarantees, assess the accounting considerations, including the impact on the consolidated financial statements, and record any necessary adjustments for loans determined to not be in conformance with the CARES Act and related legislation.

B. Reporting of PPP Loan Guarantees

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 Loan Guarantee Liabilities and related elements in the consolidated financial statements. Specifically, management did not have adequate processes and controls in place to review the status of PPP loan guarantees where lender loan status reports had not been submitted, had been submitted incorrectly, or were not processed.

As of September 30, 2021, SBA reported approximately $2 billion of approved PPP loan guarantees, but not disbursed due to unreported or unprocessed lender loan status reports. In addition, there were over 5 million errors during the fiscal year from lender loan status reports that were not reviewed or processed to update the outstanding loan principal balance. The affected PPP loan guarantees comprised of 74 distinct lender loan status report error codes (e.g., PPP loans must be fully disbursed, Lender not Reported, Loan is in inactive status, Invalid Guarantee Service Status Code, Outstanding balance plus Total Amount Undisbursed cannot exceed Loan Approval Amount, and 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 Loan Guarantee Liabilities, 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 for Office of Capital Access to:

3. Design and implement controls to identify and review PPP loan guarantees with incomplete or inaccurate lender loan status reports.
4. Determine the correct PPP loan balances and ensure the loan repository system is updated with the correct balance.
5. Develop and enforce a policy and controls that require the adequate training and monitoring of lenders to execute their responsibilities in the PPP loan servicing process.
6. Develop and enforce a policy and controls to monitor incomplete or inaccurate PPP lender loan status reports on an ongoing basis.

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

7. Based on the results of the lender loan status reports review process for PPP loan guarantees, design and implement controls to assess the accounting considerations, including the impact on the consolidated financial statements, and record any necessary adjustments.

C. Review of PPP Loan Guarantees

Management did not adequately design and implement controls to ensure the 2020 cohort of PPP loan guarantees were completely and accurately reviewed to address their respective eligibility flags and ultimately determine their eligibility for forgiveness. Specifically, management did not demonstrate controls over the review and validation of identified flags from the case management system. Additionally, management did not demonstrate effective monitoring controls over the results from the key contractor involved in the review process. The loan guarantees determined by the contractor as 'No Further Action' were not subsequently reviewed by SBA.

The deficiencies occurred because SBA did not have a policy in place to adequately review outputs of the case management system and insufficient design and implementation of monitoring controls over the contractor's loan review process.

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 6, Define Objectives and Risk Tolerances; Principle 7, Identify, Analyze, and Respond to Risks; 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 may result in a material misstatement to the Loan Guarantee Liabilities and Downward Reestimate Payable to Treasury line items, and the related elements in the consolidated financial statements.

Recommendations – Review of PPP Loan Guarantees

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

8. Develop and enforce a policy and controls that require the adequate review and validation of the outputs of the case management system.

9. Develop and enforce a policy and controls to monitor the results of the contractor's loan review process including a review of loans with a 'No Further Action' determination.

D. Forgiveness of PPP Loan Guarantees

Management did not adequately design and implement controls to ensure that forgiveness payments processed for PPP loan guarantees were accurate and proper in accordance with the CARES Act and related legislation. The forgiveness review process was insufficiently designed as only a limited number of PPP forgiveness applications were actually reviewed. Specifically, the review process was not sufficient to ensure the accuracy and appropriateness of forgiveness payments in accordance with the program terms for the loan guarantees that were not actually sampled and reviewed. In addition, the review process for the sample of forgiveness loan applications was not completed prior to the processing of forgiveness payments. As such, the results of the sample would not effectively prevent forgiveness payments to be processed for loan guarantees that did not meet the program requirements.

Additionally, management did not design and implement adequate controls to ensure the completeness of loans in one of the categories that forgiveness applications would be subjected to manual review. The category of loans subjected to manual review is dependent on the PPP loan review process. Due to the deficiencies noted in the review of PPP loan guarantees process specific to the case management system, the PPP loan guarantees in this category that is subject to review may not be complete. Furthermore, from an analysis performed over the results of the PPP loan review process and forgiveness payments, $49 billion was paid to lenders for forgiveness of PPP loan guarantees that were still being reviewed to address alerts and flags indicative of eligibility concerns.

The deficiencies were caused by an insufficient design and implementation of the loan forgiveness review process prior to the processing of payments, a lack of sufficient and timely coordination between the contractor involved in the loan review process and SBA, the lack of a policy to adequately review outputs of the case management system, and insufficient design and implementation of monitoring controls over the contractor's loan review process.

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; Principle 6, Define Objectives and Risk Tolerances; Principle 7, Identify, Analyze, and Respond to Risks; 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 to the Loan Guarantee Liabilities and Downward Reestimate Payable to Treasury line items, and the related elements in the consolidated financial statements.

Recommendations – Forgiveness of PPP Loan Guarantees

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

10. Design adequate controls and processes to ensure forgiveness payments are not processed for loan guarantees that have not been sufficiently reviewed.

2. Controls over COVID-19 EIDLs and Grants Need Improvement

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

- More than one COVID-19 EIDL or grant was approved and disbursed to the same borrower;
- According to law enforcement agencies, COVID-19 EIDLs and grants were issued to borrowers with fraudulent tax identification numbers;
- COVID-19 EIDLs were issued that management flagged to be potentially fraudulent, a victim of identity theft, or where the borrower or the bank was involved in an Office of Inspector General investigation; and
- COVID-19 EIDLs and grants with eligibility concerns were issued to borrowers.

As of September 30, 2021, over 500,000 approved and disbursed COVID-19 EIDLs (with an approximate total value of over $30 billion) were flagged in the loan repository system as issued to potentially ineligible borrowers. The loans were flagged for one or more of 20 different reasons (e.g., Data Anomaly Issue; General Eligibility; Potential Fraud; Borrower or Lender is Involved in Office of Inspector General Investigation; Lender Referrals; Duplicate Tax Identification Number; Business Identification Theft Flag; Federal Bureau of Investigation- Identified as Fraudulent Tax Identification Number; EIDL Criminal Record; EIDL Bankruptcy; EIDL Office of Foreign Assets Control; EIDL Potential Descendent; EIDL Inactive Business; EIDL Mismatch of Tax Identification Number; EIDL Mismatch of Entity Name; Confirmed Fraud; Fraud; Potential Identity Theft; Confirmed Identity Theft; and Pandemic Response Accountability Committee Fraud Referral). According to management, a review plan was implemented and ongoing to address the COVID-19 EIDLs identified with eligibility concerns.

Also, management did not implement adequate procedures and controls to address certain alerts within the system. Specifically, the system's Reference Guide that is used by loan officers during the approval process did 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; Bank account could not be confirmed to be associated with the business; Deferred student loans; Foreclosure; and Outstanding lawsuit.

The deficiencies were caused by an inadequate entity wide control environment to implement processes and procedures to account for the 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 a material misstatement of the Loan Receivables (net) and Downward Reestimate Payable to Treasury line items, and related elements in the consolidated financial statements.

Recommendations – Controls over COVID-19 EIDLs and Grants

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

11. Develop and execute a thorough, formal review plan of the COVID-19 EIDLs and grants portfolios and determine which transactions were made to ineligible recipients and did not conform with the CARES Act and related legislation.
12. Implement controls that prevent or detect COVID-19 EIDLs from being approved that are not in conformance with the related legislation and program's eligibility terms.
13. 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 COVID-19 EIDLs approval.
14. Provide training for loan officers and team leads to reinforce their responsibilities in accordance with established and updated guidance and standard operating procedures.

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

15. Based on the results of the review process for COVID-19 EIDLs and grants, assess the accounting considerations, including the impact on the consolidated financial statements, and record any necessary adjustments for transactions determined not to be in conformance with the CARES Act and related legislation.

3. Controls over the Subsidy Reestimate Need Improvement

Management did not adequately design and implement controls over the review of the data inputs used in the PPP subsidy reestimate. Specifically, management did not consider and document the effects on the reestimate methodology regarding:

- PPP loan guarantees with lender loan status report errors that were not reviewed or processed to update the outstanding loan principal balance. This includes lender loan status reports that were not submitted, submitted incorrectly, or did not process due to an error. As such, management did not have sufficient controls to ensure the unpaid principal balance of loan guarantees within the portfolio, on which the reestimate is performed, is complete and accurate.

- The results from SBA's loan review process that were used to develop a significant assumption in the PPP reestimate model. However, there were not effective monitoring controls over the performance of the loan review process. As such, management did not have sufficient controls in place to ensure the completeness and accuracy of the data used to develop the significant assumption.

- The forgiveness transactions processed by SBA during the year that were also used to develop another significant assumption. The forgiveness review process was not adequately designed to assure that forgiveness transactions processed were appropriate and in accordance with the program terms. As such, management did not have sufficient controls in place to ensure the completeness and accuracy of the data used to develop forgiveness related significant assumption.

In addition, management did not adequately design and implement controls to ensure the assumptions used in the subsidy reestimate for the COVID-19 EIDLs were commensurate with their risks. Management is in process of reviewing the COVID-19 EIDLs portfolio to address eligibility concerns on disbursed loans. This review was not completed at the time of the year-end reestimate. As such, management does not have a reasonable basis to determine whether the assumptions applied are appropriate to COVID-19 EIDLs in the portfolio based on their specific risk characteristics.

Additionally, management did not design and implement sufficient review controls over the development and application of the assumptions used in the subsidy reestimate for the COVID-19 EIDLs portfolio. Specifically, management did not adequately address the relevancy of assumptions developed and applied to the COVID-19 EIDLs portfolio. The risk profile of the COVID-19 EIDLs is different than that of the traditional EIDLs where performance data was used to develop the assumptions. Therefore, management is unable to sufficiently support the appropriateness of the assumptions applied to the subsidy reestimate for the COVID-19 EIDLs.

The deficiencies were caused by an inadequate entity wide control environment related to the design, implementation, and operating effectiveness of controls related to the review of the loan portfolio at a precision level necessary to ensure the data inputs used for the reestimate models are complete and accurate. In addition, the deficiencies were caused by the inherent challenges with the implementation and development of subsidy reestimate models for new programs that do not have a significant volume of historical data or precedence.

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

The deficiencies noted above may result in a material misstatement to the Loan Guarantee Liabilities, Loan Receivables (net), and Downward Reestimate Payable to Treasury line items, and the related elements in the consolidated financial statements.

<u>Recommendations – Controls over the Subsidy Reestimate</u>

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

16. Design and implement controls to continue accumulating relevant, complete, and accurate data on which to base the subsidy reestimate models for the PPP and COVID-19 EIDLs portfolios.

17. Ensure there are adequate review and approval controls over the reestimate models for the PPP and COVID-19 EIDLs portfolios by appropriate levels of management, including review and documentation of relevant data inputs, development of assumptions, and reasonableness for the selected assumptions used and the resulting estimates.

4. Controls over the Evaluation of Service Organizations Need Improvement

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

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 EIDLs transactions. The service organization control environment includes the operation of the system used for

COVID-19 EIDLs and grants processing and the application controls within the system. In addition, the relevant control environment includes the data transmissions over the internet between the system 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 were designed, implemented, and operated 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.

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 EIDLs 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 Loans Receivable (net) and Downward Reestimate Payable to Treasury line items, and related elements in the consolidated financial statements.

<u>Recommendations – Service Organization Used for COVID-19 EIDLs and Grants</u>

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

18. Continually evaluate the established policy for SOC 1 reports that requires 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.
19. 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 performed to assess 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.

B. Service Organizations Used for Loan Guarantee Programs

Management did not obtain reasonable assurance on the operating effectiveness of internal controls in multiple service organizations' control environments relevant to the financial service providers for the 7(a) and 504 loan guarantee programs, and the PPP and Restaurant Revitalization program application intake platform. With regards to the financial service providers for the 7(a) and 504 loan guarantee programs, the relevant control environments include the facilitation, maintenance, and reporting of the account balances for the respective secondary market programs. With regards to the application intake platform, the relevant control environment includes the operation of the PPP loan forgiveness, PPP loan approval, and Restaurant Revitalization program modules, the data transmissions over the internet between the relevant modules and SBA systems used in the configured checks, the cloud-based infrastructure hosting provider, and the application controls within the application intake platform.

In addition, management did not provide evidence of adequate monitoring activities performed over the relevant internal control environments at the respective service organizations, 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 were designed, implemented, and operated 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.

Also, management's evaluation of SOC 1 reports for another 7(a) program financial service provider was not sufficient or properly documented to aid in management's assessment of internal controls over financial reporting. Specifically, management did not provide documentation of the review performed over the SOC 1 reports. In addition, management did not obtain bridge letters for a relevant subservice organization mentioned in the SOC 1 report that covered the appropriate gap period.

Management did not hold the service organizations accountable for the assigned internal control responsibilities by obtaining reasonable assurance on the operating effectiveness of internal controls in the service organizations' control environments (e.g., by requiring a SOC 1 Type 2 report for the control environment relevant to the processing of SBA's 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 Loan Guarantee Liabilities line item and related elements in the consolidated financial statements.

Recommendations – Service Organizations Used for Loan Guarantee Programs

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

20. Continually evaluate the established policy for SOC 1 reports that requires 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.
21. Assess the risk posed by the service organizations' control environments 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 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 performed to assess 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.

5. Controls over Accounting and Monitoring of Restaurant Revitalization and Shuttered Venues Operators Grant Programs Need Improvement

Management did not adequately design and implement monitoring controls over Restaurant Revitalization and SVOG awards to ensure accurate financial reporting as of the fiscal year-end, and the funds were used in accordance with the CARES Act and related legislation. Specifically, we noted that management was unable to provide evidence that the accounting treatment and financial reporting for the Restaurant Revitalization and SVOG awards were in accordance with U.S. generally accepted accounting principles. The full amount of the awards was expensed immediately upon disbursement without evidence supporting the existence, accuracy, and timely recognition of expenses, instead of advances, as they were incurred by the recipients during the fiscal year.

In addition, management did not adequately design and implement controls to ensure the Restaurant Revitalization program awards were approved and disbursed to eligible recipients in conformance with the related legislation. Management approved and disbursed Restaurant Revitalization awards to recipients that also had PPP loan guarantees that were flagged in SBA's loan repository system. SBA placed flags on PPP loan guarantees if the loans were indicative of potential noncompliance with select eligibility requirements. As of September 30, 2021, we noted that numerous Restaurant Revitalization award recipients also had a PPP loan guarantee with an alert or flag that were not cleared prior to the approval of the Restaurant Revitalization award.

The deficiencies were caused by an inadequate entity wide control environment to identify and respond to risks, and design and implement sufficient controls related to the Restaurant Revitalization and SVOG programs. In addition, there was a lack of a sufficient analysis performed to determine the appropriate accounting treatment for the newly established programs.

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

- GAO's Green Book, 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 to the Advances and Prepayments line item and the related elements in the consolidated financial statements.

<u>Recommendations – Controls over Accounting and Monitoring of Restaurant Revitalization and Shuttered Venues Operators Grant Programs</u>

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

22. Perform a thorough review of Restaurant Revitalization awards issued and identify recipients that may not have been eligible to receive awards in accordance with the program's terms, especially for recipients with flagged PPP loan guarantees.

23. Design and implement effective monitoring controls, to ensure that Restaurant Revitalization award recipients are complying with the program's terms and to ensure complete, accurate, and timely reporting for the use of the award.

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

24. Design and implement effective monitoring controls, to ensure that SVOG award recipients are complying with the program's terms and to ensure complete, accurate, and timely reporting for the use of the award.

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

25. Design and implement controls to ensure the accounting treatment established to record the Restaurant Revitalization and the SVOG program related balances is in accordance with U.S. generally accepted accounting principles and the basis for the appropriate treatment is sufficiently documented.

6. Entity Level Controls Need Improvement

Due to the implementation of the new and expanded programs, management faced challenges in maintaining an adequate entity level controls 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 a clear organizational structure which established the designated responsibilities as it relates to the management and oversight of the COVID-19 EIDLs program including the timely development of corrective actions to remediate recommendations related to review of the COVID-19 EIDLs portfolio.

2. Management did not adequately document the internal control system and processes related to the implementation of significant new programs impacting SBA, including the Restaurant Revitalization and SVOG programs.

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

3. The materiality threshold developed and documented was not adequately considered and applied by program offices when key decisions regarding controls and review processes were implemented. The controls within the relevant offices were not designed, implemented, and operating effectively to a sufficient precision level to ensure the reporting objective of preparing the financial statements free of material misstatement could be achieved. For example, the 2021 cohort of PPP loan guarantees were subject to a limited set of validation checks as compared to the 2020 cohort of PPP loan guarantees without a documented risk assessment determining the rationale for why a lower response was appropriate. Additionally, the PPP loan guarantee review and forgiveness review processes were not designed to ensure the reviews performed were to a sufficient level of precision to ensure the related balances were free of material misstatement.

4. New risks brought about by the CARES Act and related legislation that could significantly impact SBA's internal control system and the ability to achieve financial reporting objectives were not identified. For example, evidence of adequate risk assessments related to the Restaurant Revitalization and SVOG programs were not provided as processes were still being implemented and finalized.

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

5. There was not an adequate monitoring plan developed and implemented for lenders participating in the PPP program.

6. There was not adequate monitoring of the effectiveness of internal control over processes performed by service organizations.

7. There was not adequate monitoring performed for the Restaurant Revitalization and SVOG program award recipients.

8. There was not effective monitoring and evaluation performed of SBA's entity level controls, manual controls, general information technology controls, and system application controls for key financial statement line items and risks. Specifically, evidence was not provided to substantiate that the testing of controls was complete for significant new and expanded programs authorized from the CARES Act and related legislation.

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. In addition, these deficiencies were primarily caused by the inherent challenges with the implementation of new and expanded programs that do not have any historical precedence. The challenges included implementing programs 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 established responsibilities for the various offices and their duties for each program and the effective risk assessment and communication processes to ensure financial statement reporting objectives were achieved.

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; 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 12, Implement Control Activities; 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, transactions for new and expanded programs were approved and in certain cases disbursed to potentially ineligible entities and not in conformance with the CARES Act and related legislation, and the Office of Chief Financial Officer placed reliance on controls not designed, implemented, and operating effectively to ensure the financial statements are free from potential material misstatements. Without the proper level of entity level controls in place and operating effectively, there is an increased risk that a material misstatement exists in the consolidated financial statements, and noncompliance with the relevant laws and regulations would not be prevented or detected and timely corrected.

<u>Recommendations – Entity Level Controls</u>

We recommend that the Administrator coordinate with the Associate Administrators for Offices of Capital Access and Disaster Assistance to:

26. Document the internal control system and processes related to the implementation of new or expanded programs from new legislation.

27. Develop and implement monitoring controls to ensure implementation of an effective internal control environment.

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

28. Perform and document a thorough risk assessment at the financial statement assertion level to identify process level risks and communicate the results to relevant program offices.

29. In conjunction with relevant program offices, assess the effectiveness of key process level controls to respond to the identified risks.

30. Develop and implement a sufficient plan to test and monitor the design, implementation, and operating effectiveness of key, relevant controls that affect financial reporting and compliance with relevant laws and regulations.

Appendix II

U.S. Small Business Administration

Significant Deficiencies

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

1. **Controls over Payments for Covered Loans under the Debt Relief Program Need Improvement**
2. **Controls over General Information Technology Need Improvement**

1. Controls over Payments for Covered Loans under the Debt Relief Program Need Improvement

Management did not adequately design and implement controls to determine that payments made to lenders for covered loans under the Debt Relief Program were accurate, reviewed, and approved prior to payment to enable the fair presentation of the Loan Guarantee Liabilities. 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

The deficiency noted above may result in misstatements of the Loan Guarantee Liabilities line item and related elements in the consolidated financial statements.

Recommendations – Payments for Covered Loans under the Debt Relief Program

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

31. Perform a review of the payments made by SBA for covered loans under the Debt Relief Program to identify, review, and remediate any potential over or under payments made on the related loans.

2. Controls over General Information Technology Need Improvement

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 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 adherence to internal control processes and requirements.

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

- GAO's Green Book, Principle 3, Establish Structure, Responsibility, and Authority
- National Institute of Standards and Technology Special Publication 800-53, Revision 4, Security and Privacy Controls for Federal Information Systems and Organizations

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

Management did not consistently follow established policy and procedure requirements for the timely removal of access to SBA systems for separated employees and contractors.

The deficiency noted above increases the risk that unauthorized users may retain access to the system resulting in unauthorized modification, destruction, or exposure to SBA systems and data.

<u>Recommendations – Logical Access Controls</u>

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

32. Consider allocating resources to implement enforcement processes that ensure the accounts of separated users are removed timely from SBA systems.
33. Validate that the identified accounts of separated users were not utilized after separation had occurred.
34. Ensure individuals responsible for removing accounts of separated users are aware of the process and periodically sent reminders of their responsibilities.

System Configuration Management

Management did not maintain supporting evidence to consistently demonstrate that database and operating system patches were tested and approved prior to migration into the production environment. In addition, management migrated application changes into the production environment without supporting evidence of appropriate testing and approval.

The deficiencies noted above increase the risk that known vulnerabilities can be exploited and unauthorized changes can be applied to the system, resulting in possible disclosure, modification, or destruction of SBA system programs and data.

<u>Recommendations – System Configuration Management</u>

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

35. Implement controls and a monitoring process to ensure that patches applied to the database and operating system and application changes are appropriately tested prior to being moved into the production environment.
36. Update the system configuration management plan to require internal control documentation for patch management and application changes as required by the Government Accountability Office's Standards for Internal Control in the Federal Government.
37. Periodically train personnel involved with the implementation of database and operating system patches, and the review and approval of application changes, to follow the respective controls and requirements of the patch management and application change management processes in accordance with existing policies.

Appendix 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 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 or expanded programs established by the CARES Act and related legislation.
2. Perform, document, and demonstrate that they completed an internal control over financial reporting evaluation regarding the new or expanded programs, including the evaluation and consideration of the risks and controls of significant service organizations.
3. For the risks significant to financial reporting, consistently document financial statement risks and assertions covered, testing procedures performed, extent of sampling performed, testing results, corrective action plans to respond to deficiencies identified, and provide evidence of management review. Additionally, management did not complete testing over significant areas and did not plan for and test information technology controls as part of the internal control evaluation program.
4. Ensure there was an adequate review performed over the statement of assurances prepared by the program offices as certain statements did not provide accurate or updated statuses of internal controls as of the end of the fiscal year.

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.

<u>Recommendations – FMFIA</u>

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

38. Update the risk assessment regarding the evaluation of internal controls to ensure it includes all significant programs, key processes, and other material line items on the consolidated financial statements.
39. In conjunction with relevant program offices, perform and document the internal control evaluation 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.

40. Update the existing policy and implement adequate controls to ensure that the statement of assurances provided by the program offices are adequately documented and reviewed for completeness and accuracy to provide a sufficient basis to support the Administrator's statement of assurance.

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 Appendix 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.

2. Federal Accounting Standards. The deficiencies identified and reported in Appendix I – Material Weaknesses, provide an indication that SBA's financial management systems were substantially non-compliant with applicable federal accounting standards. Specifically, management was unable to provide evidence that the accounting treatment and financial reporting for the Restaurant Revitalization and SVOG awards were in accordance with U.S. generally accepted accounting principles. The full amount of the awards was expensed immediately upon disbursement without evidence supporting the existence, accuracy, and timely recognition of expenses, instead of advances, as they were incurred by the recipients during the fiscal year.

Management did not substantially meet FFMIA requirements because of the reasons discussed in Appendix I – Material Weaknesses 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.

<u>Recommendations – FFMIA</u>

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

41. 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 Appendix I – Material Weaknesses.

CFO Response to Audit Report on FY 2021 Financial Statement

Appendix IV

CFO Response to Audit Report on FY 2021 Financial Statements

DATE: November 15, 2021

TO: Hannibal M. Ware, Inspector General

FROM: Jason Bossie, Acting Associate Administrator for Performance, Planning and the Chief Financial Officer

Jason Bossie

SUBJECT: FY 2021 Financial Statement Audit

The Small Business Administration has reviewed the Independent Auditors' Report from KPMG that includes the auditors' disclaimer of opinion on the Agency's FY 2021 Consolidated Balance Sheet and the Report 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 concerned by this outcome.

The FY 2021 Agency Financial Report includes the programs implemented under the American Rescue Plan Act, in addition to those programs funded under the CARES Act and subsequent legislation. The expansion of these programs, to include the Restaurant Revitalization program and Shuttered Venues Operators Grant program, added to the unprecedented significance of serving small businesses under unprecedented times.

Most of SBA's programs 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 2021 presentation of financial information is materially correct.

The SBA has made substantial progress strengthening internal controls for pandemic-focused programs although there are improvements that need to be made. The Agency continues its efforts to address material weaknesses, strengthen processes, develop fraud risk assessments, and support requirements for auditability of its financial statements. The SBA understands its obligations for providing accountability and transparency to the American public and is working diligently to correct shortcomings for future audits.

The auditors identified material weaknesses related to the internal controls over six areas. The SBA has reviewed the identified material weaknesses and does not concur with the severity of the five weaknesses included in the report under PPP Loan Guarantees, COVID-19 EIDLs and Grants, Subsidy Reestimate, Restaurant Revitalization and Shuttered Venues Operators Grant Program, and Entity Level Controls. The SBA partially agrees with the weakness under Evaluation of Service Organizations. Our responses, as communicated to KPMG during the audit, detail our concerns with the analysis and conclusions drawn by the auditors. SBA has worked to establish internal controls, policies, and procedures to address the new legislative programs as result of the pandemic and will take corrective actions to remediate weaknesses and strengthen internal controls where necessary.

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.

Appendix V

Auditors' Response to Management's Response

We acknowledge SBA management's response to our Independent Auditors' Report, presented in Appendix IV, and commend their commitment to financial management and the accountability for and transparency of their programs. SBA management partially agreed with the material weakness area entitled Controls over the Evaluation of Service Organizations Need Improvement and did not agree with the severity of the remaining material weakness areas included in our report in Appendix I. 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 (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.

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 format of the Balance Sheet has changed to reflect more detail for certain line items, as required for all significant reporting entities by OMB Circular A-136. This change does not affect totals for assets, liabilities, or net position and is intended to allow readers of this Report to see how the amounts shown on the Balance Sheet are reflected on the Government-wide Balance Sheet, thereby supporting the preparation and audit of the Financial Report of the United States Government. The presentation of the FY 2020 Balance Sheet was modified to be consistent with the 2021 presentation.

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.

OMB Circular A-136 required a change in format for the Consolidated Statement of Changes in Net Position. The FY 2020 balances have been reformatted for comparability as required by Circular A-136.

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.

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.

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, 2021 and 2020

(Dollars in Thousands)	2021	2020
ASSETS		
Intragovernmental		
Fund Balance with Treasury (Note 2)	$ 316,852,301	$ 714,400,127
Advances and Prepayments	969	2,301
Total Intragovernmental	316,853,270	714,402,428
With the Public		
Cash and Other Monetary Assets (Note 3)	3,746	10,572
Accounts Receivable, Net (Note 5)	69,395	112,082
Loans Receivables, net:		
Credit Program Receivables and Related Foreclosed Property, Net (Note 6)	245,445,095	182,936,949
General Property, Plant and Equipment, Net (Note 7)	25,276	27,503
Advances and Prepayments	20,899	44,456
Total With the Public	245,564,411	183,131,562
Total Assets	**$ 562,417,681**	**$ 897,533,990**
LIABILITIES		
Intragovernmental		
Accounts Payable:		
Accounts Payable, Capital Transfers:		
Net Assets of Liquidating Funds Due to Treasury (Note 10)	$ 8,369	$ $15,922
Accounts Payable	6,612	14,745
Debt:		
Interest Payable - Loans and Not Otherwise Classified (Note 9)	251	160
Loans Payable:		
Principal Payable to the Bureau of the Fiscal Service (Note 9)	262,654,877	176,173,660
Advances from Others and Deferred Revenue	1,901	2,172
Other Liabilities:		
Benefit Program Contributions Payable	13,858	10,803
Liability to the General Fund of the U.S. Government for Other Non-Entity Assets:		
Downward Reestimate Payable to Treasury (Note 13)	11,742,037	28,541,393
Other (Note 11)	3,856	3,395
Total Intragovernmental	274,431,761	204,762,250
With the Public		
Accounts Payable	932,184	337,528
Federal Employee Benefits Payable	72,440	70,386
Loan Guarantee Liabilities (Note 6)	227,831,513	512,712,498
Other Liabilities:		
Accrued Grant Liability	103,138	66,496
Surety Bond Guarantee Program Future Claims (Note 8)	60,054	60,060
Other (Note 11)	107,973	46,800
Total With the Public	229,107,302	513,293,768
Total Liabilities	**503,539,063**	**718,056,018**
NET POSITION		
Unexpended Appropriations - Funds from Other Than Dedicated Collections	69,132,143	183,460,572
Cumulative Results of Operations - Funds from Other Than Dedicated Collections	(10,253,525)	(3,982,600)
Total Net Position	**58,878,618**	**179,477,972**
Total Liabilities and Net Position	**$ 562,417,681**	**$ 897,533,990**

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, 2021 and 2020

(Dollars in Thousands)	2021	2020
STRATEGIC GOAL 1:		
Support Small Business Revenue and Job Growth		
Gross Cost	$ 330,461,299	$ 534,872,629
Less: Earned Revenue	4,336,162	8,065,493
Net Cost of Strategic Goal 1	**326,125,137**	**526,807,136**
STRATEGIC GOAL 2:		
Build Healthy Entrepreneurial Ecosystems and Create Business Friendly Environments		
Gross Cost	456,701	27,523
Net Cost of Strategic Goal 2	**456,701**	**27,523**
STRATEGIC GOAL 3:		
Restore Small Businesses and Communities after Disasters		
Gross Cost	23,502,517	34,993,696
Less: Earned Revenue	3,963,444	7,611,305
Net Cost of Strategic Goal 3	**19,539,073**	**27,382,391**
STRATEGIC GOAL 4:		
Strengthen SBA's Ability to Serve Small Businesses		
Gross Cost	131,155	11,976
Net Cost of Strategic Goal 4	**131,155**	**11,976**
COST NOT ASSIGNED TO STRATEGIC GOALS		
Gross Cost	31,487	2,521
Net Cost Not Assigned to Strategic Goals	**31,487**	**2,521**
Net Cost of Operations	**$ 346,283,553**	**$ 554,231,547**

Note 14

The accompanying notes are an integral part of these statements.

U.S. SMALL BUSINESS ADMINISTRATION

CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION

For the Years Ended September 30, 2021 and 2020

(Dollars in Thousands)	2021	2020
Funds from other than Dedicated Collections		
Unexpended Appropriations:		
Beginning balance, as adjusted	$ 183,460,572	$ 1,779,472
Appropriations Received	383,192,098	762,191,631
Other Adjustments:		
Rescissions	(146,524,623)	(16,369)
Adjustment - Cancelled Authority	(20,784)	(11,135)
Return of Unrequired Liquidating Fund Appropriation	(447)	(2,048)
Other Adjustments	(140)	(197)
Appropriations Used	(350,974,533)	(580,480,782)
Total Unexpended Appropriations: Ending Balance	**$ 69,132,143**	**$ 183,460,572**
Cumulative Results of Operations:		
Beginning Balance, as adjusted	$ (3,982,600)	$ (145,864)
Other Adjustments:		
Current Year Liquidating Equity Activity	5,572	(9,406)
Other	(29)	–
Appropriations Used	350,974,533	580,480,782
Donations of Cash and Cash Equivalents	–	12
Transfers In/Out Without Reimbursement	202	–
Imputed Financing	35,092	19,508
Other:		
Non-entity Activity	(11,002,742)	(30,096,085)
Net Cost of Operations	**346,283,553**	**554,231,547**
Net Change and Cumulative Results of Operation	**(6,270,925)**	**(3,836,736)**
Cumulative Results of Operations - Ending	**$ (10,253,525)**	**$ (3,982,600)**
Ending Net Position	**$ 58,878,618**	**$ 179,477,972**

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, 2021 and 2020

(Dollars in Thousands)

	September 30, 2021		
	Budgetary	Nonbudgetary Financing	Total
BUDGETARY RESOURCES			
Unobligated Balance from Prior Year Budget Authority, net (discretionary and mandatory)	$ 176,427,273	$ 526,354,743	$ 702,782,016
Appropriations (discretionary and mandatory)	236,630,792	36,236	236,667,028
Borrowing Authority (discretionary and mandatory)	–	93,935,801	93,935,801
Spending Authority from Offsetting Collections	372,382	313,361,622	313,734,004
Total Budgetary Resources	**$ 413,430,447**	**$ 933,688,402**	**$ 1,347,118,849**
STATUS OF BUDGETARY RESOURCES			
New Obligations and Upward Adjustments (total)	$ 348,440,145	$ 699,531,213	$ 1,047,971,358
Unobligated Balance, end of year:			
Apportioned, unexpired accounts	62,881,098	229,828,897	292,709,995
Unapportioned, unexpired accounts	2,064,696	4,328,292	6,392,988
Unexpired Unobligated Balance, end of year	64,945,794	234,157,189	299,102,983
Expired Unobligated Balance, end of year	44,508	–	44,508
Unobligated Balance, end of year (total)	64,990,302	234,157,189	299,147,491
Total Status of Budgetary Resources	**$ 413,430,447**	**$ 933,688,402**	**$ 1,347,118,849**
OUTLAYS, NET			
Net Outlays (discretionary and mandatory)	$ 350,558,986		$ 350,558,986
Distributed Offsetting Receipts	(27,837,806)		(27,837,806)
Agency Outlays, net (discretionary and mandatory)	**$ 322,721,180**		**$ 322,721,180**
Disbursements, net (total) (mandatory)		**$ 370,149,835**	

Note 15

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, 2021 and 2020

(Dollars in Thousands)

	September 30, 2020		
	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 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.

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 also uses economic assumptions provided by the Office of Management and Budget in preparing the estimates. 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

Advances are cash outlays made by a Federal entity to its employees, contractors, grantees, or others to cover a part or all of the recipients' anticipated expenses or as advance payments for the costs of goods and services the entity receives. Prepayments are payments made by a Federal entity to cover certain periodic expenses before those expenses are incurred. 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. The SBA does not have funds from dedicated collections.

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. The SBA does not have funds from dedicated collections.

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 (awaiting disposition or reclassification), and other accounts at the fund level. Fund balances with 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,	2021	2020
Appropriated Funds	$ 70,066,412	$ 184,019,803
Financing Funds	246,630,128	530,277,121
Liquidating Funds	544	475
Revolving Funds	105,047	102,855
Trust Fund	175	175
Total Entity Fund Balance with Treasury	**316,802,306**	**714,400,429**
Budget Clearing Account Balance	49,995	(302)
Total Fund Balance with Treasury	**$ 316,852,301**	**$ 714,400,127**
Status of Fund Balance with Treasury		
Apportioned, unexpired accounts	$ 292,709,995	$ 690,011,165
Unapportioned, unexpired accounts	6,392,988	9,598,894
Obligated Balance Not Yet Disbursed	21,267,716	15,659,061
Expired Unobligated Balance	44,508	51,197
Borrowing Authority Not Converted to Funds	(3,612,901)	(919,888)
Nonbudgetary	49,995	(302)
Total Fund Balance with Treasury	**$ 316,852,301**	**$ 714,400,127**

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.

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 $3.7 million and $10.6 million as of September 30, 2021 and 2020.

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 7(a) Fiscal Transfer Agent. In FY 2021 SBA migrated it's 7(a) program systems and applications to its inhouse Capital Access Financial System. The balance in the MRF is invested, according to SBA policy, entirely in 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) guarantied loans that are purchased by secondary market investors. The MRF receives monthly payments from SBA guarantied borrowers and disburses monthly to 7(a) secondary market pool investors based on a schedule of amounts due. In FY 2021, the MRF also received $20.4 million in transfers from the SBA to support select cohort available balances, which have absorbed changes in prepaid principal collections due to extended Debt Relief payment support introduced by the Economic Aid Act. In FY 2020, the MRF received a $386 million in transfers from the SBA to support select cohort available balances, which absorbed changes in prepaid principal collections as a result of Debt Relief payment support introduced by the CARES Act. 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 $36.3 billion and $33.7 billion of outstanding SBA guarantied 7(a) secondary market pool principal as of September 30, 2021 and 2020.

The Master Reserve Account is an SBA fiduciary activity administered by SBA's 504 Central Servicing Agent. 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 $30.0 billion and $28.0 billion of SBA guarantied 504 debentures outstanding in the secondary market as of September 30, 2021 and 2020.

The FY 2021 Contributions line item on the Reconciliation of Fiduciary Assets as of September 30, 2021 includes an overpayment from the outgoing 7(a) Fiscal Transfer Agent to the Master Reserve Fund, which represents a projection to cover the processing of SBA's pooled loans prior to the transfer of servicing to the incoming FTA. In late August 2021, both the outgoing FTA and incoming FTA determined the projected contribution was inadvertently overstated by $28,497,847.84 and a claim was initiated. Once the claim process is fully adjudicated and determined to be valid, SBA will return the funds to the outgoing FTA.

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

(Dollars in Thousands)

FIDUCIARY ASSETS

As of September 30,	2021			2020		
	MRF	MRA	Total	MRF	MRA	Total
Cash	$ –	$ –	$ –	$ 2,475	$ –	$ 2,475
Short Term Securities						
Money Market Funds	745,406	878,654	1,624,060	23,965	542,818	566,783
Treasury Bills	224,985	–	224,985	29,977	–	29,977
Repurchase Agreements	–	–	–	359,108	–	359,108
Total Cash and Short Term Securities	**970,391**	**878,654**	**1,849,045**	**415,525**	**542,818**	**958,343**
Long Term Securities						
Treasury Notes/Bonds Including Interest	1,123,152	–	1,123,152	1,655,943	–	1,655,943
Total Long Term Securities	**1,123,152**	**–**	**1,123,152**	**1,655,943**	**–**	**1,655,943**
Net Assets	**$ 2,093,543**	**$ 878,654**	**$ 2,972,197**	**$ 2,071,468**	**$ 542,818**	**$ 2,614,286**

RECONCILIATION OF FIDUCIARY ASSETS

For the Years Ended September 30,	2021			2020		
	MRF	MRA	Total	MRF	MRA	Total
Beginning Net Assets	**$ 2,071,468**	**$ 542,818**	**$ 2,614,286**	**$ 3,039,847**	**$ 722,797**	**$ 3,762,644**
Receipts						
Earned Income	27,035	97	27,132	41,283	8,894	50,177
Contributions	7,988,522	18,295,369	26,283,891	8,274,728	14,882,369	23,157,097
Net Realized Gain (Loss)	436	–	436	9,222	–	9,222
Total Receipts	**8,015,993**	**18,295,466**	**26,311,459**	**8,325,233**	**14,891,263**	**23,216,496**
Less Disbursements						
Payments to Investors	7,993,918	17,959,630	25,953,548	9,293,612	15,071,242	24,364,854
Total Disbursements	**7,993,918**	**17,959,630**	**25,953,548**	**9,293,612**	**15,071,242**	**24,364,854**
Ending Net Assets	**$ 2,093,543**	**$ 878,654**	**$ 2,972,197**	**$ 2,071,468**	**$ 542,818**	**$ 2,614,286**

During the FTA transition, the incoming FTA acquired five bank accounts from the outgoing FTA. At September 30, 2021, the balance amounted to $401,585,287. The accounts are non-MRF in nature and are maintained for administrative actions and fees.

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 guarantied 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 guarantied 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,	2021	2020
Public		
Guaranty Fees Receivable	$ 52,196	$ 74,243
Refunds	1,146	1,253
Other	16,957	37,321
Total Public	**70,299**	**112,817**
Allowance For Loss	(904)	(735)
Net Public	**$ 69,395**	**$ 112,082**

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 as well as required the SBA to make 6 months of borrower payments for 7(a), 504 and Microloan borrowers in regular servicing.

For FY 2021, the Economic Aid to Hard-Hit Small Businesses, Nonprofits, and Venues Act (Economic Aid Act) provided temporary modifications to the 7(a) Loan Program including temporary higher guaranty percentages and fee reductions on eligible 7(a) loans, and an increase in the maximum SBA Express loan amount. The American Rescue Plan Act of 2021 modified and extended existing programs to support small businesses and other entities that have been affected during the COVID-19 pandemic.

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 COVID-19 pandemic. These EIDL loans may be used to meet financial obligations and operating expenses that could have been met had the disaster not occurred. The interest rate is 3.75 percent for small businesses and 2.75 percent for non-profits.

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. Loans issued prior to June 5, 2020 have a maturity of 2 years while those issued after have a maturity of 5 years. All loans have an interest rate of 1 percent. Loan payments will be deferred for borrowers who apply for loan forgiveness until SBA remits the borrower's loan forgiveness amount to the lender. If a borrower does not apply for loan forgiveness, payments are deferred 10 months after the end of the covered period for the borrower's loan forgiveness (between 8 and 24 weeks). The Paycheck Protection Program (PPP) ended on May 31, 2021.

The CARES Act also provided debt relief for 7(a) borrowers. The SBA paid 6 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 did not apply for this assistance; it was automatically provided. The Economic Aid Act revised the eligibility criteria for assistance to include all 7(a) loans approved up to September 27, 2020, even if not fully disbursed. All other provisions for initial debt relief remained the same. The Economic Aid Act also authorized additional debt relief payments to 7(a) borrowers beyond the six-month period prescribed in the CARES Act. The level of assistance varied based on when the loan was approved, and by borrower industry. Assistance began February 1, 2021. For 7(a) loans approved beginning December 27, 2020, Section 326, 327, and 328 of the Economic Aid Act authorized and funded changes to the authorized full upfront and on-going fee waivers, increased loan guarantee percentages, and extended temporary maximum loan sizes for SBA Express loans.

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 provided debt relief for 504 borrowers. The SBA paid 6 months of principal, interest, and any fees owed by current borrowers who were in regular servicing status as well as new 504 loans disbursed prior to September 27, 2020. Borrowers did not apply for this assistance; it was automatically provided. The level of assistance varied based on when the loan was approved, borrower industry, and whether the loan was through the Community Advantage program and began February 1, 2021. For 504 program loans approved beginning December 27, 2020, Section 326, 327, and 328 of the Economic Aid Act changes include waiver of the third party lender participation fee, borrower processing fee waivers and SBA reimbursements of those fees to CDC's, introduction of the new ALP Express delivery method, and various changes to the Debt Refinancing programs to include expanded eligibility.

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 provided debt relief for Microloan borrowers. The SBA paid 6 months of principal, interest, and any fees owed by current borrowers who were in regular servicing status as well as new Microloan loans disbursed prior to September 27, 2020. The Economic Aid Act revised the eligibility criteria for assistance to include all Microloans approved up to September 27, 2020, even if not fully disbursed. All other provisions for initial debt relief remained the same. The Economic Aid Act also authorized additional debt relief payments to Microloan borrowers beyond the six-month period prescribed in the CARES Act. The level of assistance varied based on when the loan was approved, and by borrower industry, and began February 1, 2021.

Credit Subsidy Modeling

The SBA estimates future cash flows for direct and guarantied 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 rates

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 guarantied 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.

Guarantied 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 guarantied 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, 2021 SBA's foreclosed property was $34.0 million related to 77 loans. The properties had been held for an average of 1,711days. At September 30, 2020 foreclosed property was $39.4 million related to 84 loans. The properties had been held for an average of 1,340 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 guarantied 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 guarantied loans purchased by the SBA.

Valuation Methodology for Pre-FCRA Liability for Loan Guaranties

The SBA values pre-credit reform direct and defaulted guarantied 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 guarantied 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, 2021	Pre-1992 Loans	Post-1991 Loans	Total
Direct Business Loans			
Business Loans Receivable	$ 6,677	$ 218,490	$ 225,167
Interest Receivable	–	798	798
Foreclosed Property	2,609	–	2,609
Allowance	(6,664)	(31,266)	(37,930)
Total Direct Business Loans	**2,622**	**188,022**	**190,644**
Direct Disaster Loans			
Disaster Loans Receivable	241	249,216,711	249,216,952
Interest Receivable	286	7,495,582	7,495,868
Foreclosed Property	–	2,929	2,929
Allowance	(129)	(12,633,871)	(12,634,000)
Total Direct Disaster Loans	**398**	**244,081,351**	**244,081,749**
Defaulted Guarantied Business Loans & Other Loans Receivable			
Defaulted Guarantied Business Loans	1,973	3,265,416	3,267,389
Other Loans Receivable (see note below)	–	118,212	118,212
Interest Receivable	–	19,507	19,507
Foreclosed Property	1,268	27,230	28,498
Allowance	(1,695)	(2,259,209)	(2,260,904)
Total Defaulted Guarantied Business Loans & Other Loans Receivable	**1,546**	**1,171,156**	**1,172,702**
Total Credit Program Receivables & Related Foreclosed Property, Net			**$ 245,445,095**

As of September 30, 2020	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 Guarantied Business Loans & Other Loans Receivable			
Defaulted Guarantied 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 Guarantied 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: 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,	2021	2020
Business Direct Loan Program	$ 37,044	$ 53,167
Disaster Loan Program	73,739,456	178,455,632
Total Direct Loans Disbursed	**$ 73,776,500**	**$ 178,508,799**

Outstanding Loan Obligations as of September 30,	2021	2020
Business Direct Loan Program	$ 50,731	$ 41,703
Disaster Loan Program	18,974,137	13,808,399
Total Direct Loan Obligations	**$ 19,024,868**	**$ $13,850,102**

GUARANTIED LOANS

New Loans Disbursed During the Year Ended September 30,	2021	2020
Total Principal Disbursed at Face Value	$ 308,925,787	$ 542,948,707
Total Principal Disbursed Guarantied by the SBA	304,023,895	537,999,418

Outstanding Loan Obligations as of September 30,	2021	2020
Business Guarantied Loan Programs	$ 27,993,257	$ 22,270,996

Loans Outstanding as of September 30,	2021	2020
Total Principal Outstanding at Face Value	$ 459,593,931	$ 646,028,326
Total Principal Outstanding Guarantied by the SBA	435,291,356	621,677,390

D. Subsidy Cost Allowance Balances

(Dollars in Thousands)

For the Years Ended September 30,	2021	2020
Post-1991 Business Direct and Purchased Guarantied Loans		
Beginning Balance of Allowance Account	**$ 2,245,434**	**$ 2,442,198**
Current Year's Subsidy (see 6.G for breakdown by component)	3,385	4,788
Loan Modifications	28,298	27,100
Loans Written Off	(563,931)	(573,108)
Subsidy Amortization	(2,829)	(2,513)
Allowance Related to Guarantied Loans Purchased This Year	500,852	259,140
Miscellaneous Recoveries and Costs	82,100	73,801
Balance of Subsidy Allowance Account before Reestimates	2,293,309	2,231,406
Reestimates	(2,834)	14,028
Ending Balance of Allowance Account	**$ 2,290,475**	**$ 2,245,434**
Post-1991 Disaster Direct Loans		
Beginning Balance of Allowance Account	**$ 5,641,474**	**$ 1,265,374**
Current Year's Subsidy (see 6.G for breakdown by component)	6,669,771	24,303,168
Loans Written Off	(48,711)	(143,539)
Subsidy Amortization	4,120,155	(939,321)
Miscellaneous Recoveries and Costs	32,195	60,722
Balance of Subsidy Allowance Account before Reestimates	16,414,884	24,546,404
Reestimates	(3,781,013)	(18,904,930)
Ending Balance of Allowance Account	**$ 12,633,871**	**$ 5,641,474**

For Business Direct and Purchased Guarantied Loans, a Loan Modification was required for Debt Relief.

E. Liability for Loan Guaranties

(Dollars in Thousands)

For the Years Ended September 30,	2021	2020
Post-1991 Business Loan Guaranties		
Beginning Balance of Liability for Loan Guaranties	**$ 512,712,498**	**$ 2,000,420**
Claim Payments to Lenders/Guarantee Payments	(874,071)	(1,216,741)
Fees	1,118,670	1,329,264
Interest Supplements Paid	(4,924,818)	(21,608)
Interest Revenue on Uninvested Funds	4,271,118	7,957,891
Interest Expense on Entity Borrowings	(67,191)	(65,483)
Current Year's Subsidy (see 6.G for breakdown by component)	287,046,480	525,917,920
Upward Reestimates	8,990,144	2,571,375
Downward Reestimates	(6,264,520)	(8,287,808)
Loan Modifications	7,009,738	6,561,276
Adjustment Due to Reestimate & Guarantied Loan Purchases	373,219	957,601
Miscellaneous Recoveries and Costs	(581,559,754)	(24,991,609)
Total Ending Balance of Liability for Loan Guaranties	**$ 227,831,513**	**$ 512,712,498**

For Business Direct and Purchased Guarantied Loans, a Loan Modification was required for the Debt Relief and PPP programs.

The large flux showing on the "Miscellaneous Recoveries and Costs" line comprises a $2.5 billion increase for PPP lender fees, a $557.6 billion increase for PPP forgiveness, and a $3.2 billion decrease for Debt Relief. As PPP forgiveness started taking place in FY 2021, the $557.6 billion for PPP forgiveness is the driver of the fluctuation increases for this line.

The large flux showing on the "Interest Supplements Paid" line is comprised of Forgiveness Payment activity during FY 2021.

F. 2021 Subsidy Rates by Program and Component

Loan Program	Total Subsidy	Financing	Default	Other	Fee
GUARANTY					
7(a)	**0.08%**	0.00%	4.76%	0.00%	-4.68%
7(a) - COVID Support	**5.40%**	0.00%	5.78%	0.00%	-0.38%
504 CDC	**0.00%**	0.00%	5.65%	0.43%	-6.08%
504 CDC - COVID Support	**2.04%**	0.00%	5.59%	0.43%	-3.98%
504 Refi	**0.00%**	0.00%	5.83%	0.45%	-6.28%
504 Refi - COVID Support	**2.12%**	0.00%	5.85%	0.45%	-4.18%
SBIC Debentures	**0.00%**	0.00%	4.69%	0.05%	-4.74%
Paycheck Protection Program	**103.70%**	0.00%	1.14%	97.65%	4.91%
DIRECT					
Disaster (10-1-20 to 9-7-21)	**8.92%**	0.72%	11.22%	-3.02%	0.00%
Disaster (9-8-21 to 9-30-21)	**9.18%**	-0.08%	12.05%	-2.79%	0.00%
Microloan	**8.99%**	7.17%	2.22%	-0.40%	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 and modifications.

G. Subsidy Expense by Component

(Dollars in Thousands)

For the Years Ended September 30,	2021	2020
Business Loan Guaranties		
Defaults	$ 4,816,456	$ 34,275,918
Fees	12,940,293	21,394,301
Other	269,289,731	470,247,701
Subsidy Expense Before Reestimates and Loan Modifications	287,046,480	525,917,920
Loan Modifications	7,009,738	6,561,276
Components of Subsidy Reestimates		
Technical Assumptions/Default Reestimates	183,863	(7,836,726)
Interest Rate Reestimates	2,541,761	2,120,293
Total of the Above Components of Subsidy Reestimates	2,725,624	(5,716,433)
Total Guarantied Business Loan Subsidy Expense	**$ 296,781,842**	**$ 526,762,763**
Business Direct Loans		
Interest	$ 2,666	$ 3,732
Defaults	839	1,219
Other	(120)	(163)
Subsidy Expense Before Reestimates and Loan Modifications	3,385	4,788
Loan Modifications	28,298	27,100
Components of Subsidy Reestimates		
Technical Assumptions/Default Reestimates	(1,191)	14,029
Interest Rate Reestimates	(1,643)	(1)
Total of the above Components of Subsidy Reestimates	(2,834)	14,028
Total Business Direct Loan Subsidy Expense	**$ 28,849**	**$ 45,916**
Disaster Direct Loans		
Interest	$ 67,780	$ 13,514,459
Defaults	8,631,699	18,477,601
Other	(2,029,708)	(7,688,892)
Subsidy Expense Before Reestimates and Loan Modifications	6,669,771	24,303,168
Components of Subsidy Reestimates		
Technical Assumptions/Default Reestimates	8,053,889	(14,982,028)
Interest Rate Reestimates	(11,834,902)	(3,922,902)
Total of the above Components of Subsidy Reestimates	(3,781,013)	(18,904,930)
Total Disaster Direct Loan Subsidy Expense	**$ 2,888,758**	**$ 5,398,238**

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.

(Dollars in Thousands)

For the Years Ended September 30,	2021	2020
Disaster Direct Loan Programs	$ 275,450	$ 828,082
Business Loan Programs	159,993	155,612
Total Administrative Expense	**$ 435,443**	**$ 983,694**

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 2021 performance data for SBA's large loan programs and 9 months of actual and 3 months of projected performance data for the Secondary Market Guaranty and the small loan programs.

Business Guarantied Loan Programs

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

(Dollars in Thousands)

For the Years Ended September 30,	2021	2020
7(a)	$ (2,662,078)	$ 996,234
7(a) - Recovery Act	(4,371)	(6,471)
7(a) - Jobs Act	(7,686)	(4,018)
7(a) - COVID Support	(509,864)	–
504 CDC	(905,781)	581,462
504 CDC - Recovery Act	(2,630)	(10,671)
504 CDC - Jobs Act	(633)	(853)
504 CDC - COVID Support	(38,056)	–
504 CDC - Debt Refinancing	(92,132)	(46,889)
504 CDC - Debt Refinancing - COVID Support	(9,363)	–
504 First Mortgage Loan Pooling - Recovery Act	3,338	255
SBIC Debentures	(323,515)	60,611
SBIC Participating Securities	(47,406)	(52,335)
Secondary Market Guaranty Program	(8,182)	(34,679)
Paycheck Protection Program	7,328,120	(7,204,524)
ARC - Recovery Act	(218)	(367)
All Other Guaranty Loan Programs	6,081	5,812
Total Guarantied Loan Program Subsidy Reestimates	**$ 2,725,624**	**$ (5,716,433)**

The 7(a) Loan Guaranty program, SBA's flagship program, had a net downward reestimate of $2.6 billion in FY 2021. The reestimate is mostly due to better than expected loan performance in FY 2021 for cohorts 2015 through 2020. This better performance is likely due to a stronger economy, as evidenced by a lower unemployment rate and higher GDP growth rate in FY 2021, than was projected last year, as well as the support received by borrowers via the extended Section 1112 debt relief payments, as authorized by the Consolidated Appropriations Act of 2021.

The 7(a) Recovery Act program had a net downward reestimate of $4.4 million. The reestimate is mostly due to better than expected loan performance in FY 2021.

The 7(a) Jobs Act cohort had a net downward reestimate of $7.7 million. The reestimate is mostly due to better than expected loan performance in FY 2021.

Authorized by the Economic Aid to Hard-Hit Small Businesses, Nonprofits, and Venues Act (Economic Aid Act), the 7(a) COVID Support program offered 90 percent fee relief and upfront and on-going fee waivers for eligible borrowers and additional debt relief support. The 7(a) COVID Support program had a net downward reestimate of $509.9 million. The reestimate is in part due to better projected loan performance for the program than originally estimated. The reestimate is also in part due to lower than projected disbursements for the cohort, resulting in lower cash outflows for debt relief payments than originally estimated.

The 504 Certified Development Company program had a net downward reestimate of $905.8 million. The reestimate is mostly due to better than expected loan performance in FY 2021 contributing to a downward reestimate in all but two cohorts. Extension of Section 1112 debt relief payments, as authorized by the Consolidated Appropriations Act of 2021, and a stronger economy than forecasted last year likely contributed to the improved loan performance. The reestimate is also in part due to improved projections of future loan performance for the 2018-2021 cohorts.

The 504 Recovery Act program had a net downward reestimate of $2.6 million. The reestimate is mostly due to better than expected loan performance in FY 2021.

The 504 Jobs Act program had a net downward reestimate of $0.6 million. The reestimate is mostly due to better than expected loan performance in FY 2021.

Authorized by the Economic Aid to Hard-Hit Small Businesses, Nonprofits, and Venues Act (Economic Aid Act), the 504 COVID support program offered fee waivers of third-party lender fees and borrower CDC Processing fees, provided for CDC reimbursements of Processing fees, and extended additional debt relief support. The 504 COVID support program had a net downward reestimate of $38.1 million. The reestimate is mostly due to better projected loan performance for the program than originally estimated.

The 504 Debt Refinancing program had a net downward reestimate of $92.1 million. The reestimate is mostly due to better than expected loan performance in FY 2021 contributing to a downward reestimate in all but one cohort. The reestimate is also in part due to improved projections of future loan performance for the 2018-2021 cohorts.

Authorized by the Economic Aid to Hard-Hit Small Businesses, Nonprofits, and Venues Act (Economic Aid Act), the 504 Debt Refinancing COVID support program offered fee waivers of third-party lender fees and borrower Processing fees, provided for CDC reimbursements of Processing fees, and extended additional debt relief support. The COVID support program had a net downward reestimate of $9.4 million. The reestimate is in part due to better projected loan performance for the program than originally estimated. The reestimate is also in part due to lower than projected disbursements for the cohort, resulting in lower cash outflows for debt relief payments than originally estimated.

The Section 504 First Mortgage Loan Pooling program had a net upward reestimate of $3.3 million. The reestimate is mostly due to higher than projected default and advance payments in FY 2021.

The SBIC Debentures program had a net downward reestimate of $323.5 million. The reestimate is primarily driven by higher than projected recoveries and lower than projected defaults in FY 2021. Notably, there were no defaults in the program in FY 2021 which contributes to the downward reestimate.

The SBIC Participating Securities program had a net downward reestimate of $47.4 million. The reestimate is primarily due to higher than projected recoveries in FY 2021 for the 2004 cohort.

The Secondary Market Guaranty program had a net downward reestimate of $8.2 million. The reestimate is primarily driven by updated performance assumptions which resulted in higher projected prepayments, which lowers long term expected cash outflows. This impact is partially offset by updated economic assumptions, which result in a decrease in expected investment earnings relative to expected pool interest payments.

The Paycheck Protection Program had a net upward reestimate of $7.3 billion in FY 2021. The reestimate is attributed to the 2021 cohort and is primarily due to two factors. First, origination fee payments to participating PPP lenders for 2021 cohort loans were higher than estimated. The second factor is a decrease to the 2021 cohort discount rate. The net cash outflows in the PPP are discounted less due to the lower cohort discount rate, also contributing to the upward reestimate.

The America's Recovery Capital program had a net downward reestimate of $0.2 million. The reestimate is primarily due to higher than projected recoveries and lower than expected interest and default payments in FY 2021.

All Other Guaranty Loan programs includes the SBIC New Market Venture Capital program that had a net upward reestimate of $6.1 million. The reestimate is s driven by lower than projected recoveries in FY 2021 and a reduction in forecasted recoveries for the 2003 cohort.

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,		2021		2020
7(m) Microloan	$	(2,841)	$	13,937
7(m) Microloan - Recovery Act		24		47
Intermediary Lending Pilot Program		1		49
SBIC Preferred Stock		(14)		–
All Other Direct Loan Programs		(4)		(5)
Total Direct Loan Program Subsidy Reestimates	**$**	**(2,834)**	**$**	**14,028**

The 7(m) Direct Microloan program had a net downward reestimate of $2.8 million. Actual Section 325 debt relief payments were lower than anticipated in the Microloan program in FY 2021. This contributes to the downward reestimate as FY 2021 cash outflows in the program were lower than forecasted. The downward reestimate is partially offset by lower actual loan repayments for cohorts 2015-2020 relative to prior year projections.

The 7(m) Direct Microloan Recovery Act program had a net upward reestimate of $0.02 million. The reestimate is primarily due to lower than projected loan repayments in FY 2021.

The Intermediary Lending Pilot program had a net upward reestimate of $0.001 million. The reestimate is due to slightly lower than projected net cash inflows in FY 2021.

The SBIC Preferred Stock program had a $0.01 million net downward reestimate. The downward reestimate is due to higher than expected collections for the 1994 cohort.

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,		2021		2020
Disaster	$	(3,781,013)	$	(18,904,930)
Total Disaster Direct Loan Program Subsidy Reestimates	**$**	**(3,781,013)**	**$**	**(18,904,930)**

The Disaster Assistance program had a net downward reestimate of $3,781.0 million. The reestimate primarily is a result of updates to the discount rate which results in reduced borrowing costs for FY 2021 COVID EIDL funded loans. The FY 2021 COVID EIDL funded cohort's discount rate declined from a formulated rate of 2.08 percent to 1.28 percent. Due to the high volume of COVID EIDL loans at a fixed 3.75 percent interest rate, the financing surplus offsets higher than formulated defaults for this cohort.

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 2 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 2 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 2 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 5 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)

For the Years Ended September 30,	2021	2020
Leasehold Improvements	$ 1,811	$ 1,811
Amortization of Leasehold Improvements	(1,785)	(1,759)
Net	**26**	**52**
Software in Development	7,742	27,451
Software in Use	57,597	35,863
Amortization of Software in Use	(40,089)	(35,863)
Net	**25,250**	**27,451**
Total General Property and Equipment, Net	**$ 25,276**	**$ 27,503**

Note 8. Liabilities Not Covered by Budgetary Resources

Liabilities not covered by budgetary resources require future congressional action whereas liabilities covered by budgetary resources reflect prior congressional action. Regardless of when the congressional action occurs, when the liabilities are liquidated, Treasury will finance the liquidation in the same way that it finances all other disbursements, using some combination of receipts, other inflows, and borrowing from the public (if there is a budget deficit).

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

(Dollars in Thousands)

For the Years Ended September 30,	2021	2020
Intragovernmental Liabilities - Benefit Program Contributions Payable		
Unfunded Employment Taxes Payable	$ 2,137	$ 905
Federal Employees' Compensation Act Payable	6,114	5,548
Total Intragovernmental Liabilities - Benefit Program Contributions Payable	**8,251**	**6,453**
With the Public Liabilities - Federal Employee Benefits Payable		
Federal Employees' Compensation Act Actuarial Liability	30,128	30,576
Accrued Unfunded Annual Leave	41,504	39,064
Total With the Public Liabilities - Federal Employee Benefits Payable	**71,632**	**69,640**
Surety Bond Guarantee Program Future Claims	**60,054**	**60,060**
Total Other Liabilities		
Total Liabilities Not Covered by Budgetary Resources	**139,937**	**136,153**
Total Liabilities Covered by Budgetary Resources	503,349,228	717,920,066
Total Liabilities Not Requiring Budgetary Resources	49,898	(201)
Total Liabilities	**$ 503,539,063**	**$ 718,056,018**

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

Note 9. Federal Debt and Interest Payable

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,	2021	2020
Principal Payable to the Bureau of the Fiscal Service		
Beginning Balance	**$ 176,173,660**	**$ 11,810,241**
New Borrowings	91,242,787	207,461,405
Repayments	(4,761,570)	(43,097,986)
Total Principal Payable to the Bureau of the Fiscal Service	**262,654,877**	**176,173,660**
Interest Payable		
Change in Interest Payable - Liquidating Funds	251	160
Total Interest Payable	**251**	**160**
Ending Balance	**$ 262,655,128**	**$ 176,173,820**

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,		2021		2020
Disaster Loan Fund	$	396	$	387
Business Loan and Investment Fund		7,973		15,535
Total Due to Treasury	**$**	**8,369**	**$**	**15,922**

Note 11. Other Liabilities

Other Liabilities are shown in the following table.

(Dollars in Thousands)

As of September 30,		2021		2020
Other Liabilities - Intragovernmental				
Employment Taxes Payable	$	3,850	$	3,389
Payable to Treasury		6		6
Total Other Liabilities - Intragovernmental	**$**	**3,856**	**$**	**3,395**
Other Liabilities - With the Public				
Accrued Funded Payroll and Benefits	$	58,075	$	47,001
Suspense Accounts		49,898		(201)
Total Other Liabilities - With the Public	**$**	**107,973**	**$**	**46,800**

Note: All liabilities reflected are current liabilities.

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 2021 and FY 2020 historical facilities lease costs were $47.0 million and $48.0 million. Future lease payments are based on FY 2022 GSA base year estimates. Projections after the base year assume a 3 percent inflation factor. Payments after 5 years reflect only current leases that will still be in effect, projected to the end of each lease term. Lease Projections after 2026 increased due to the increase in the total number of Occupancy Agreements still in effect until 2041.

FUTURE FACILITIES OPERATING LEASE PAYMENTS

(Dollars in Thousands)

Fiscal Year	Lease Projections
2022	$ 49,249
2023	50,726
2024	52,248
2025	53,816
2026	55,430
After 2026	126,106
Total	**$ 387,575**

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,	2021	2020
ENTITY		
Financing Fund Payable	$ (11,742,037)	$ (28,541,393)
NON-ENTITY		
Miscellaneous Receipts Fund Receivable	11,742,037	28,541,393
Downward Reestimate Payable to Treasury	(11,742,037)	(28,541,393)
Balance Sheet Reported Payable	**$ (11,742,037)**	**$ (28,541,393)**

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 are comprised of 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 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.

Goal 1 is primarily associated with PPP subsidy costs. Goal 3 is comprised of Disaster subsidy costs in addition to reestimates. Goal 3 is also largely driven by the Shuttered Venue Operators Grant Program.

Gross Cost and Exchange Revenue

(Dollars in Thousands)

For the Years Ended September 30,	2021	2020
STRATEGIC GOAL 1:		
Support Small Business Revenue and Job Growth		
Intragovernmental Gross Cost	$ 168,841	$ 76,153
Gross Cost with the Public	330,292,458	534,796,476
Total Strategic Goal 1 Gross Cost	**330,461,299**	**534,872,629**
Intragovernmental Earned Revenue	4,208,498	7,916,787
Earned Revenue from the Public	127,664	148,706
Total Strategic Goal 1 Earned Revenue	**4,336,162**	**8,065,493**
STRATEGIC GOAL 2:		
Build Healthy Entrepreneurial Ecosystems and Create Business Friendly Environments		
Intragovernmental Gross Cost	$ 52,903	$ 3,582
Gross Cost with the Public	403,798	23,941
Total Strategic Goal 2 Gross Cost	**456,701**	**27,523**
STRATEGIC GOAL 3:		
Restore Small Businesses and Communities after Disasters		
Intragovernmental Gross Cost	$ 4,105,521	$ 7,875,157
Gross Cost with the Public	19,396,996	27,118,539
Total Strategic Goal 3 Gross Cost	**23,502,517**	**34,993,696**
Intragovernmental Earned Revenue	1,021,155	4,709,665
Earned Revenue from the Public	2,942,289	2,901,640
Total Strategic Goal 3 Earned Revenue	**3,963,444**	**7,611,305**
STRATEGIC GOAL 4:		
Strengthen SBA's Ability to Serve Small Businesses		
Intragovernmental Gross Cost	$ 15,192	$ 1,559
Gross Cost with the Public	115,963	10,417
Total Strategic Goal 4 Gross Cost	**131,155**	**11,976**
COST NOT ASSIGNED TO STRATEGIC GOALS		
Intragovernmental Gross Cost	$ 3,647	$ 328
Gross Cost with the Public	27,840	2,193
Total Gross Cost Not Assigned to Strategic Goals	**31,487**	**2,521**
Net Cost of Operations	**$ 346,283,553**	**$ 554,231,547**

Goal 1 Intragovernmental Earned Revenue decreased due to interest earned on uninvested funds in business loan programs.

The increase in Goal 2 Gross Cost with the Public is due to the expense received in FY 2021 compared to FY 2020. This also applies to Goal 4 and Costs Not Assigned to Strategic Goals since those costs are spread across all goals.

Goal 3 Intragovernmental Gross Cost relates to a decrease in interest expense on borrowings. Intragovernmental Earned Revenue decreased due to interest earned on uninvested funds.

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, 2021 and 2020. SBA's budgetary resources were $413.4 billion and $764.6 billion for the fiscal years ended September 30, 2021 and 2020. Additionally, $933.7 billion and $754.1 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, 2021 and 2020.

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 guarantied loans exceed subsidy costs and collections in the nonbudgetary loan financing funds. In FY 2021 and FY 2020, the SBA received $93.9 billion and $167.3 billion of borrowing authority from the OMB. At the end of FY 2021, the SBA had $3.6 billion of borrowing authority carried over to fund direct loans and default claims to be disbursed in the future. At the end of FY 2020, the SBA had $0.9 billion in available borrowing authority. 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 guarantied business loans and 30 years for disaster loans.

Unobligated Balances

Unobligated balances at September 30, 2021 and 2020 are $299.1 billion and $699.7 billion, which include $6.4 billion and $9.7 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 ($234.2 billion in FY 2021 and $525.3 billion in FY 2020) from fees and subsidy to fund default claims in future years. In addition, unobligated balances are accumulated in budgetary accounts from appropriations ($65.0 billion in FY 2021 and $174.3 billion in FY 2020) 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.

(Dollars in Millions) As of September 30,	2021	2020
Intragovernmental		
Unpaid	$ 3,449.1	$ 1,951.9
Paid	2.9	(43.6)
Total Intragovernmental	3,452.0	1,908.3
With the Public		
Unpaid	$ 20,110.1	$ 21,590.8
Paid	17.8	197.0
Total With the Public	20,127.9	21,787.8
Total Undelivered Orders	**$ 23,579.9**	**$ 23,696.1**

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

There was no material difference between the FY 2020 Statement of Budgetary Resources and the President's FY 2022 budget submission. The President's FY 2023 Budget with actual numbers for FY 2021 has not yet been published and will be available at a later date at President's Budget | The White House. The SBA expects no material differences between the President's Budget "actual" column and the FY 2021 reported results when the budget becomes available in February 2022.

Distributed Offsetting Receipts

Distributed offsetting receipts are amounts that an agency collects from the public or from other Government agencies that are used to offset or reduce an agency's budget outlays. Agency outlays are measured on both a gross and net basis, with net outlays being reduced by offsetting receipts (and other amounts).

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.

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.

Budget and Accrual Reconciliation

(Dollars in Thousands)

	Federal	Non-federal	Total 2021
Net Operating Cost (SNC)	**$ (883,549)**	**$ 347,167,102**	**$ 346,283,553**
Components of Net Operating Cost not Part of the Budgetary Outlays			
General Property, plant and equipment depreciation expense	–	(2,227)	(2,227)
Year-end credit reform subsidy reestimates	1,266,370	–	1,266,370
President's Budget adjustment to downward reestimates	(778,039)	–	(778,039)
Downward Modification	24,134	–	24,134
President's Budget adjustment to upward reestimates	569,892	–	569,892
Modification Adjustment Transfer (MAT), net	–	(21,626)	(21,626)
Increase/(decrease) in assets not affecting Budget Outlays:			
Accounts Receivable, net	–	(1,584)	(1,584)
Advances	(1,332)	(23,557)	(24,889)
Loans Receivable, net	–	(721)	(721)
Other assets	–	(6,826)	(6,826)
(Increase)/decrease in liabilities not affecting Budget Outlays:			
Accounts Payable	8,042	(302,592)	(294,550)
Accrued Grant Liability	–	(36,642)	(36,642)
Federal Employee Benefits Payable	–	(2,054)	(2,054)
Surety Bond Guarantee Program Future Claims	–	6	6
Other Liabilities	(3,246)	(10,876)	(14,122)
Other Financing Sources:			
Imputed Cost	(35,092)	–	(35,092)
Transfer out (in) without reimbursement	(202)	–	(202)
Total Components of Net Operating Cost Not Part of the Budget Outlays	**$ 1,050,527**	**$ (408,699)**	**$ 641,828**
Components of the Budget Outlays That Are Not Part of Net Operating Cost			
Other Financing Sources:			
Effect of prior year credit reform subsidy reestimates	3,633,605	–	3,633,605
Total Components of the Budget Outlays That Are Not Part of Net Operating Cost	**$ 3,633,605**	**$ -**	**$ 3,633,605**
Other Reconciling Items			
Distributed Offsetting Receipts	–	(27,837,806)	(27,837,806)
Total Other Reconciling Items	**$ -**	**$ (27,837,806)**	**$ (27,837,806)**
Total Net Outlays			**$ 322,721,180**
Budgetary Agency Outlays, net (SBR)			
Budgetary Agency Outlays, net			**$ 322,721,180**

Budget and Accrual Reconciliation, Continued

(Dollars in Thousands)

	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 reestimates	24,337,896	–	24,337,896
President's Budget adjustment to downward reestimates	230,406	–	230,406
Downward Modification	1,266,424	–	1,266,424
President's Budget adjustment to upward reestimates	39,034	–	39,034
Modification Adjustment Transfer (MAT), net	–	(30,515)	(30,515)
Increase/(decrease) in assets not affecting Budget Outlays:			
Accounts 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
Federal Employee Benefits Payable	–	(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 reestimates	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**

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 health-care 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 of 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. CARES Act programs included:

- Subsidy for Paycheck Protection Program
- CARES Act Debt Relief
- Economic Injury Disaster Loan Emergency Advance (EIDL) Grants
- Subsidy for Coronavirus Disaster Assistance Loans

More funding and programs were specified in the Economic Aid to Hard-Hit Small Businesses, Nonprofits, and Venues Act (Economic Aid Act), PL 116-260. This Act included temporary modifications to the 7(a) Loan Program including temporary higher guaranty percentages and fee reductions on eligible 7(a) loans, and an increase in the maximum SBA Express loan amount.

The American Rescue Plan Act of 2021, PL 117-2, modified and extended existing programs and created new programs to support small businesses and other entities that have been affected during the COVID-19 pandemic. Specific programs included:

- Modifications to the Paycheck Protection Program
- Debt Relief
- Targeted EIDL Grants
- Restaurant Revitalization Program
- Shuttered Venue Operators Grants
- Community Navigator Pilot Program

Subsidy for Paycheck Protection Program

The Paycheck Protection Program (PPP) was established by the CARES Act. PPP is a loan designed to provide a direct incentive for small businesses to keep their workers on payroll. First Draw PPP loans can be used to help fund payroll costs, including benefits, and may also be used to pay for mortgage interest, rent, utilities, worker protection costs related to COVID-19, uninsured property damage costs caused by looting or vandalism during 2020, and certain supplier costs and expenses for operations. The SBA will forgive loans if all employee retention criteria are met, and the funds are used for eligible expenses.

Under the Economic Aid Act additional funds were appropriated to make new First Draw PPP loans and for certain eligible borrowers that previously received a First Draw PPP loan who suffered revenue declines of 25 percent or more in any quarter in 2020 as compared to the same quarter in 2019 to apply for a Second Draw PPP loan with the same general loan terms as their First Draw PPP loan. It also permitted borrowers that had not received a First Draw PPP loan in 2020 to be eligible to apply for both a First and Second draw loan under certain circumstances. PPP allows certain eligible borrowers that previously received a PPP loan to apply for a Second Draw PPP loan with the same general loan terms as their First Draw PPP loan. Second Draw PPP loans can be used to help fund payroll costs, including benefits. Funds can also be used to pay for mortgage interest, rent, utilities, worker protection costs related to COVID-19, uninsured property damage costs caused by looting or vandalism during 2020, and certain supplier costs and expenses for operations.

The Paycheck Protection Program ended on May 31, 2021.

PL 116-136 section 1107 appropriated $349 billion for subsidy (loan level – $343 billion)

PL 116-139 amended PL 116-136 section 1107 (a)(1) to $670.335 billion in appropriations for subsidy and section 1102 (b)(1) to $659 billion in loan authority.

PL 116-260 appropriated $284.45 billion for subsidy (loan level – $271.6 billion).

A recission of $137.3 billion was recorded in 073 20/211154 (Business Loan Investment Fund – Program (CARES)) under PL 116-260, sect 323(c).

PL 117-2, (Sec. 5001) provided FY 2021 funding of 7.25 billion (loan level - $6.97 billion) for and otherwise modifies the Paycheck Protection Program (PPP).

Funds impacted are 073X4149 (Business Loan Investment Fund – Gty Credit Reform).

Debt Relief

As a part of the CARES Act, SBA is authorized to pay six months of principal, interest, and any associated fees that borrowers owe for all 7(a), 504, and Microloans reported in regular servicing status (excluding Paycheck Protection Program loans). This debt relief to borrowers was originally dependent on the loan being fully disbursed prior to September 27, 2020 and does not apply to loans made under the Economic Injury Disaster Loan program.

"These original provisions were amended on December 27, 2020, through the Economic Aid to Hard-Hit Small Businesses, Non-Profits and Venues Act (Economic Aid Act, or EAA). The Economic Aid Act revised the eligibility criteria for assistance to include all 7(a), 504, and Microloans approved up to September 27, 2020, even if not fully disbursed. Additionally, the Economic Aid Act provided additional relief for covered loans and for loans in hard hit industries approved prior to March 27, 2020, as well as payments for covered loans made between February 1, 2021 through September 30, 2021.

Existing SBA disaster loans approved prior to 2020 in regular servicing status as of March 1, 2020, received an automatic deferment of principal and interest payments through December 31, 2020. This initial deferment period was subsequently extended through March 31, 2021. An additional 12-month deferment of principal and interest payments will be automatically granted to these borrowers. Borrowers will resume their regular payment schedule with the payment immediately preceding March 31, 2022, unless the borrower voluntarily continues to make payments while on deferment. Interest will continue to accrue on the outstanding balance of the loan throughout the duration of the deferment.

A recission of $9.175 billion was recorded in 073 20/211154 (Business Loan Investment Fund – Program (CARES)).

PL 116-260, Sec 325 appropriated $3.5 billion in funds for debt relief for covered loans through September 30, 2021 or until expended.

Of the $3.5 billion appropriation, $3.499 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 $33.3 million of appropriations transferred to the Financing funds and a downward MAT resulting in the amount of $14.2 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)	

Economic Injury Disaster Loan Emergency Advance (EIDL) Grants

In response to the COVID-19 pandemic, small business owners in all U.S. states, Washington, D.C., and territories were eligible to apply for an Economic Injury Disaster Loan of which up to $15,000 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. The SBA provided 5.8 million EIDL Advances for a total of $20 billion and closed on July 10, 2020 when all program funds were fully obligated.

PL 116-260, Sec 331 appropriated $20 billion, in administrative fund 073X0500.

PL 117-2, Sec 5002 provided an additional $15 billion in FY 2021 funding for emergency grants under the EIDL Program.

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 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. For FY 2021, the carryover subsidy provided loan authority of $279.1 billion.

PL 117-2 (Sec. 5006) provided additional $70 million in FY 2021 funding for direct loans subsidy. While this funding is not for COVID response, it is mentioned here since it was appropriated under the American Rescue Plan Act.

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

Restaurant Revitalization Fund

This program provides emergency assistance for eligible restaurants, bars, and other qualifying businesses impacted by COVID-19.

The American Rescue Plan Act established the Restaurant Revitalization Fund (RRF) to provide funding to help restaurants and other eligible businesses keep their doors open. This program will provide restaurants with funding equal to their pandemic-related revenue loss up to $10 million per business and no more than $5 million per physical location. Recipients are not required to repay the funding as long as funds are used for eligible uses no later than March 11, 2023.

A new fund symbol, 073X0800 (Restaurant Revitalization Fund) was created for this purpose.

PL 117-2, Sec 5003 established FY 2021 funding of $28.6 billion for the Restaurant Revitalization Fund. The SBA must make grants to eligible restaurants for specified costs such as payroll, operational expenses, and paid sick leave.

Shuttered Venue Operators Grant

This funding provides emergency assistance for eligible venues affected by COVID-19.

The Shuttered Venue Operators Grant (SVOG) program was established by the Economic Aid to Hard-Hit Small Businesses, Nonprofits, and Venues Act, and amended by the American Rescue Plan Act.

Eligible applicants may qualify for funding equal to 45 percent of their gross earned revenue, with the maximum amount available for a single funding award of $10 million. The SBA has reserved $2 billion for eligible applications with up to 50 full-time employees.

A new fund symbol, 073X0700 (Shuttered Venue Grant Fund) was created for this purpose.

PL 116-260, Sec 324 appropriated $15 billion.

PL 117-2, Sec. 5005 provided additional FY 2021 funding of $1.25 billion for funding to shuttered venue operators, and it reduced the amount of these funds by the total amount of any PPP or EIDL Program funds that the funding recipient has received on or after December 27, 2020.

Community Navigator Pilot Program

PL 117-2, Sec. 5004 establishes a Community Navigator pilot program to make grants to, or enter into contracts or cooperative agreements with, private nonprofit organizations, resource partners, States, Tribes, and units of local government. These agreements ensure the delivery of free community navigator services to current or prospective owners of eligible businesses in order to improve access to assistance programs and resources made available because of the COVID–19 pandemic by Federal, State, Tribal, and local entities.

This public law appropriated $100 million for the program and $75 million for outreach and training. The funding is available until September 30, 2022, for carrying out this program. The authority of the Administrator to make grants under this section shall terminate on December 31, 2025.

Salaries and Expenses Administrative Funding

PL 116-260, Sec 323 provided $2.775 million for the administrative expenses for CARES Act program implementation, as well as to prevent, prepare for, and respond to COVID-19. This included $50 million to carry out reviews and audits of loans under subsection (l) of section 7A of the Small Business Act, as redesignated, transferred, and amended by The Economic Aid Act.

PL 117-2, Sec. 5006 provided additional funding in FY 2021 of $840 million to provide support for the administrative expenses for the COVID-19 pandemic; the Economic Aid to Hard-Hit Small Businesses, Nonprofits, and Venues Act; Target EIDL Advances; and Restaurants Revitalization Grants under the American Rescue Plan.

Disaster Administrative Funding

PL 117-2, Sec. 5006 provided additional funding of $460 million to carry out the disaster loan program of which $70 million is for the cost of direct loans authorized by such section and $390 million is for administrative expenses to carry out the program.

Office of the Inspector General

PL 117-2, Sec 5006 provided $25 million to perform the necessary audit oversight of CARES Act and COVID-related loans and activities, and the American Rescue Plan.

Entrepreneurial Development

PL 116-260, Sec 329 provided $50 million in funding for Microloan Technical Assistance Grants.

These programs impact 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 (with the public)
- Loan Guarantee Liabilities
- Unexpended Appropriations – Funds from Other Than Dedicated Collections
- Cumulative Results of Operations – Funds from Other Than Dedicated Collections

Statement of Net Cost:

- Strategic Goal 1 Gross Cost
- Strategic Goal 1 Earned Revenue
- Strategic Goal 3 Gross Cost
- Strategic Goal 3 Earned Revenue
- Strategic Goal 4 Gross Cost

Statement of Changes in Net Position:

- Appropriations Received
- Other Adjustments
- Appropriations Used
- Transfers-In/Out Without Reimbursement
- Non-entity Activity

Statement of Budgetary Resources:

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

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

Amounts related to CARES Act, EAA, and ARP programs are shown in the following tables.

(Dollars in Thousands)

Fund Symbol	Program Description	Budgetary Resouces Available FY 2021	Budgetary Resources Used FY 2021	Obligations Incurred FY 2021	Resources Available Beyond FY 2021
073X1152	COVID EIDL Subsidy	$ 25,051,621	$ 7,023,384	$ 7,023,384	$ 18,028,237
073 20/21 0500	EIDL Advance	10,841	–	–	10,841 *
073X0500	EIDL Advance	46,292	–	–	46,292
073 20/21 1154	Paycheck Protection Program	2,548,228	685,762	685,762	1,862,466 *
073 20/21 0100	Supplemental COVID Salaries and Expenses	1,647,520	1,294,045	1,294,045	353,475 *
073 20/21 0400	CARES Act EDP Funding	11,611	–	–	11,611 *
073 20/24 0200	Supplemental COVID OIG	361	361	361	–
073X0200	Supplemental COVID OIG	24,623	3,223	3,223	21,400
073X1154	Paycheck Protection Program	291,700,000	284,715,090	284,715,090	6,984,910 *
073X1154	EAA - Small Business Debt Relief	3,500,000	3,500,000	3,500,000	–
073X1154	Guaranteed Loan Cost for Sec. 326, 327, and 328	1,918,000	1,759,118	1,759,118	158,882 *
073X1154	EAA - Microloan Subsidy	7,000	1,497	1,497	5,503
073X0100	No-Year S&E (PPP Audit & Fraud mitigation)	50,000	4,188	4,188	45,812
073X0400	EAA - EDP Microloan Technical Assistance	50,000	16,514	16,514	33,486
073X0500	Targeted EIDL Advance	35,000,000	5,751,322	5,751,322	29,248,678
073X0700	Shuttered Venue Operators Grants	16,250,000	9,713,357	9,713,357	6,536,643
073X0800	Restaurant Revitalization Fund	28,600,000	28,514,410	28,514,410	85,590
073X0100	ARP Act Salaries and Expenses	840,000	192,006	192,006	647,994
073 21/22 0400	Community Navigator	100,000	–	–	100,000
073 21/22 0400	Outreach and Education	75,000	650	650	74,350
073X0200	No-Year OIG ARPA	25,000	35	35	24,965

** - expired funding or authority*

(Dollars in Thousands)

Fund Symbol	Description		Budgetary Resources Available FY 2020	Budgetary Resources Used FY 2020	Obligations Incurred FY 2020	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 18. Reclassification of Financial Statement Line Items for Financial Report Compilation Process

To prepare the Financial Report of the U.S. Government (Financial Report), 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 Government-wide Treasury Account Symbol Adjusted Trial Balance System (GTAS) to develop a 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 Financial Report 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 Financial Report line items. A copy of the 2020 Financial Report can be found here: Bureau of the Fiscal Service - Reports, Statements & Publications (treasury.gov) and a copy of the 2021 Financial Report will be posted to this site as soon as it is released.

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 does not have funds from dedicated collections.

FY 2021 SBA Statement of Net Cost			Line Items Used to Prepare FY 2021 Government-Wide Statement of Net Cost
STRATEGIC GOAL 1:			
Support Small Business Revenue and Job Growth			**Non-Federal Cost**
Gross Cost	$ 330,461,299	$ 350,237,054	Non-Federal Gross Cost
Less: Earned Revenue	4,336,162	**350,237,054**	**Total Non-Federal Cost**
Net Cost of Strategic Goal 1	**326,125,137**		
STRATEGIC GOAL 2:			**Intragovernmental Costs**
Build Healthy Entrepreneurial Ecosystems and Create Business Friendly Environments		112,928	Benefit Program Costs
Gross Cost	456,701	35,093	Imputed Costs
Net Cost of Strategic Goal 2	**456,701**	98,946	Buy/Sell Costs
		4,036,986	Borrowing and Other Interest Expense
STRATEGIC GOAL 3:		62,151	Other Expenses (w/o Reciprocals)
Restore Small Businesses and Communities after Disasters		**4,346,104**	**Total Intragovernmental Costs**
Gross Cost	23,502,517		
Less: Earned Revenue	3,963,444	**354,583,158**	**Total Reclassified Gross Cost**
Net Cost of Strategic Goal 3	**19,539,073**		
		3,069,952	**Non-federal Earned Revenue**
STRATEGIC GOAL 4:			
Strengthen SBA's Ability to Serve Small Businesses			**Intragovernmental Earned Revenue**
Gross Cost	131,155	1,774	Buy/Sell Revenue
Net Cost of Strategic Goal 4	**131,155**	5,227,879	Borrowing and Other Interest Revenue
		5,229,653	**Total Intragovernmental Earned Revenue**
COST NOT ASSIGNED TO STRATEGIC GOALS			
Gross Cost	31,487		
Net Cost Not Assigned to Strategic Goals	**31,487**	**8,299,605**	**Total Reclassified Earned Revenue**
Net Cost of Operations	**$ 346,283,553**	**$ 346,283,553**	**Net Cost**

FY 2021 SBA Statement of Changes in Net Position			Line Items Used to Prepare FY 2021 Government-Wide Statement of Changes in Net Position
Funds from other than Dedicated Collections			
Unexpended Appropriations:			
Beginning balance, as adjusted	$ 183,460,572	$ 183,460,572	Unexpended Appropriations, Beginning Balance
Appropriations Received	383,192,098	236,646,104	Appropriations Received
Other Adjustments:			
Rescissions	(146,524,623)		
Adjustment - Cancelled Authority	(20,784)		
Return of Unrequired Liquidating Fund Appropriation	(447)		
Other Adjustments	(140)		
Appropriations Used	(350,974,533)	(350,974,533)	Appropriations Used
Total Unexpended Appropriations: Ending Balance	**$ 69,132,143**	**$ 69,132,143**	**Total Unexpended Appropriations**
Cumulative Results of Operations:			
Beginning Balance, as adjusted	$ (3,982,600)	$ (3,982,600)	Cumulative Results, Beginning Balance, as adjusted
Other Adjustments:		22	Other Taxes and Receipts
Current Year Liquidating Equity Activity	5,572	**22**	**Total Non-Federal Non-exchange Revenue**
Other	(29)		
Appropriations Used	350,974,533	350,974,533	Approriations Expended
		5,543	Non-Expenditure Transfers-Out of Unexpended Appropriations and Financing Sources
Transfers In/Out Without Reimbursement	202	202	Expenditure Transfers-in of Financing Sources
		350,980,278	**Total Budgetary Financing Sources**
Imputed Financing	35,092	35,092	Imputed Financing
Other:		(27,802,120)	Non-Entity Collections Transferred to the General Fund of the U.S. Government
Non-entity Activity	(11,002,742)	16,799,356	Accrual for Non-Entity Amounts to be Collected and Transferred to the General Fund of the U.S. Government
		(10,967,672)	**Total Other Financing Sources**
Net Cost of Operations	**346,283,553**	**346,283,553**	**Net Cost of Operations**
Net Change and Cumulative Results of Operation	**(6,270,925)**		
Cumulative Results of Operations - Ending	**$ (10,253,525)**	**$ (10,253,525)**	**Cumulative Results of Operations - Ending**
Ending Net Position	**$ 58,878,618**	**$ 58,878,618**	**Ending Net Position**

Required Supplementary Information

COMBINING STATEMENT OF BUDGETARY RESOURCES

For the Year Ended September 30, 2021 (Unaudited)

(Dollars in Thousands)

	BLIF		DLF		SBGRF	SE	OIG
BUDGETARY RESOURCES	Budgetary	Nonbudgetary Financing	Budgetary	Nonbudgetary Financing	Budgetary	Budgetary	Budgetary
Unobligated Balance from Prior Year Budget Authority, net (discretionary and mandatory)	$ 149,099,772	$ 525,039,538	$ 25,185,378	$ 1,315,205	$ 102,745	$ 1,862,797	$ 35,865
Appropriations (discretionary and mandatory)	152,860,940	36,236	2,206,494	–	–	1,154,157	47,011
Borrowing Authority (discretionary and mandatory)	–	141,332	–	93,794,469	–	–	–
Spending Authority from Offsetting Collections	–	297,053,762	–	16,307,860	17,622	353,160	1,600
Total Budgetary Resources	**$ 301,960,712**	**$ 822,270,868**	**$ 27,391,872**	**$ 111,417,534**	**$ 120,367**	**$ 3,370,114**	**$ 84,476**
STATUS OF BUDGETARY RESOURCES							
New Obligations and Upward Adjustments (total)	$ 292,884,738	$ 594,846,455	$ 9,090,756	$ 104,684,758	$ 15,408	$ 2,119,720	$ 28,386
Unobligated Balance, end of year:							
Apportioned, unexpired accounts	7,212,711	225,781,138	18,199,877	4,047,759	6,488	1,227,137	52,929
Unapportioned, unexpired accounts	1,863,263	1,643,275	101,239	2,685,017	98,471	1,690	–
Unexpired Unobligated Balance, end of year	9,075,974	227,424,413	18,301,116	6,732,776	104,959	1,228,827	52,929
Expired Unobligated Balance, end of year	–	–	–	–	–	21,567	3,161
Unobligated Balance, end of year (total)	9,075,974	227,424,413	18,301,116	6,732,776	104,959	1,250,394	56,090
Total Status of Budgetary Resources	**$ 301,960,712**	**$ 822,270,868**	**$ 27,391,872**	**$ 111,417,534**	**$ 120,367**	**$ 3,370,114**	**$ 84,476**
OUTLAYS, NET							
Net Outlays (discretionary and mandatory)	$ 296,303,524		$ 8,461,448		$ (2,193)	$ 1,878,998	$ 26,130
Distributed Offsetting Receipts	–		–		–	(27,837,806)	–
Agency Outlays, net (discretionary and mandatory)	**$ 296,303,524**		**$ 8,461,448**		**$ (2,193)**	**$ (25,958,808)**	**$ 26,130**
Disbursements, net (total) (mandatory)		**$ 292,592,645**		**$ 77,557,190**			

(Dollars in Thousands)

	ADVOCACY	EDP	EIDL	SVOG	RRF	WCF	BATF	TOTAL	TOTAL	
BUDGETARY RESOURCES	Budgetary	Budgetary	Budgetary	Budgetary	Budgetary	Budgetary	Budgetary	Budgetary	Nonbudgetary Financing	Total
Unobligated Balance from Prior Year Budget Authority, net (discretionary and mandatory)	$ 658	$ 73,239	$ 57,133	$ –	$ –	$ 9,511	$ 175	$ 176,427,273	$ 526,354,743	$ 702,782,016
Appropriations (discretionary and mandatory)	9,190	497,000	35,000,000	16,250,000	28,600,000	6,000	–	236,630,792	36,236	236,667,028
Borrowing Authority (discretionary and mandatory)	–	–	–	–	–	–	–	–	93,935,801	93,935,801
Spending Authority from Offsetting Collections	–	–	–	–	–	–	–	372,382	313,361,622	313,734,004
Total Budgetary Resources	**$ 9,848**	**$ 570,239**	**$ 35,057,133**	**$16,250,000**	**$28,600,000**	**$ 15,511**	**$ 175**	**$ 413,430,447**	**$933,688,402**	**$1,347,118,849**
STATUS OF BUDGETARY RESOURCES										
New Obligations and Upward Adjustments (total)	$ 7,140	$ 307,663	$ 5,751,322	$ 9,713,357	$ 28,514,410	$ $7,245	$ –	$ 348,440,145	$ 699,531,213	$ 1,047,971,358
Unobligated Balance, end of year:										
Apportioned, unexpired accounts	2,708	242,785	29,305,811	6,536,643	85,590	8,244	175	62,881,098	229,828,897	292,709,995
Unapportioned, unexpired accounts	–	11	–	–	–	22	–	2,064,696	4,328,292	6,392,988
Unexpired Unobligated Balance, end of year	2,708	242,796	29,305,811	6,536,643	85,590	8,266	175	64,945,794	234,157,189	299,102,983
Expired Unobligated Balance, end of year	–	19,780	–	–	–	-	–	44,508	–	44,508
Unobligated Balance, end of year (total)	2,708	262,576	29,305,811	6,536,643	85,590	8,266	175	64,990,302	234,157,189	299,147,491
Total Status of Budgetary Resources	**$ 9,848**	**$ 570,239**	**$ 35,057,133**	**$16,250,000**	**$28,600,000**	**$ 15,511**	**$ 175**	**$ 413,430,447**	**$933,688,402**	**$1,347,118,849**
OUTLAYS, NET										
Net Outlays (discretionary and mandatory)	$ 7,520	$ 234,439	$ 5,481,842	$ 9,696,487	$ 28,466,759	$ 4,032	$ –	$ 350,558,986		$ 350,558,986
Distributed Offsetting Receipts	–	–	–	–	–	–	–	(27,837,806)		(27,837,806)
Agency Outlays, net (discretionary and mandatory)	**$ 7,520**	**$ 234,439**	**$ 5,481,842**	**$ 9,696,487**	**$28,466,759**	**$ 4,032**	**$ -**	**$ 322,721,180**		**$ 322,721,180**
									$ 370,149,835	

Other Information

(UNAUDITED)

Success Stories

DESIGN TO PRINT

Josh Bevans, CTO
Stephanie Bevans, CEO
St. George, UT

From a small town in southern Utah, **Design to Print** has provided graphic design and printing for events around the globe, including for entities in England, Australia, France, Belgium, Greece, and China. They have produced work for Fortune 500 companies, as well as the NBA, NASCAR, and the Olympic Committee.

The COVID-19 pandemic hit Design to Print hard—most of their business came from events that halted in March of 2020. Co-owners **Josh and Stephanie Bevans** credit a strong relationship with their SBA lender as part of the reason they were able to remain open while only operating on 20 percent of their normal revenue. With their prior knowledge of SBA's programs and assistance from their lender, Design to Print was able to be the first applicant for the SBA's Paycheck Protection Program in the state of Utah.

Design to Print brainstormed and, using funding from SBA, kept their team onboard and transitioned to interior design and decorative metalwork. The found work in hotels, casino remodels, and large commercial building.

"Without the help of the SBA, we would have been in a bad place," says Josh.

THROWBACK BREWERY

Nicole Carrier, Co-Founder
Annette Lee, Co-Founder
North Hampton, NH

In 2011, co-founders **Nicole Carrier** and **Annette Lee** decided to use their background in business, engineering, and homebrewing to open **Throwback Brewery**. The sustainable vision of Throwback Brewery is to create beer that is sourced 100 percent from local ingredients and enjoyed in the local New England area. After starting in a small warehouse, they now operate out of a 12-acre farm and opened a sustainable restaurant after obtaining both an SBA 504 loan and 7(a) loan to invest in and expand their business. "This property took a lot to renovate, and we definitely needed the capital. The SBA has helped us out tremendously," says Nicole.

COVID-19 caused Throwback Brewery to completely rethink their business model, and the team used the SBA's Paycheck Protection Program, Economic Injury Disaster Loan program, and Restaurant Revitalization Fund to maintain their business.

Speaking of how Throwback Brewery responded to these challenges, Nicole noted, "It was pretty dramatic for us and for other restaurants. For us particularly, we went from a business that maybe did 5 percent takeout to all of a sudden we had to close our doors and move to a 100 percent takeout model. When things started opening up again, we had to completely transform our way of doing business and it was really the Paycheck Protection Program that helped us keep our really dedicated, committed team fully on staff throughout the entire pandemic."

OIG Report on the Top Management and Performance Challenges

U.S. Small Business Administration
Office of Inspector General

Top Management and Performance Challenges Facing the Small Business Administration in Fiscal Year 2022

October 15, 2021
Report 22-02

Contents

Message from the Inspector General

Hannibal 'Mike' Ware

I am pleased to present the Office of Inspector General (OIG) Report on the *Top Management and Performance Challenges Facing the Small Business Administration in Fiscal Year 2022*, as required by the Reports Consolidation Act of 2000.

In March 2020, the Coronavirus Disease 2019 (COVID-19) pandemic catapulted the U.S. Small Business Administration (SBA) into the spotlight as the primary agency responsible for providing nationwide assistance to small businesses. Since then, SBA has faced a steady stream of unprecedented new challenges.

However, even before the pandemic, SBA faced major challenges in managing enormous financial lending programs, information technology, and other areas. This report discusses eight major performance challenge areas and the issues that contribute to the challenges, many of which we have discussed in previous OIG reports (see Table 1).

I believe managing COVID-19 stimulus lending is the greatest overall challenge facing SBA, and it may likely continue to be for many years as the agency grapples with fraud in the programs, particularly in the COVID Economic Injury Disaster Loan Program, and the process of Paycheck Protection Program loan forgiveness. 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 are even retiring some issues we identified last year within major challenge areas because the agency has made such significant progress that the problem has either been resolved or no longer rises to the level of systemic challenge.

This progress is in large part attributed to the agency's concerted effort to address outstanding internal control recommendations reflected in many of the component challenge corrective action areas.

OIG remains committed to spurring the agency to correct problems that endanger taxpayer assets. However, our audits and investigations continue to find the agency facing significant risks of fraud because of the size and scope of its loan programs and related internal control environment; oversight of statutory programs, such as the 8(a) Business Development Program; and information technology security.

Table 1. Top Management and Performance Challenges Facing SBA in FY 2022

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 COVID-19 Economic Injury Disaster Loan Program Susceptible to Fraud
CHALLENGE 2 Inaccurate Procurement Data and Eligibility Concerns in Small Business Contracting Programs Undermine the Reliability of Contracting Goal Achievements	Agencies Receive Credit for Ineligible Firms or Those No Longer in the HUBZone or 8(a) Programs Women-Owned Small Business Federal Certification Program Susceptible to Abuse
CHALLENGE 3 SBA Faces Significant Challenges in IT Investment, System Development, and Security Controls	SBA's IT Investment Controls Need Improvement Existing System Development Controls Do Not Reflect Changing IT Application Landscape 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's Management and Monitoring of the 8(a) Business Development Program Needs Improvement	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 Corrective Actions Are Needed to Improve Continuing Eligibility Processes and Reduce Risks of Ineligible Firms Participating in the 8(a) Program Economically Disadvantaged Determination Criteria Should Be Based on Sound Methodology
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 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 Unprecedented Increase in Servicing COVID-19 EIDLs
CHALLENGE 8 SBA Needs Robust Grants Management Oversight	SBA's Grants Management System Needs Improvement Better Performance Measurements Needed to Monitor Grant Program Achievements Serious Concerns over SBA's Risk Assessment Used for Payment Distributions and Audits for the Shuttered Venue Operators Grant Program Leveraging SBA's Workforce to Ensure Effective Administration of New and Significantly Expanded Grant Programs to Aid Small Businesses

Color Coding the Challenges

Identification of an issue as a top challenge does not necessarily denote significant deficiencies or lack of attention on SBA's part. Many of the top management challenges are longstanding, inherently difficult, and may likely continue to be challenges in the coming years.

Some of the challenges encompass new issues that have arisen. 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 also view the other challenges as critically important to SBA operations.

Similar to last year's report, this report uses a color gauge as a visual indicator of the agency's progress in confronting the issues that make a particular function a top management challenge. Each issue that contributes to the main challenge includes a small color gauge image that indicates whether the agency has made little, no, or significant progress on the issue to date. (See Table 2).

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. Color Code Definitions

Color	Definition	Color indicator
Green	Issue Resolved or Appropriately Reduced	
Yellow	Substantial Progress	
Orange	Moderate or Limited Progress	
Red	No Progress	
N/A	New, not rated	
N/A	Not rated (extenuating circumstances)	

Challenge 1: SBA's Economic Relief Programs Are Susceptible to Significant Fraud Risks and Vulnerabilities

Why This Is a Challenge

More than 30 million small businesses in the United States have been adversely 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, SBA-guaranteed relief loans for eligible small businesses, individuals, and nonprofit organizations can be forgiven if loan proceeds were used in accordance with law. Eligible expenses include payroll, rent, utility payments, and other limited uses.

The speed of lending through these programs is unmatched by anything in SBA's history and necessitates the establishment of proper controls to mitigate risk and ensure that the programs operate as intended. As of August 2021, we had received more than 215,000 Hotline fraud complaints in the Paycheck Protection Program (PPP) and Economic Injury Disaster Loan (EIDL) program combined and 1.2 million EIDL loan complaints of identity theft.

OIG's EIDL and PPP oversight and investigative work resulted in 307 indictments, 205 arrests, and 69 convictions related to PPP or EIDL by August 2021, with associated amounts totaling more than $460 million. Additionally, OIG collaboration with SBA and the U.S. Secret Service has resulted in the seizure of more than $995 million stolen by fraudsters in the EIDL program. We also played a key role in assisting financial institutions in the return of another $3.1 billion to SBA's EIDL program.

OIG has actively engaged SBA leadership throughout the duration of the pandemic to notify them of preliminary findings so they could respond in real time to prevent loss to the taxpayer. Our PPP and EIDL reviews have revealed alarming findings.

We published a flash report on PPP in May 2020 that led to legislative changes to the program. In FY 2021, we also published reports on the agency's implementation of the PPP, the U.S. Department of the Treasury's Do Not Pay List, SBA's handling of identity theft in the EIDL program, and the agency's initial response to the pandemic. Our findings led the agency to strengthen controls to prevent fraud.

Paycheck Protection Program

The CARES Act appropriated $349 billion for the 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 $310 billion for PPP through the Paycheck Protection Program and Health Care Enhancement Act, bringing the total for the program to $659 billion.

The Economic Aid to Hard-Hit Small Businesses, Nonprofits, and Venues Act was enacted on December 27, 2020 to continue assistance under the PPP. Under the Economic Aid Act, the PPP was extended to provide more than $284 billion in guaranteed SBA loans.

As of May 31, 2021, SBA had processed 11.8 million guaranteed PPP loans, totaling $799.8 billion, through more than 5,400 private lenders, far more than all of SBA's combined lending under the 7(a) program from 1990 to 2019. In contrast, from FYs 2000-19, SBA made about 1.2 million 7(a) loans totaling $333 billion. During that 20-year period, SBA made about 62,000 loans a year totaling about $16.7 billion on average.

Once the laws were in place, SBA moved quickly to establish the new nationwide relief programs. But the agency eased controls required in its lending programs to do so, increasing the risk of rampant fraud.

Economic Injury COVID-19 Disaster Loan Program

In FY 2020, the CARES Act and the Paycheck Protection Program and Healthcare Enhancement Act provided $470 billion for disaster assistance and $20 billion for emergency grants for eligible entities.

In FY 2021, the Economic Aid Act and the American Rescue Act combined provided an additional $30 billion in Targeted EIDL Advances and $5 billion in Targeted Supplemental EIDL Advances to eligible entities that met additional criteria.

SBA's existing application portal and processing system were initially overwhelmed by the 4.5 million loan applications by April 10, 2020, for COVID-19 EIDL and Emergency EIDL grants. SBA turned to a contractor that had previously assisted SBA in streamlining processing to manage initial processing of COVID-19 EIDL applications. However, setting up a new application processing system presented significant internal control risks.

SBA relaxed internal controls to speed funds to affected businesses, significantly increasing the risk of program fraud. The unprecedented demand for COVID-19 EIDLs and the challenges of quickly responding to the pandemic brought about the lowering of internal controls, added significant stress to the system, and created opportunities for unscrupulous people to commit fraud.

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 December 2020, SBA had received more than 17.7 million COVID-19 EIDL applications and approved 3.7 million loans totaling $197.2 billion.

During prior large-scale disasters, SBA brought 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, significantly more than any other previous disaster.

Issue: Paycheck Protection Program Susceptible to Abuse and Fraud

Yellow

Our oversight revealed fraudsters took aim at the program and identified opportunities for prevalent 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.

We have launched numerous investigations based on these reports. Examples of fraud schemes include the following:

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

As of August 2021, OIG had received more than 40,000 Hotline complaints of potential PPP fraud and the numbers continue to rise. Complaints of potential fraud or scams include scenarios including the following:

- Loan applicants asserting business ownership that did not exist
- Business owners who received loan funds but did not use the loan money for their business
- Business owners who laid off employees to reduce employment numbers to qualify for a PPP loan

- Business owners who have refused to allow employees to return to work, telling them to continue on unemployment assistance instead
- Online fraudsters who offered to prepare applications for a fee
- Business owners and individuals reporting identity theft because the SBA made loans in their names that they did not apply for or receive

OIG has identified trends in the high number of complaints that indicate the potential for widespread fraudulent activity in the PPP. These trends mirror the arrests and ongoing investigations our agents and other government agencies are pursuing. As of January 2021, the Justice Department had filed 79 PPP fraud cases, bringing charges against more than 140 defendants. Defendants are charged with bilking taxpayers out of $341 million dollars.

Changes SBA made to expand access to the program for certain borrowers appear to have been exploited by unscrupulous individuals. In March 2021, SBA issued an interim final rule to better align with the intent of Congress. The rule allowed individuals who file an IRS Form 1040, Schedule C, to calculate their maximum loan amount using gross income rather than net income.

This change led to a significant increase in the number of loans of $20,833 or less, the maximum allowable loan amount for a Schedule C business with no employees.

In addition to Hotline complaints, multiple financial institutions have contacted OIG about a significant number of PPP deposits in personal accounts or made to people whom the financial institutions believe do not own businesses.

Many of the Schedule C loans were made by lenders that rely exclusively on third-party loan processing or software platform vendors they hire to complete loan processes. SBA does not contract the third-party vendors and they do not have relationships with SBA, only with the lenders.

The lenders used third parties to increase PPP loan volume. PPP volume data shows that 7 of the top 15 lenders made more than 2.4 million loans in 2021, or more than 18,000 loans per day, after having made fewer than 22,000 PPP loans combined in 2020.

Based on our previous work and analysis of SBA's loan data, we identified 70,835 loans totaling over $4.6 billion in potentially fraudulent PPP loans. These figures stem from three audit projects about indicators and red flags for potential fraud, including duplicate loans, businesses created after February 15, 2020, and loans that match Do Not Pay data sources.

We identified 70,835 loans totaling more than $4.6 billion in potentially fraudulent PPP loans

These loans can only be considered *potentially fraudulent* because OIG has not completed a document-by-document review of loan files to confirm or resolve the suspicious activity; however, our investigations have substantiated these concerns on a case-by-case basis. We believe this is the tip of a much larger iceberg, and we are working to identify the full extent of PPP fraud.

OIG has seen an increase in inquiries from financial institutions seeking guidance on how to address potentially fraudulent loans. The loan forgiveness process could evidence or potentially trigger more fraud.

SBA should provide financial institutions sufficient guidance on dealing with potentially fraudulent transactions. The agency should clarify how to return SBA program-related funds in instances of suspected fraud and how to report that fraud to SBA. Strong controls will help reduce fraud risk and enhance program integrity for the PPP and similar programs enacted in the future.

Agency Progress

SBA has made substantial progress to reduce fraud risks and prevent further losses. When the PPP launched in 2020, SBA's fraud risk management approach for PPP loans was intentionally developed with more fraud and eligibility controls at the loan forgiveness phase rather than the application stage.

SBA was mandated by Congress to swiftly pay out, or disburse, funds to millions of struggling small businesses. Speed became the highest priority in complying with the mandate. SBA implemented fraud and eligibility controls as a part of the loan forgiveness phase and took additional corrective actions to reduce the amount of fraud in the PPP, including the following:

- Developing and implementing Master Review Plan establishing guidelines for loan and forgiveness reviews (October 2020)
- Developing and implementing SBA and contractor's fraud risk management policy and framework
- Increasing post-disbursement antifraud controls for loans that originated in 2020
- Increasing antifraud controls for loans originating in 2021
- Commencing manual loan and forgiveness reviews for loans that originated in 2020
- Using a contractor's automated review tool and the Paycheck Protection Platform to analyze loans for fraud and eligibility
- Implementing machine learning functionality to focus on areas of higher risk
- Providing outreach and training

Remaining Challenges

Although SBA has made substantial progress to reduce fraud risks and prevent further losses, difficulties and challenges remain.

SBA's approach in 2020 to fraud risk management allowed funds to disburse quickly but presented risks of fraud when a loan was originated. The method essentially relies on the post-origination controls to identify and report instances of fraud and abuse that has already occurred, with funds also already disbursed. Fraudsters are not likely to seek forgiveness, resulting in defaulted loans at the expense of the taxpayer. During loan origination, lenders are required to report suspected or known cases of fraud to OIG and SBA's Office of Credit Risk Management.

SBA faced challenges when developing an automated screening process because the PPP is the first program of its kind, and it required disbursing a high volume of loan funds over a short time. In addition, loans must be reviewed quickly because of the statutory timeframe for forgiveness. SBA has revised the manual loan review process and procedures to reduce risks associated with loans that have alerts or "flags."

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 the handling of potentially fraudulent PPP loans and SBA loan reviews.

We anticipate future audit work on PPP loan eligibility, loan forgiveness, and lender activities to determine the effectiveness of agency implemented controls, 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

Yellow

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

For example, SBA lenders 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 after the program began in February 2020, which means the business was likely not operational before the onset of the pandemic, a CARES Act requirement.

Approving loans for ineligible borrowers reduces the amount of critical program capital available to eligible borrowers.

Businesses Exceeding Maximum Loan Amounts

We found tens of thousands of approved and disbursed loans were made to borrowers for amounts that exceeded the loan maximum based on the number of employees and compensation rates, as defined in the CARES Act (Report 21-07).

Borrowers on Do Not Pay Database

We coordinated with the U.S. Department of Treasury to compare Taxpayer Identification Numbers and name data provided in SBA data files for 2020 PPP loans 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 (Report 21-06). SBA flagged these loans to be reviewed for PPP eligibility.

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 seven years.

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 (Report 21-07). 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 identification numbers that were not registered until after that date (Report 21-07). 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.

Swift management action to identify and review potentially ineligible loans could prevent improper payments to lenders because loan forgiveness may still be in process

Agency Progress

SBA has made substantial progress in strengthening controls to validate eligibility and ensure eligibility requirements. SBA initiated several corrective actions to enhance and develop additional controls to address loan reviews, loan forgiveness, and fraud, including:

- Developing the Master Review Plan establishing guidelines for loan and forgiveness reviews (October 2020)
- Developing and implementing SBA and contractor fraud risk management policy and framework

The fraud control framework also includes a variety of antifraud controls in place designed to detect and mitigate possible instances of eligibility fraud. These controls include approved lender lists, verification with the Treasury Do Not Pay list, and compliance checks.

SBA also integrated affiliation data which shows business affiliation through ownership and maximum number of employees, as well as maximum loan amount. SBA instituted an affiliation worksheet for PPP loan and forgiveness reviews. 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 conduct 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

Yellow

OIG's inspection of SBA's 2020 implementation of the PPP found the data SBA reported and the loan-level PPP data were inaccurate and 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.

Underserved Market Data Was Incomplete

In our May 2020 flash report, we found that SBA's demographic information for underserved markets for PPP borrowers was incomplete (Report 20-14). SBA's borrower application for PPP did not include standard SBA fields to request demographic information. One week after we issued our flash report, SBA issued the initial PPP loan forgiveness application, which included an optional page for borrower demographic information. Notwithstanding, sufficient data may still not be collected.

Some borrowers may not apply for loan forgiveness while others may choose not to complete the optional page. Although ethnic demographic information is optional for SBA's traditional loan programs and the PPP, SBA generally requests the demographic information as a section on a mandatory form. Borrowers have the option to decline to provide the information.

North American Industry Classification System Data Was Incomplete

We found SBA's loan-level data on PPP North American Industry Classification System codes was incomplete (Report 21-07). SBA did not require the borrower to provide the industry classification code on the application, so lenders did not have the information to put in the loan processing platform. As of June 30, 2020, there were 222,096 loans totaling approximately $9.9 billion that were identified as "Unclassified Establishments" because there was no industry classification data on the application.

Job Statistics Were Inaccurate and Incomplete

We found SBA's loan-level data for job statistics was inaccurate and incomplete (Report 21-07). We also found that 191,003 loans totaling approximately $11 billion did not include employment information in the required job field for the number of current employees.

SBA officials said because of a backlog of loan applications before the beginning of the second round of PPP funding, lenders were allowed to submit loan applications in bulk. The officials said they turned off system controls to allow faster approval times.

Of the 191,003 applications that did not have data for the number of current employees, 83,374 were approved during the first week of the second round of funding. Because SBA removed the control to check data in the “number of current employees” field, these loans totaling approximately $4 billion were not validated before approving and issuing loan numbers to PPP lenders.

Agency Progress

SBA made substantial progress to ensure the integrity of data and has added controls including the following:

- Adding mandatory fields in borrower and lender application processes, including North American Industry Classification System identification, demographic data, and number of employees.
- Updating controls to ensure data accuracy and completeness of lender-reported data.
- Instituting a procedure for lenders and borrowers to correct publicly available PPP loan data provided to SBA by delegated PPP lenders.
- Adding controls for Taxpayer Identification Number data submission at origination and Do Not Pay-LexisNexis data validation at origination

We have an ongoing evaluation of SBA’s loan review processes and anticipate future audit work to review PPP loan eligibility, loan forgiveness, and lender activities. We will continue to monitor the agency’s efforts to improve data reliability.

Issue: COVID-19 Economic Injury Disaster Loan Program Susceptible to Fraud

Orange

From the beginning of the COVID-19 EIDL program in March 2020 until August 2021, OIG received 215,000 Hotline complaints which alleged fraudulent activity in the COVID-19 EIDL program and PPP. Thousands of complaints came from banks about potentially fraudulent activity, and OIG has steadily received hundreds of additional complaints per day from other sources.

OIG has launched numerous investigations into this fraudulent activity. In addition, our October 2020 inspection report of SBA’s initial disaster assistance response to COVID-19 identified $78.1 billion in potentially fraudulent loans and loans and grants to ineligible entities (Report 21-02). Our May 2021 inspection report of SBA’s handling of identity theft allegations in the COVID-19 EIDL Program (Report 21-15) found $6.7 billion in loan and grants related to identity theft allegations. The recommendations in both reports remain open.

In October 2020, we found significant problems with the EIDL process that could lead to fraud (Report 21-02). It is essential that internal controls are balanced to prevent fraud and include processes to address concerns identified by the internal controls. Examples of internal control concerns include the following:

Potentially Fraudulent Loans to Accounts that Differed from the Original Bank Accounts Listed on Applications

SBA had approved $14.3 billion in COVID-19 EIDLs and Emergency EIDL grants to applicants who later changed the bank account number to pay out the loan to a different account. 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 as a potential fraud indicator.

Potentially Fraudulent Loans Made to Applicants Using Duplicate Information

We found SBA had approved $62.7 billion in multiple COVID-19 EIDLs and Emergency EIDL grants to applicants who used the same internet provider (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. For example, any time an applicant uses a loan packager there will be duplications in addresses and contact info. Multiple occurrences, however, are a strong indicator of fraud.

Potentially Fraudulent Loans Made to Ineligible Entities

We found SBA approved $1.1 billion, in COVID-19 EIDLs and Emergency EIDL grants to potentially ineligible entities. In our July 2020 management alert, we warned SBA that we had already found approximately $250 million in approved loans to ineligible entities. These entities had Employer Identification Number registration dates after the date entities were required to be in business to qualify for relief funding in the CARES Act.

COVID-19 Applications Related to Identity Theft Allegations

In a May 2021 inspection (Report 21-15), OIG reported that SBA had referred more than 840,000 COVID-19 applications to OIG for suspected identity theft. SBA disbursed 112,196 COVID-19 EIDLs totaling $6.2 billion and 98,613 advance grants for $468 million that were associated with identity theft. The numbers continue to grow.

Agency Progress

SBA has enhanced system controls and validations. Some of the major control changes include

- requiring evidence that loan officers addressed issues identified and flagged by the subcontractor's processing system,
- enabling fund holding at any stage,
- invalid corporate owner Employer Identification Number check,
- obtaining Internal Revenue Service tax transcripts for all loan approvals, and
- validation against the Treasury Do Not Pay List.

Despite the control enhancements, the sheer volume of loans and advances will continue to pose a challenge for the agency to reduce the ongoing risk of fraud in these programs. OIG will continue to monitor these issues and conduct oversight work to assess the effectiveness of the agency's controls and identify areas for improvement.

Challenge 2: Inaccurate Procurement Data and Eligibility Concerns in Small Business Contracting Programs Undermine the Reliability of Contracting Goal Achievements

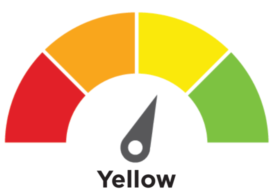
Why This Is a Challenge

The Small Business Act government-wide goal is to ensure that 23 percent of all prime contracts be awarded to small businesses each fiscal year. Since FY 2013, the SBA has reported in its annual *Small Business Procurement Scorecard* that the federal government has met or exceeded that goal.

Over the years, Congress has expressed concerns about the accuracy of the report. OIG and Government Accountability Office (GAO) audits have revealed a widespread problem of misreporting by agencies that award contracts to small firms with provisions or other contract language that allows larger companies to do most of the work.

As the federal government's primary advocate for small business, SBA must continue to strive to ensure federal agencies award small business contracts only to eligible entities counted in the assessment of this measure. However, SBA's achievement reports do not portray federal contract dollars obligated only to small businesses, reducing 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 Those No Longer in the HUBZone or 8(a) Programs



SBA has made some program eligibility requirements less focused on disadvantaged businesses and historically underused business zones, deviating from congressional intent. OIG continues to find that SBA does not consistently detect ineligible firms in its small business contracting certification programs.

Agency contracting officers have reported ineligible firms as certified either in the HUBZone or 8(a) programs in the Federal Procurement Data System–Next Generation. In 2020, the General Services Administration Office of Inspector General found $89 million in procurements erroneously recorded as small business in the Federal Procurement Data System–Next Generation.

Historically, OIG audits have found that SBA did not consistently detect ineligible firms in its preference contracting programs. In 2018 and 2019, we found SBA did not ensure only eligible firms entered the HUBZone program or consistently detect ineligible firms in the 8(a) program.

In 2020, SBA changed a HUBZone requirement, allowing certified businesses to have employees who are not current HUBZone residents. Under the new requirements, the business continues to meet the requirement as long as the employee lived in a HUBZone for at least 180 days after the business was first certified.

HUBZone businesses could have no employees residing in the HUBZone at all and still qualify because employees initially hired as HUBZone residents moved out of the HUBZone after the 180-day period. The requirements of the rule are clearly inconsistent with legislative intent.

SBA program success and integrity could be reduced if the agency admits ineligible firms into programs intended for disadvantaged small businesses. Before 2008, SBA certified small, disadvantaged businesses. SBA terminated its small, disadvantaged certification program in 2008, and since then, firms have self-certified. The awards made to these firms count toward the agency's contracting goals.

The goals require that 5 percent of all prime and subcontracts for the federal government be awarded with special considerations for contractors with small, disadvantaged business subcontractors. Participants in the 8(a) program are considered small, disadvantaged businesses and awards made to them are also counted toward agency goals.

As of September 2021, SBA's Dynamic Small Business Search database included 153,126 firms that self-certified as small, disadvantaged businesses. Firms that falsely certify they are socially and economically disadvantaged may receive federal contracts counted toward the agency's goal achievements.

Although self-certification is inherently risky, SBA removed regulations allowing for protests of a firm's disadvantaged business status in FY 2020. While firms are still subject to protests related to their small business size, business owners' status as a socially and economically disadvantaged individual cannot be challenged.

Agency Progress

SBA has made substantial progress in adding controls to detect ineligible firms in the 8(a) and HUBZone programs. In FY 2020, SBA updated and trained staff on its HUBZone policy directives to standardize analysis and oversight. SBA also required that HUBZone firms annually recertify that they meet program eligibility requirements. Further, SBA instituted procedures to ensure program officials justified their recommendations to admit firms applying to the 8(a) program. The agency is now tracking complaints about firms' eligibility to participate in the program.

SBA should continue to strengthen its oversight of these contracting programs to ensure only eligible firms participate.

The new employee residency requirement may reduce the HUBZone program's ability to meet legislative intent. Allowing certified businesses to count employees who are not current HUBZone residents to meet employee residency requirements does not ensure continual employment of individuals who live in distressed areas. Consequently, full economic benefits may not be realized in these areas.

Similarly, SBA's termination of the small, disadvantaged business certification program and removal of regulations allowing for protest of a firm's disadvantaged business status jeopardizes the integrity of the small, disadvantaged business goaling achievements. According to contract data retrieved from SAM.gov, in FY 2020, as much as $11.6 billion of prime contracts were awarded to small, disadvantaged businesses that were not certified as either 8(a) firms, Woman Owned Small Businesses, Economically Disadvantaged Woman Owned Small Businesses, HUBZones, Service-Disabled Veteran Owned Small Businesses, or a joint venture that included a firm with one of these designated contracting program certifications. Given the sheer amount of the federal contract dollars awarded to these self-certified businesses, it is crucial for SBA to ensure that only eligible firms benefit from these contracting opportunities.

As SBA expands procurement activities to deliver on the President's goal of increasing the share of federal contracts awarded to small, disadvantaged businesses from 5 to 15 percent by 2025, program officials should consider the impact this regulatory void could create on the accuracy of the small, disadvantaged business goal achievements.

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

Yellow

SBA's Women-Owned Small Business (WOSB) program is intended to give eligible companies greater access to federal contracting opportunities, ensuring a level playing field for women business owners. Both OIG and GAO have reported weaknesses in SBA's controls intended to ensure only eligible firms receive federal contracts set aside for WOSBs.

The federal government's annual contracting goal for WOSBs is set at 5 percent of all federal contracting dollars. The WOSB Program is a subset of this larger goal but not the sole driver. The government limits competition for set-aside WOSB and Economically Disadvantaged WOSB federal contracts to participants in the WOSB Federal Contracting Program.

Some contracts are awarded directly with no competitive bidding . Such contracts are known as sole source awards. This means significant contracting dollars and taxpayer funds are at stake, beginning with program eligibility and certification of the designation.

The National Defense Authorization Act of FY 2015 required qualifying small businesses to be certified by a federal agency, a state government, SBA's Administrator, or a national certifying entity approved by the Administrator.

Women business owners seeking to participate in the WOSB Program may submit an application and supporting documents to SBA at no cost using the website beta.Certify.sba.gov or pay a fee to use one of four approved third-party certifiers. As mandated in FY 2015, SBA has four approved third-party certifiers that are allowed to charge a fee to certify the WOSB or an Economically Disadvantaged Women-Owned Small Business.

In 2014, GAO recommended that SBA establish procedures to assess the performance of the SBA-approved third-party certifiers.

Government contracting officers have a history of improperly awarding WOSB contracts because of certification complexities. In a 2018 audit (Report 18-18), OIG found contracting officers at various federal agencies made sole-source awards without having the necessary documentation to determine WOSB eligibility.

Agency Progress

SBA has made substantial progress toward addressing this challenge. In July 2020, SBA launched a new free, online portal for WOSB and economically disadvantaged WOSB self-certification.

In October 2020, SBA began conducting WOSB certification determinations. SBA hired additional WOSB analysts and a program director and increased the number of staff supporting the program.

Beta.Certify.sba.gov, is the live and operational platform for the WOSB Program certification process. This new system is used to manage the certification process for the Women-Owned Small Business and Economically Disadvantaged Women-Owned Small Business programs. The program office is partnering with the Office of the Chief Information Officer to find a viable information technology solution or platform for all of the certification programs.

The agency intends for the new beta.Certify.sba.gov certification management portal to modernize a process that has been difficult for decades. However, the system has been plagued by technical challenges which could result in failing to reach program objectives.

Launched in 2020, beta.Certify.sba.gov received about 15,000 WOSB and Economically Disadvantaged WOSB applications. The WOSB Program has approved 3,242 into the program and denied 87. Additionally, as part of SBA's review process, 12,000 applications were screened and returned to the applicant for more information. The slow progress in issuing prompt certifications affects SBA's ability to adequately serve the needs of women-owned businesses.

Challenge 3: SBA Faces Significant Challenges in IT Investment, System Development, and Security Controls

Why This Is a Challenge

Over the past decade, the agency has struggled with big, high-dollar information technology (IT) projects. OIG has published a number of reports documenting problems and management missteps during efforts to develop new IT systems, including Certify.sba.gov, a 5-year, $30 million system that was so unsuccessful that the agency had to replace it. The new system is currently being tested (see Challenge 2).

The dramatic chain of events caused by the COVID-19 relief funding the agency received last year highlighted the significant need for the agency to invest in IT upgrades to improve the portal interfaces for small businesses. Portal interfaces are digital entryways into computer systems via websites. SBA must establish effective IT investment controls to ensure IT investments meet functional requirements, projected schedules, and estimated costs.

Portals should also be designed to handle significant growth in user transactions and be developed according to guidance in federal laws and regulations. The agency also must ensure portals address numerous IT needs and are developed in a reasonable timeframe

Program demands may result in testing protocols not being fully addressed within the limited timeframes needed to deliver taxpayer assistance. For example, the agency stated the cause for the month delay in the Shuttered Venue Operators Grant program was the contractor production environment did not fully mirror agency the test environment. This risk would have normally surfaced in a limited parallel production test where all requirements were confirmed to be operational.

SBA enterprise systems need constant maintenance to prevent security vulnerability to multiple types of threats. SBA must maintain and establish IT security control baselines essential to protect information and preserve data integrity. The agency will need to develop guidance that requires continuous monitoring of controls over high-risk transactions.

Issue: SBA's IT Investment Controls Need Improvement

Yellow

Growth in program requirements and increasing transaction volumes require SBA to make significant investments in its IT systems.

The Certify system was intended to improve small business access to SBA contracting and assistance programs. Certify was also to be the single gateway to all of SBA's contracting programs, streamlining the applicant certification process, and improving management productivity.

In July 2020, we reported the Certify project lacked planning and performance oversight during its development (Report 20-17). Certify.sba.gov did not meet its original goal of improving SBA's small business certification processes. The $30-million investment in this project did not yield the intended results. Our recommendations from this review were intended to improve enterprise-wide investment controls and beta.Certify.sba.gov is the agency's most recent endeavor in this program area.

Since our review, SBA has taken steps to improve oversight of beta.Certify.gov. For example, beta.Certify.gov is included on the agency's high-risk list, and the agency IT investment board is monitoring cost, schedule, and performance baselines. The agency continues to complete work on revising the project's scope but still needs to improve several management areas, including baseline reviews and completing functionality.

The agency expects to have these efforts complete by the end of 2021. OIG will monitor the agency's progress and review the results in FY 2022.

Issue: Existing System Development Controls Do Not Reflect Changing IT Application Landscape

SBA's system development policy is a roadmap for the purchase, launching, and management of software and related application development activities. This guidance helps ensure appropriate risk management, security and application development activities are consistently used throughout the agency's systems.

However, the existing policy dates to 2009 and does not fully address changes in the IT development landscape, including extensive use of third-party application service providers. A third-party service provider is an external entity that performs wide ranging activities under a contract for the agency.

The scope of these activities and related software applications varies. In all cases, the agency is responsible for maintaining internal control over operations, reporting, and compliance with laws and regulations over these services and related data.

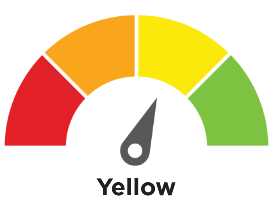
Updated system guidance is crucial for monitoring third-party applications used to process transactions integral to the mission of SBA, primarily, delivery of COVID assistance. Currently, the agency uses such applications for PPP loan forgiveness, EIDLs, the Shuttered Venue Operators Grant program, and the Restaurant Revitalization Fund. Federal guidance requires that data processed by the third-party services be subject to the same controls as internally developed systems.

Federal guidance also requires financial and related reporting controls be designed and tested in third-party applications that process financial activity. The external financial auditor found that critical financial controls for the EIDL application were not documented and tested by an independent third party.

The agency must produce a System and Organization Controls Report, commonly known as a SOC 1, to validate financial controls have been properly designed and tested. This report assesses a service provider's internal controls over financial processes and reporting.

To meet the challenges of rapidly delivering financial assistance and reduce risks, the agency must update its guidance for purchasing and related system development to validate essential controls exist before an application may be placed in production. At the same time, continuous monitoring procedures should be established over production activities to address potential security vulnerabilities.

Issue: Additional Progress Needed on Security Controls



Inspectors General are required by the Federal Information Security Modernization Act (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." In the maturity model, domain performance that scores below the level of managed and measurable, such as ad hoc, defined, or consistently implemented, means IT security is ineffective.

Our most recent evaluation indicated SBA continued to achieve level 4 in the area of 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, progress is being made toward an "effective" level under FISMA requirements.

Agency Progress

COVID-19 relief efforts diverted SBA resources from some daily compliance activities. As a result, SBA continues to experience security challenges in areas of user access, configuration management, and security training.

Although COVID-19 assistance activity increased transaction volumes, SBA made progress in automated security control testing and protection of personal identifiable information. Continued improvement is needed in risk management and configuration management controls. The agency should update authorizations to operate for systems, promptly correcting vulnerabilities.

In addition, areas for improvement include tracking of plans of action and milestones. The agency should also update software and hardware inventories. Challenges also remain in the areas of access control and security training.

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 manages lender oversight, credit and compliance risk for the agency's loan portfolio of more than $744 billion including loans made through the Paycheck Protection Program. However, those loans are originated by lenders and non-bank lenders that have various degrees of expertise in SBA loan program requirements.

Lenders often rely on the services of loan agents and lender service providers to help originate, close, service, and liquidate SBA loans of traditional SBA 7(a) and 504 Certified Development Company loans are originated by lenders with delegated approval authority. Our previous audits have found SBA has not adequately recognized or managed significant lender weaknesses. In FY 2020, in an audit of SBA's oversight of high-risk lenders, we identified additional internal control weaknesses in lender oversight. SBA has worked to address these issues and strengthen its oversight of lenders, in part by incorporating our audit recommendations.

We note that SBA has implemented several actions to create a more structured lender oversight methodology and address recommendations made in the 2020 audit that should improve SBA's oversight of lenders in the 7(a) program. However, SBA still needs to make improvements, including developing effective oversight policies and procedures and implementing a workflow management tool to interact with its comprehensive portfolio management data warehouse to manage oversight of high-risk lenders.

Previous OIG audits have also shown that SBA did not effectively identify and track third-party agent involvement in its 7(a) and 504 loan portfolios. Tracking such agents is crucial to manage portfolio risk because many lenders rely on the services of fee-based and other third-party agents to help originate, close, service, and liquidate SBA loans.

Issue: SBA's Oversight of High-Risk Lending Participants

Orange

The risks inherent in delegated lending require effective oversight to monitor compliance with SBA policies and procedures and corrective actions to address noncompliance. However, OIG's 2020 audit of SBA's oversight of high-risk lenders found that the SBA Office of Credit Risk Management did not always effectively oversee high-risk lenders to identify and mitigate risks (Report 20-03).

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's 2020 and 2021, SBA took actions to improve its ability to oversee high-risk lenders, including:

1. Issuance of the Final 7(a) Lending Oversight Rule
2. Publication of the SOP 50 53 2 for Supervision and Enforcement (January 2021). This SOP has been instrumental in facilitating supervision and enforcement actions.

3. Realignment of the organizational structure of the Office of Credit Risk Management to strengthen lender oversight and add resources to the review teams for effective oversight.
4. Quarterly meetings to assess high-risk lender activity and review results and develop risk mitigation alternatives.
5. Enhanced quarterly analysis using historical and forward-looking metrics to identify high risk lenders.
6. Revising Standard Operating Procedure (SOP) 51 00 2 – Examinations and updating the process for Risk-Based Reviews and Safety and Soundness Examinations.

The Office of Credit Risk Management has made progress by communicating deficiencies identified during loan file reviews and sharing this information with the SBA loan servicing and purchase centers and other internal stakeholders. The office continues to work with SBA leadership to define the requirements for the workflow management system, and how it will utilize the data Loan and Lender Monitoring System and authorize its funding. SBA reports that its goal is to develop this technology in FY 2022.

Although SBA has made progress by increasing and improving its use of data to identify and manage lenders with elevated risk profiles. as noted above with the publication of the SOP 50 53 2 for Supervision and Enforcement, agency management has indicated it needs time to finalize and implement policies and procedures to document its Risk-Based Review and Safety and Soundness Examination processes, including SOP 51 00 2.

This SOP will provide specific guidance to Reviewers in Charge and Financial Analysts on appropriate and consistent corrective actions for lenders whose reviews result in findings that require monitoring and implementation of corrective actions to attain compliance. SBA also needs to provide documentation showing the agency is conducting periodic overall assessments of the high-risk lender review results and recommended risk mitigation actions during the High-Risk Lender Quarterly Meeting.

In FY 2022 SBA plans to develop the database to manage oversight of high-risk lenders. We will continue to monitor SBA's ongoing efforts to address open recommendations in Report 20-03, including developing effective oversight policies and procedures and a workflow management system to help manage oversight of high-risk lenders

Issue: Increased Risk Introduced by Loan Agents

Green

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. 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. This all reinforces the need for SBA to update its enforcement regulations.

Despite the prevalence of fraud in its loan portfolios, SBA's oversight of loan agents was limited. Over the course of a decade, OIG investigated at least 22 cases of confirmed loan-agent fraud, totaling approximately $335 million (**Report 15-16**). The audit determined that loan agents were involved in approximately 15 percent of all 7(a) loans, increasing the risk of default. SBA reports this percentage decreased to approximately 7 percent in FY 2020.

Form 159

SBA requires lenders to provide a loan agent disclosure form (Form 159) to SBA's fiscal and SBA requires lenders to provide a loan agent disclosure form (Form 159) to SBA's fiscal and transfer agent for 7(a) loans that involve a loan agent. The fiscal and transfer agent is a contractor who supports SBA by serving as paying agent for all investor payments, processes lender loan reporting, and payment remittance reconciliations.

The fiscal and transfer agency also serves as the central registry for all guaranteed secondary-market interests. The fiscal and transfer agent must enter the data into a database accessible to SBA.

In our 2015 report on SBA's loan agent oversight, we identified significant issues in the data quality of Form 159. We also found that SBA had not begun tracking Form 159 in the 504-loan program.

Agency Progress

In response to our 2015 report on SBA's oversight of loan agents, SBA managers stated the agency would explore the feasibility of implementing a registration system for the 7(a) loan program. 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.

Beginning in January 2020, SBA initiated targeted Form 159 reviews of lenders to determine compliance with SBA requirements. The improved Form 159 allows SBA to aggregate and report on loan agent activity to analyze the lender's portfolio.

In FY 2019, SBA also undertook a new, more 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 awarded a new fiscal and transfer agent contract. The contract requires the fiscal and transfer agent to develop application and follow-up controls over 7(a) lender submissions to ensure critical fields on each form are completed.

With assistance from the fiscal and transfer agent, the agency implemented Form 159 controls to only allow lenders to electronically submit Form 159s through the Capital Access Financial System.

Lenders put information into the system, such as broker name, service provided, and the amount of compensation paid, which then populates Form 159. The lender signs the form and may upload the form into the system.

Form 159 controls are now fully in place. Our review of the Form 159 data from the beginning of the new controls in 2021 shows loan agent information is generally tracked and should give SBA more complete data to evaluate loan agent performance.

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 manage the risk introduced by high-risk loan agents. OIG will continue to monitor risks in this area and 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. In August 2021, the individuals were convicted on all charges.

The officers 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, 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 the Office of Credit Risk Management to develop initial statistics on provider participation in SBA's 7(a) program, but the agency's oversight is still limited. SBA's analysis of the performance of loan agents does not include loan-level information from lenders to make it possible to identify high-risk lender service providers.

Agency Progress

In response to our 2015 report on SBA's oversight of lender service providers, SBA established a method to track lender service provider involvement at the loan level. However, this information was not analyzed to evaluate performance.

In FY 2020, SBA worked with a contractor to develop a performance analysis report for lender service provider portfolios to identify any high-risk lender service providers. SBA managers said the agency is working with the contractor to determine if the information from the analysis can signal whether the lender service provider adds to the risk in the lender's portfolio of loans. OIG plans to review the analysis as soon as it is available, anticipated in FY 2021.

As lender service provider involvement in the 7(a) program increases, it will be especially important for SBA to evaluate performance and effectively reduce the incurred risks. OIG will continue to monitor SBA's oversight of lender service providers, assess risks, and conduct audits and reviews as necessary.

Challenge 5: SBA's Management and Monitoring of the 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.

Sole-source awards are contracts proposed for award without competition. A set-aside award is a proposed contract with competition limited to small businesses.

SBA has had two significant challenges with the program. The agency has struggled to provide effective business development assistance to 8(a) firms and ensure 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 also deemed to be economically disadvantaged.

Issue: SBA Continues to Address Its Ability to Develop Firms in the 8(a) Program and Measure Results

Orange

In the past, SBA emphasized business development to enhance the ability of 8(a) firms to better compete for federal contracts. SBA offers individualized development assistance to program participants and also makes referrals to its resource partners, the Small Business Development Centers; SCORE, a volunteer mentor network composed of retired executives and entrepreneurs; Women's Business Centers; Veterans Business Outreach Centers; and affiliate Procurement Technical Assistance Centers.

Despite these improvements, SBA has not fully established an IT system to perform regular performance monitoring and reporting for 8(a) participants to ensure progress 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 if 8(a) participants have demonstrated the ability to compete in the marketplace without 8(a) assistance.

SBA has made previous unsuccessful attempts to revamp its IT systems. The agency partially implemented an IT system, Certify, that was intended to be a comprehensive approach to service delivery for all SBA contracting certification programs.

Certify fell short of expectations because of serious challenges to needed features, such as searchability, data collection, and reporting (see challenges 2 and 3 for more discussion about the unsuccessful Certify system).

Certify did not include tools to track, measure, and monitor 8(a) participant progress and outcomes. To bridge the gap, SBA created the Business Opportunity Specialist Annual Review Workbook in FY 2020. This tool is not automated and still exploratory. This workbook helps specialists determine continuing eligibility and summarizes current financial conditions for each firm during annual reviews.

When used, the Business Opportunity Specialist maintains the workbook in the participant's case file on the Certify platform.

Agency Progress

Program officials began monthly phone calls to discuss questions raised by SBA's business opportunity specialists. The agency conducted training sessions for business opportunity specialists as all types of issues from the district offices were raised.

To respond to emerging issues related to COVID-19 economic response, SBA issued regulations and provided prompt guidance allowing 8(a) participants to suspend program participation for up to an additional year. These options allowed participants to recoup development and contracting opportunities that may have been lost during a time when business was not operating as usual.

However, the poor and unworkable IT system is only a factor, not the reason the agency has not improved 8(a) program business development.

Business Opportunity Specialists are encouraged but not required to use the annual review workbook. The workbook focuses on assessing firms' eligibility to continue in the program instead of business development.

SBA does not have an effective system to measure and monitor 8(a) participants' progress from year to year to assess whether they were receiving effective business development help throughout the 9-year term.

As a result, there is no assurance that participants received the business development assistance necessary for them to become viable competitors in the federal marketplace.

Issue: Streamlined Application Process May Expose the 8(a) Program to Higher Fraud Risk

Green

From 2010 to 2016, the number of firms participating in the 8(a) program steadily decreased from about 7,000 to approximately 4,900. In FY 2016, SBA leadership developed a growth plan to increase the number of participants by 5 percent for 2016 and 2017 using a streamlined application process.

However, the plan did not reach its goal.

Participation numbers continued to decline through 2020. As of August 2021, program participation is back to 2016 numbers with SBA reporting 4,906 firms in the program.

According to SBA officials, the streamlined application process is less burdensome for applicants. As part of this modified process, various documents previously used to determine an applicant's eligibility would no longer be requested or would be required in a modified version. For example, SBA no longer required that applicants submit information about the applicant firm's business structure and information on tax liens, judgements, or lawsuits.

However, shortening the review process by eliminating documents may erode core safeguards that prevent questionable firms from entering the program. At the request of SBA's former Deputy Administrator, we followed up on a report issued in FY 2016 (Report 16-13) to determine whether SBA resolved eligibility concerns for the 30 firms we had reviewed. We determined SBA resolved eligibility concerns for 20 of the 30 firms, but we still questioned the eligibility of 10 firms (Report 17-15).

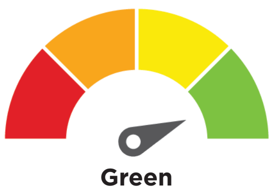
Agency Progress

SBA took corrective actions, reducing the risks OIG found in previous audits. In 2020, we verified SBA added controls to the application review process and implemented corrective actions to address recommendations from previous audits of SBA's initial eligibility review procedures (Report 20-09). SBA updated its 8(a) program policies and procedures to include a statement in the review notes of each application when a final decision differs from a lower-level reviewer recommendation, a risk we reported in Report 16-13 and Report 17-15).

SBA 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 applicant's financial information. SBA also updated its internal policies and procedures and the corresponding regulations to make these recent changes mandatory, effective November 2020. Tax records are now required to verify applicant financial information.

In response to our recent work (Report 21-12), SBA published procedures to verify 8(a) business owners who claim socially disadvantaged eligibility as members of a federally or state-recognized tribe. We found SBA admitted two firms in the 8(a) program although the owners were members of unrecognized tribes, which resulted in questioned costs of $10.9 million in 8(a) set-aside contracts. SBA finalized the procedures in a desk guide, developed a list of recognized tribes, and trained staff to use objective, consistent, documented processes and official information to verify eligibility and ensure that enrolled members are from federally or state-recognized Indian tribes.

Issue: Corrective Actions Are Needed to Improve Continuing Eligibility Processes and Reduce Risks of Ineligible Firms Participating in the 8(a) Program



In FY 2018, we reported SBA did not sufficiently 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 program and did not always act to remove firms that had been determined no longer eligible. SBA also did not log all complaints or perform required continuing eligibility reviews when it received specific and credible complaints.

Agency Progress

During FY 2020, SBA implemented corrective actions to appropriately reduce the risk that ineligible firms continue to participate in the 8(a) program. SBA updated and implemented its 8(a) program policies and procedures governing its continuing eligibility review process and evaluation standards in December 2020. The agency also updated its process for removing firms deemed ineligible for program assistance.

SBA implemented the Business Development Hotline Complaints Tracker as the official system to track 8(a) eligibility complaints and actions taken to address them. Since launching the tracker in FY 2019, SBA has determined two businesses were ineligible and terminated them from the program.

Issue: Economically Disadvantaged Determination Criteria Should Be Based on Sound Methodology

The Small Business Act requires that 8(a) 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. However, SBA 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 also compares the financial condition of the company with other small businesses in the same primary industry classification.

SBA evaluates several factors when determining economic disadvantage, including the applicant's adjusted gross income, net worth, and total assets. Assets (including net income) and net worth do not accurately reflect diminished capital and credit opportunities.

In 1989, SBA set limits that applicants needed personal net worth of less than $250,000 (excluding ownership in the 8(a) firm and equity in his or her primary residence) at the time of entry into the program, and less than $750,000 for continuing eligibility. In 2011, SBA started excluding funds invested in an official retirement account from the net worth calculation.

More recently, in 2020, SBA issued a final rule that defined an economically disadvantaged individual as having a net worth of less than $750,000 (excluding ownership interest in the applicant's business, equity in their primary personal residence and funds invested in an official retirement account), no more than $350,000 in average adjusted gross income during the previous 3 years, and no more than $6 million in assets (excluding funds invested in an official retirement account).

SBA's economic disadvantage definition should be based on justifiable, objective, and supportable data to ensure that the program benefits the small businesses that Congress had intended. An objective definition is fundamental for ensuring the agency has designed a system of controls that safeguard the program from firms participating in the program that are not truly economically disadvantaged.

Agency Progress

In FY 2018, a contractor issued a draft report of its study to assist SBA in setting criteria to determine what constitutes economic disadvantage. The study determined, based on a review of available literature, that there have been no attempts at the federal, state, or municipal level to define economic disadvantage beyond referencing the SBA 8(a) program. The study developed three estimated thresholds using separate methodologies to set the thresholds for economic disadvantage.

A year later, the contractor issued a final report that revised the three separate methodologies for calculating net worth thresholds, which at the time of the study resulted in thresholds of $59,100, $65,650, and $183,900 with exclusions. SBA excludes business and primary residence equity and retirement accounts. These amounts were revised from the contractor's draft report that recommended SBA use the methodology that concluded that individuals with an adjusted net worth of $375,000 — or $1.1 million without adjustments — should be considered economically disadvantaged.

SBA published a proposed rule in May 2019 to revise economic disadvantage to adopt $750,000 as a net worth for eligibility for all economically disadvantaged programs.

SBA solicited comments to the proposed rule on whether the $375,000 or $750,000 net worth standard should be used for entry into the 8(a) program. SBA considered the 146 comments that supported the $750,000 adjusted net worth standard to be representative of all public opinion.

SBA concluded that the $375,000 net worth was not appropriate as the standard for determining economic disadvantage. The agency determined the net worth figure was only a benchmark for entering the 8(a) program, as opposed to participating in the free enterprise system as an economically disadvantaged business owner.

On July 15, 2020, SBA finalized the rule and used the $750,000 adjusted net worth figure it had established for other small business contracting programs. This amount has been part of SBA's definition for economic disadvantage since 1989, with adjustments to increase the assets to be excluded for calculating the individual business owners net worth.

SBA's determination of net worth is a critical starting point for many programs. The 8(a) program is intended to benefit eligible small, disadvantaged businesses. When crafting a program that strives to benefit a select demographic group, the financial limits to determine eligibility should be based on verifiable empirical analysis to ensure the intended population of small, disadvantaged businesses benefit from this program.

We are currently planning an audit of the agency's procedures used to define economic disadvantage in 2022. Currently, the Government Accountability Office is reviewing the impact SBA's net worth limits have on program participants and plans to report on the findings in 2022. We did not rate the agency's progress on defining economic disadvantage for the 8(a) program this year.

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 reviews the lender's actions on the loan to determine if it is appropriate to pay the lender the guaranty, which SBA refers to as a "guaranty purchase." ("Guaranty" is a variant of "guarantee" used in financial terminology.)

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 $500,000 or more and default within the first 18 months of initial disbursement.

During FY 2019, OIG found lenders were out of compliance for 5 of the 8 loans we reviewed, totaling approximately $8.7 million in questioned costs. 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 OIG review.

We continue to communicate with the agency about previous recommendations for recoveries as part of the audit follow-up process.

Issue: Improvements Needed to Ensure High-Risk 7(a) Loan Reviews Reduce the Risk of Losses

Yellow

OIG audits and reviews have identified 7(a) loans that were ineligible, given to borrowers who did not have the ability to repay, or were not properly closed, resulting in improper payments. Improper payments occurred in part because SBA did not adequately review related loans.

The OIG High-Risk 7(a) Loan Review Program uses an internal scoring system to prioritize loans for review by level of risk. This evaluation includes a review of high-risk loans purchased by SBA to determine whether lenders complied with SBA requirements and identify suspicious activity.

Since FY 2014, we have recommended recoveries on 17 loans totaling more than $19.3 million. In addition, we identified suspicious activity on 5 loans totaling nearly $4 million, which were ultimately referred to our Investigations Division.

Our reviews of high-risk loans have consistently identified issues regarding eligibility, repayment ability, size standards, franchise agreements, business valuations, appraisals, equity injection, and debt refinance. Our review program also has helped us identify concerns with change of ownership transactions and SBA's identification of improper payments.

Agency Progress

In FY 2020, SBA began to allow loan specialists more time to review complex early defaulted loans. In addition, the agency improved its review of loans, training loan specialists, and updating the loan review checklist.

In FY 2020, SBA internally evaluated its purchase 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 has also been noted in OIG reports.

In FY 2021, SBA held a training session at the loan center that focused on the requirements and SBA review of documentation related to the source of funds used for equity injection, which was a continuing issue in our reviews and the agency's internal evaluation.

SBA has begun drafting a revision to the 7(a) loan servicing and liquidation requirements. For continual progress, SBA should finalize and issue its revised requirements designed to reduce improper payments. We will continue to monitor risks in this area and conduct audits and reviews as necessary.

Challenge 7: SBA's Disaster Assistance Program Must Balance Competing Priorities to Deliver Prompt Assistance but Prevent 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 with the need to ensure program integrity and mitigate the risk of fraud. To do so, the agency faces challenges in staffing, quality assurance, and financial controls.

Staff

During large-scale disasters such as COVID-19, SBA must hire enough loan officers to match the volume of loan applications and prevent processing backlogs. When the COVID-19 pandemic began, SBA increased the permanent and temporary trained staff size to more than 9,000, which was significantly more than any other previous disaster. SBA has been challenged to hire and train large numbers of staff.

Quality Assurance

In February 2020 (Report 20-07), we found weaknesses in the improper payment quality assurance process. Although the improper payment quality assurance appeal process appeared to be working as intended, the initial review process needed strengthening.

Controls

In September 2019 (Report 19-23), we found the desktop loss verification process helped SBA meet its timeframe goals for disaster applications, but controls needed strengthening to reduce the risk of fraud and ensure program integrity. We also identified significant fraud risks due to internal control weaknesses in the COVID-19 EIDL program, which we describe in Challenge 1.

Although we have not completed recent work in the loan servicing area, based on the recent surge in EIDLs because of the COVID-19 pandemic, the number of loans requiring servicing will increase to unprecedented levels.

Issue: Reserve Staff Need Training to Sustain Productivity During Mobilization

Orange

SBA management has dealt with this issue for several years but has recently made progress. The magnitude of the COVID-19 pandemic (21.7 million applications received as of May 31, 2021) required SBA to rapidly increase and train staff, and numbers rose to historic levels.

The number of personnel needed to serve during the pandemic was almost twice the previous record high staff total. In addition, the agency had to develop the needed training to address the new criteria for COVID-19 EIDLs.

SBA's Office of Disaster Assistance increased its trained staff from 800 to more than 5,000 employees in December 2017 to respond to hurricanes Harvey, Irma, and Maria. In response to the COVID-19 pandemic, SBA increased its permanent and temporary staff size to more than 9,000.

SBA outsourced the COVID-19 EIDL processing to a subcontractor to make recommendations for approval or denial of loan applications. SBA staff made the final decision to approve or deny COVID-19 EIDLs. SBA had to train the existing staff and the newly hired employees on the new contractor's system, a tremendous undertaking.

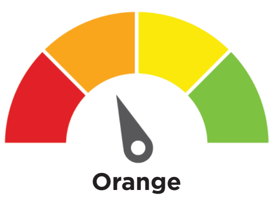
Agency Progress

SBA had previously made progress in this area by implementing a cross-functional training plan, as well as online and automated tutorials, a change that resulted from an after-action report's findings on SBA's response to prior major disasters. The COVID-19 pandemic required SBA to train and mobilize the largest number of new employees ever in its history. A similar after-action evaluation will be needed to determine how SBA can better respond to future declared disasters.

The Office of Disaster Assistance was drafting a new staffing strategy during the summer of 2021. At the end of June 2021, management of the COVID-19 EDIL Program transitioned from the Office of Disaster Assistance to the Office of Capital Access. The agency moved the program to revise staffing, operations, and other aspects of the program, which will also affect staff training. The Office of Disaster Assistance will continue to manage the agency's other disaster programs.

Bringing on a large temporary staff in response to a major natural disaster may always be a management challenge for SBA. To address this challenge, the agency needs to develop training that is comprehensive and reoccurring to improve the overall customer experience, reduce applicant processing times, and increase the number of loans and grants designated for approval, resulting in eligible applicants receiving the federal assistance they need and deserve in a timely manner.

Issue: Improper Payment Quality Assurance Process Needs Strengthening



SBA received a historic number of loan applications in FY 2020 when COVID relief programs were established. SBA tests a statistical sample of these loans for improper payments. Because the total number of number of loans that have been approved and disbursed is so large, the statistical sample is also large, which has highlighted issues in SBA's improper payment process.

An improper payment is any federal government payment made to an ineligible recipient or for an ineligible good or service, duplicate payment, or payment for goods or services not received (except for such payment authorized by law).

The Payment Integrity Information Act of 2019 requires agencies to evaluate fraud risks and use a risk-based approach for financial and administrative controls to counter identified fraud risks. The law reinforces the requirement for agencies to review prepayment and pre-award procedures.

SBA removed typical initial controls in the EIDL program and relied on self-certification by the applicants to get funding out quickly to struggling businesses at the beginning of the pandemic. This led to significant fraudulent activity in the program. We published two reports in FY 2021 detailing a significant number of potentially fraudulent loans (Reports 21-02 and 21-15). SBA's improper payment rate could increase dramatically over that of previous years.

COVID-19 EIDLs had different requirements than other SBA disaster assistance loans. EIDLs typically represent a small percentage of the SBA's disaster loans. However, COVID-19 EIDLs have changed the ratio significantly; EIDLs are now the predominant loan type in SBA's disaster assistance portfolio.

The deadline to apply for COVID-19 EIDLs was extended to December 31, 2021. SBA will continue to process these loan applications as well as other disaster relief. EIDLs are more complicated for loan specialists to calculate properly, so the agency faces many challenges that could easily result in improper payments. The agency will need to stringently apply the improper payments process to the entire EIDL portfolio to ensure no funds have been paid out to people or entities on the government's Do Not Pay list.

In February 2020, we reported on weaknesses we found in the improper payment quality assurance process (Report 20-07). We found the improper payments appeal process effectively assessed improper payments, but the initial review process was inefficient.

Agency Progress

SBA has made numerous changes in response to our February 2020 report to strengthen improper payment quality assurance, including:

- Creating guidance for the quality assurance leadership team on the quarterly improper payment audit review process.
- Providing team training based on the guidance, as well as additional specific training to keep staff abreast of updated changes to processing systems.
- Developing detailed auditing checklists for accounts and loan processing to ensure consistency.
- Updating the quality assurance database.
- Hiring additional staff to handle increased workflow and creating two separate groups within quality assurance, one for COVID-19 lending and one for other lending.
- Changing to weekly reviews instead of monthly to provide immediate feedback to departments.

Although these improvements address the weaknesses identified in our February 2020 report, OIG has serious concerns about how the rate of improper payments of COVID-19 EIDLs is measured. According to SBA management, the agency has implemented a multitiered approach to prevent improper payments.

These processes use internal and independent third-party resources. Agency managers say the new approach will allow SBA to minimize the number of fraud and improper payments effectively and efficiently when an application is submitted or before funds are awarded. In addition, agency managers said the Office of Disaster Assistance has trained four groups of quality control specialists, leads, and a supervisor to ensure they know how to identify improper payments.

We have not reviewed to determine whether SBA's multitiered approach and the training has been effective and efficient to prevent fraud and additional improper payments. We have, however, identified additional potential fraud that indicates the agency needs to do more to prevent fraud and reduce the likelihood of improper payments.

In an October 2020 report, OIG identified numerous instances of potential fraud in COVID-19 EIDLs and Emergency EIDL advances resulting from a lack of controls that allowed multiple loans to duplicate internet provider addresses or the same physical addresses, changes to bank account numbers before disbursement, and other activities that have led to massive fraud.

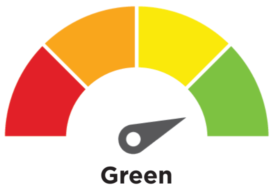
In May 2021, we reported more than $6.2 billion in potentially fraudulent loans from applicants who allegedly stole identities and then used that information to apply for disaster assistance loans.

We have concerns that the agency's current approach ignores whether sufficient internal controls exist to identify and prevent improper payments.

OIG contends that payments to fraudulent applicants are always an improper payment if this fact is known at time of improper payment review, regardless of the circumstances that allowed the fraud to occur.

By restricting improper payment identification to cases in which program staff made an error during the processing or disbursement of the loan, SBA risks understating the COVID-19 EIDL improper payment rate by a significant margin.

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 damage to establish eligibility for disaster loan funds.

Verifying loss claims used to be done solely through on-site inspections. But in early 2017, the agency adopted a new desktop loss verification process to speed financial help to disaster survivors.

Desktop loan verification is a two-part process with an initial desktop verification used to estimate the cost of repairs followed by a post-desktop review to confirm the estimates in the initial phase. For loans of $25,000 or less, SBA's loss verifiers can do the post-desktop verification using information from the Federal Emergency Management Agency's (FEMA's) on-site inspection reports. However, if FEMA did not inspect the disaster site, SBA must do an on-site inspection or use documents from the applicant deemed to be acceptable to verify the loss.

In 2019, we reported on the desktop loss verification process (Report 19-23). We found SBA did not always validate the cause and extent of damages and repair and replacement costs before disbursing loan funds. SBA simply relied on FEMA reports without enough information to validate damages and losses reported in the initial loss verification. In addition, loan files did not contain sufficient documentation to support loan-making decisions.

As a result, SBA paid out more than 36,400 loans totaling more than $585,000,000 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 strengthening the 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 basing post-desktop verification reviews on FEMA and has confirmed that all post-desktop reviews will be done onsite. In September 2020, SBA began requiring all approved loans to have an on-site verification before paying out any loan funds. In addition, on June 7, 2021, SBA expanded its efforts by launching the automated damage estimation pilot and is actively monitoring the system.

We believe the agency's progress is substantial and this issue is no longer a contributing factor to the overall management challenge. We plan to remove this issue from the challenge in future reports.

Issue: Unprecedented Increase in Servicing COVID-19 EIDLs

SBA has two Disaster Loan Servicing Centers, one in Birmingham, Alabama, and the other in El Paso, Texas, servicing disaster loans that have been approved and fully disbursed. The two centers manage the portfolio and provide customer service, including accepting and processing loan payments; making routine collection efforts by phone, email, and postal letters; and any loan-related issues such as insurance, title, or lien matters.

After a disaster loan becomes 90 days delinquent, it is transferred to a third center known as the National Disaster Loan Resolution Center in Santa Ana, California. The loan resolution center manages the portfolio of defaulted disaster loans with increased collection efforts, including foreclosure when necessary.

The center also handles other loan servicing activities, such as processing loan payments. When disaster loans are deemed ultimately uncollectable and charged-off, or removed from the agency's loan portfolio, the borrowers and guarantors are referred the U.S. Treasury Department.

Treasury has the authority to take stronger efforts to collect, including offset of other federal payments. In this context, offset means diverting federal payments to satisfy the delinquent loan.

Before the COVID-19 pandemic, SBA was servicing about 263,000 outstanding disaster loans, totaling approximately $9 billion, across the three servicing centers. By July 31, 2021, as a result of the unprecedented number of pandemic relief loans, SBA has 4 million outstanding disaster loans totaling approximately $216.3 billion that must be serviced.

This increase in the number of loans is 15.2 times and the dollar amount is 24 times the size of the pre-pandemic disaster loan portfolio. By the end of 2021, SBA could have a disaster loan portfolio size of $470 billion. The demand on the current servicing centers is going to increase dramatically. We anticipate the agency will face significant challenges in managing this volume.

Lending billions in pandemic relief loans now means that SBA has millions of additional loans in its portfolio that must be serviced unless they are forgiven. However, SBA does not have the staff or infrastructure to manage the unprecedented volume.

Agency Progress

SBA told us the agency contracted with a vendor on May 3, 2021, to determine the most effective way to service the COVID-19 EIDL portfolio. Potential options include use of a third-party servicer, asset sales, or having SBA manage the servicing.

The contractor's preliminary analysis is due on August 31, 2021, with the final recommendation due on September 31, 2021.

SBA officials told us the agency has added additional staffing resources across the disaster servicing and liquidation centers to accommodate the corresponding increase in borrower inquiries and requests. The COVID-19 EIDL program allows a 24-month deferment of the first payment due date. As a result, SBA officials said they intend to evaluate the contractor's recommendation and establish a plan before the end of that two-year deferment period.

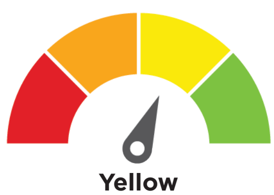
Challenge 8: SBA Needs Robust Grants Management Oversight

Why This Is a Challenge

In FY 2021, pandemic relief legislation authorized new, multibillion-dollar grant programs in addition to the SBA's entrepreneurial development grant program portfolio. The new laws provided supplemental funds that nearly doubled the amount and value of SBA technical assistance grant programs. Congress authorized $45.3 billion for SBA to administer as grants to provide economic relief and technical assistance.

In light of the government-wide emphasis on grants-management reform, it is SBA's responsibility to maximize the value of its grant funding to ensure its programs accomplish program objectives. In recent OIG audits, we found systemic issues with SBA's accuracy of grant data for both financial and performance reporting and ineffective oversight of its grant recipients.

Issue: SBA's Grants Management System Needs Improvement



Previous OIG reports found that SBA used an inefficient and error-prone system to manage its grant awards. The federal Procurement Request Information System Management (PRISM) that SBA used to award, monitor, and report on technical assistance programs required substantial manual data entry, which can lead to input errors.

Data inaccuracies inhibit the 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. In March 2018, we issued an advisory memorandum (Report 18-15) on material weaknesses identified by an independent accounting firm in SBA's controls over the accuracy of grant award data reported in USASpending.gov.

Immediately after the alert was issued, program officials requested an internal A-123 review on the grant management process to assess and verify OIG's findings. SBA's internal auditors found that all 45 of the sampled awards included inaccuracies and reported a number of deficiencies per award.

PRISM also was not completely integrated with SBA's financial system and required additional manual entry to obligate funds and authorize payments to grant recipients. Those problems increased the number of manual entries required by grants management personnel. Reliable data in a grants management system ensures the federal funds are awarded to eligible recipients, disbursements are accurate, and that management can make informed decisions to effectively administer programs.

Agency Progress

SBA has made substantial progress in modernizing its grants management system. In 2019, SBA entered into an interagency agreement with the U.S. Department of Health and Human Services for transition analysis, infrastructure setup, and training services to launch GrantSolutions.gov. SBA will spend $2.5 million over 5 years to help the agency

- improve funding management, awarding of grants, processing payments, and closeouts;
- enhance ability to develop accurate performance metrics reporting;
- reduce compliance violations; and
- increase auditability, accountability, and transparency.

During FYs 2020 and 2021, the SBA Office of Grants Management implemented the GrantSolutions system for program office use. Although most of the program offices adopted the system in 2021, the Shuttered Venue Operators Grant (SVOG) program opted to use another system to manage the SVOG grants, Salesforce. Officials must ensure the system is customized to meet each program's needs.

SBA is working to integrate the SBA's Joint Accounting and Administrative Management financial system with GrantSolutions.gov. SBA continues to make progress implementing the system despite the competing priorities of managing the CARES Act programs. The next phase is to include the financial interface in GrantSolutions.

Until the agency integrates the financial interface, program offices are still required to use the PRISM system, which is not completely integrated with SBA's financial system and requires manual entry to obligate funds and authorize payments to grant recipients. Without an effective grants management system, the agency must continue manual and burdensome processes to manage compliance requirements, which may continue to hinder its ability to effectively oversee and manage SBA grant programs.

Issue: Better Performance Measurements Needed to Monitor Grant Program Achievements

Recent OIG reviews of SBA's administration of the SVOG program (Report 21-13) found SBA did not establish performance goals and measurements for the grant recipients.

We also found in our review of CARES Act entrepreneurial development cooperative agreements and grants (Report 2111) the agency did not establish clearly defined goals with targets for the grant recipients. SBA cannot effectively measure and accurately report performance results to assess whether the grant recipient's performance met objectives, ensuring the pandemic relief programs were effective.

Federal regulations require awards to include performance goals. The agency must provide a standard to effectively measure performance of nonfederal entities, such as the estimated number of jobs saved or created, tax revenue generated, or entity operational status.

Without specific grantee performance reporting measures and requirements, SBA may disburse $16.25 billion for the SVOG program without knowing whether the program successfully aided small businesses in the live arts and entertainment industry.

Program officials did establish performance goals and indicators for the supplemental CARES Act funds provided to Small Business Development Centers, Women's Business Centers, and the Resource Partner Training Portal. But SBA should have clearly defined the performance goals and set targets to more effectively ensure performance goals are achieved as intended.

We first identified oversight of grant program performance as a top management challenge in FY 2019. To address these weaknesses, SBA updated its grant management policies and procedures.

The agency required grant officers to enforce performance requirements and verify reported information as well as to ensure applicants' proposals include plans to measure performance in a way that will help SBA achieve program goals.

The Office of Entrepreneurial Development had until September 2020 to fully adopt the updated policies, which are not reflected in the CARES Act Entrepreneurial Development grants. Without clearly defined performance goals and targets, SBA cannot effectively measure and accurately report performance results.

The authorizing language for the SVOG program included no specific performance measurements, so SBA worked with the Office of Performance, Analysis, and Evaluation in the Office of Chief Financial Officer to create a logic model in March 2021. The model helped identify outputs and outcomes for the program.

Using this logic model, SBA is developing an end-of-program survey to be sent when the grantee initiates the closeout process. The was still in development when this report was published in mid-October. SBA plans to record metrics, including whether the grant helped the entity reopen sooner, find additional funding sources, or hire or rehire employees.

Issue: Serious Concerns Over SBA's Risk Assessment Used for Payment Distributions and Audits for the Shuttered Venue Operators Grant Program

We alerted SBA management of concerns over the program office's initial plans for assessing applicants risks and setting payment disbursements. The SVOG program could be vulnerable to fraud or misuse of taxpayer funds because of initial plans for assessing applicant risks and setting payment disbursements. We recommended that the agency conduct mandatory oversight to require additional documentation and audit SVOG program recipients.

Since the majority of SVOG grant awards will be under a certain dollar threshold, they will be categorized as low risk. These awards will be disbursed in lump sum payments with minimal financial reporting requirements and expectations for post-award accountability.

As of September 15th, awards under $1 million totaled $2.27 billion of the $9.68 billion awarded funds. Recently SBA noted that 70 percent of the 11,928 grants awarded were valued at $500,000 or less. The sheer volume of these smaller grants poses a risk of fraud that could have been reduced if proper controls had been put in place from the start.

The Economic Aid to Hard-Hit Small Businesses, Nonprofits, and Venues Act of 2020 required SBA to submit the policies and procedures used to conduct oversight and audits of the grants to Congress. It also required metrics, or measurement standards, to determine which grants would undergo audit. The SBA Office of Disaster Assistance based its audit plan for this program on the risk level established for the payment distributions and financial reporting requirements for the grant recipients.

All grant recipients receiving $10 million, which is the maximum amount for any single award, will be audited. It's likely only a minimal number of recipients will be subject to an audit.

The office's audit plan exposed the $16.25 billion grant program to potential misuse of funds because the bulk of grant funds will not be subject to a reasonable degree of scrutiny. SBA is currently revising its oversight plan to include monitoring, audit, and closeout strategies that address the agency's obligation to uphold federal grant regulations and other applicable requirements.

SBA management is planning a number of actions to improve award oversight and grant closeout, including the following:

- A risk-based monitoring strategy for intensive reviews of shuttered venue grantees
- A multifaceted audit approach of ongoing fraud and improper payment reviews
- Guidance and controls to verify grantee single audit compliance
- Technical help to communicate program instructions, grant compliance, and the grant closeout process

The office's audit plan exposes this $16.25 billion grant program to potential misuse of funds because the bulk of grant funds will not be subject to a reasonable degree of scrutiny.

Issue: Leveraging SBA's Workforce to Ensure Effective Administration of New and Significantly Expanded Grant Programs to Aid Small Businesses

Although the SVOG program started with only one official and temporary staff, SBA has since trained a substantial workforce to review and approve applications.

As of September 15, 2021, SBA has awarded 11,928 grants, totaling $9.7 billion. With more than $6.5 billion of authorized funds remaining, SBA will need to leverage and maintain a skilled workforce to meet the demands of ongoing grant management and administration of new awards.

Approving and awarding federal funds is an inherently governmental function. According to SBA's federal assistance directive, only warranted grant officers can commit the agency to enter into a federal assistance agreement, such as a grant, obligating federal funds.

Despite the federal assistance directive, the SBA acting Chief Operating Officer waived several of the criteria necessary for new grants management staff, including training and certification requirements. This may expedite hiring for COVID-19 emergency grant programs, but it could also open these programs up to mismanagement. SBA established the grants management requirements and the training plan to address the systemic weaknesses OIG found in previous audits of SBA's grants management.

Since SBA will make lump sum advance payments with minimal financial reporting requirements and agency oversight, it is important that the application reviewing officials carefully review the applicants' proposed budgets to ensure funds will be used for allowable, allocable, and reasonable expenses. Insufficient oversight of the SVOG program increases the risk that funds will be misspent, inadequately monitored, or improperly paid.

Agency's Response to the OIG Top Management and Performance Challenges Facing the Small Business Administration in Fiscal Year 2022

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 2022

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 program offices remain dedicated to continuing the SBA's efforts to address existing Management Challenges. The insights of the 2022 Management Challenges Report (Report) have been shared throughout the 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 have tested the capabilities of the entire Agency. The 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. Undaunted by the unprecedented circumstances, the SBA has served small businesses as efficiently and effectively as possible while being a responsible steward of taxpayer funds. The SBA remains deeply committed to managing the risk of waste, fraud, and abuse in all SBA programs.

In this letter, the SBA highlights some of the Agency's concerns and factual errors previously shared with the OIG before the publication of the Final Report but that were unfortunately not incorporated. In addition, information the OIG gathered through its most recent audits, unfortunately, did not inform the OIG's assessment of Agency progress on several of the Management Challenge Issues.

We request the OIG's careful review and consideration of these areas as we move forward in addressing the challenges during FY 2022 and appreciate the SBA's ongoing collaboration with the OIG.

Sincerely,

Isabella Casillas Guzman
Administrator
Attached: Discussion of Select 2022 Management Challenge Concerns

Discussion of Select 2022 Management Challenge Concerns

Challenge 1 – SBA's Economic Relief Programs Are Susceptible to Significant Fraud Risks and Vulnerabilities

Issue: COVID-19 Economic Injury Disaster Loan Program Susceptible to Fraud

Concern

The SBA disagrees with the OIG that the EIDL program is still susceptible to high levels of fraudulent activity.

Discussion

Since 2020, the SBA has deployed sophisticated technology to create a robust set of internal controls for the EIDL Program, resulting in heightened fraud risk detection and a noteworthy reduction in system vulnerabilities. For example, the SBA has strengthened and created controls to ensure that:

1. Loan deposits are made to legitimate bank accounts for eligible borrowers;
2. Duplicate loans to IP addresses, email addresses, business addresses, and bank accounts are verified and that funds are suspended until the duplicate loans are addressed for eligibility;
3. Multiple loans are provided only to eligible applicants, preventing the erroneous duplication of loans; and
4. Data integrity was enhanced to reduce inaccurate information from ineligible entities, thus strengthening SBA's ability to service loans more effectively.

The SBA's loan processing system runs extensive rule sets per the SBA EIDL Program parameters with respect to loan sizing and system decision recommendations, which include credit criteria, business and owner eligibility criteria, as well as suspicious activity and potential fraud indicators. There are more than 70 rules related to loan qualification criteria. When identified, potential fraud indicators are flagged for Loan Officer application file review. In addition to the owner identity and bank account validation steps previously described, suspicious activity and potential fraud indicators are obtained from various sources including credit report information, profiles of electronic devices interacting with the system, and phone number and email validation services. When present, these indicators are displayed in the system to Loan Officers who review them, evaluate the data, and gather follow-up information and documentation prior to making their loan decision.

Moreover, within the client portal where applicants accept their loan amount, there is another identity validation check requiring applicants to correctly answer questions relating to items that are not likely to be correctly answered by someone other than the true identity holder (e.g., who is your mortgage servicer, what make of car did you register in Georgia in 2012, etc.).The Loan Officer online interface also has a "related applications" feature that flags other applications received in the program with common data elements, including application information (e.g., business, name, owner name, taxpayer identification number [TIN], phone numbers), as well as device information (e.g., IP address, device profile) to enable efficient cross reference with other applications that may have previously been identified as invalid or fraudulent.

The SBA has provided OIG with a **full list** of applicable controls and detailed explanations on how the SBA mitigates risk and fraud. This list goes beyond the cited enhancements in the Report and demonstrates the SBA's commitment to protecting taxpayer dollars and ensuring program integrity.

Concern

The OIG discounted the SBA's extensive activities to minimize fraud and identity theft.

Discussion

As discussed in the SBA's response in October 2020, our duplicate application check is rigorous. Applications are evaluated to determine if a prior application has been submitted from the same business. If an application is deemed to be duplicative, it is not approved for an SBA EIDL or SBA EIDL Targeted Advance. Duplicate applications are identified by matching TINs or bank account information (routing and account numbers) or through a combination of data elements (including business name, addresses, phone numbers, ownership information, and other data points). Nearly 5.9 million applications representing nearly $261.6 billion (as of May 31, 2021) in potential loan volume have been **declined** based on the duplicate identification logic.

Concern

The SBA disagrees that despite new control enhancements, the sheer volume of loans and advances will continue to pose a challenge for the Agency to reduce the ongoing risk of fraud in these programs.

Discussion

As of May 31, 2021, the SBA rejected nearly 8.9 million applications associated with fraudulent or suspicious behavior. Due to the SBA's internal controls, this represents over $369 billion in funds that were prevented from being disbursed, demonstrating high efficacy of the SBA's internal controls and enhancements in dealing with a large volume of applications. Relevant documentation was already provided to OIG. This specifically addresses the relevant controls as well as the training that individuals received.

Concern

The SBA proposed to include the language "Consistent with congressional mandates" during the draft report reviewing process, but OIG did not include it in the final report.

Discussion

The SBA was congressionally mandated to disburse funds rapidly. Once the legislation was passed, the SBA had roughly one week to prepare its systems. Controls were relaxed to satisfy the mandate and to quickly help small businesses.

Issue: Paycheck Protection Program Eligibility

Concern

The OIG indicates that businesses on the Do Not Pay (DNP) Treasury list are ineligible for PPP benefits.

Discussion

In the 7(a) program, and as confirmed by Treasury, the placement of an entity on the DNP list cannot be a standalone reason for denying credit. As reported by OIG, the PPP eligibility pool identified was 1.1 percent of 11 million loans, with 67 percent of those considered conclusive.

Challenge 2 – Inaccurate Procurement Data and Eligibility Concerns in the Small Business Contracting Programs Undermine the Reliability of Contracting Goal Achievements

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

The OIG report stated, "SBA has made some program eligibility requirements less focused on disadvantaged businesses and historically underused business zones, deviating from congressional intent…In 2020, SBA changed a HUBZone requirement, allowing certified businesses to have employees who are not current HUBZone residents. Under the new requirements, the business continues to meet the requirement as long as the employee lived in a HUBZone for at least 180 days after the business was first certified. HUBZone businesses could have no employees residing in the HUBZone at all and still qualify because employees initially hired as HUBZone residents moved out of the HUBZone after the 180-day period. The requirements of the rule are clearly inconsistent with legislative intent. SBA program success and integrity could be reduced if the agency admits ineligible firms into programs intended for disadvantaged small businesses."

Concern
The SBA OIG's assertion that a regulatory change to allow legacy employees is not in line with legislative intent and that it will potentially allow ineligible firms to participate in the program.

Discussion
The purpose of the HUBZone Program (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. (13 CFR 126.100). SBA proposed and implemented these regulations to reduce barriers to entry and participation, in order to foster job opportunities, investment, and economic development in HUBZone areas, which is directly in line with the spirit and intent of the Program. Concurrently, to maintain Program integrity, the SBA also updated the continuing eligibility requirements to require all HUBZone-certified firms to undergo annual recertification, which was previously only a triennial requirement. In addition, each firm is subject to a program examination at least every three years, with the depth of the examination being determined using risk-based criteria. This change increases Program oversight.

Additionally, we have narrowed the scope of who can qualify as "legacy employees" and published this information in our FAQs. (**HUBZone Program Improvements: FAQs (sba.gov)**) In the Management Challenges Report, the SBA OIG asserts that changes made to the HUBZone regulations are not in line with congressional intent, and that the change affects the government's ability to enforce the residency requirement. However, the analysis SBA OIG presents does not include context regarding the 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.

Even with the addition of the legacy employee rule, the HUBZone regulations still require firms to have at least 35 percent HUBZone residents at the time they are certified into the program. Moreover, OIG's assertion that this regulation could result in a HUBZone firm having zero employees residing in a HUBZone is unlikely. This could only happen if a HUBZone small business rarely hired new employees and employees rarely left the company's employment. Based on the observations of the HUBZone program office, small businesses hire new employees and lose employees all the time. This is the entire basis of the "attempt to maintain" rule, which by statute allows a HUBZone firm to drop below 35 percent HUBZone residency when that firm is awarded a HUBZone contract and necessarily must hire new employees to perform the work. Thus, SBA believes it is unrealistic to assert that a HUBZone firm could have zero employees residing in HUBZones and remain in the Program.

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

The OIG report states, "Agency contracting officers have reported ineligible firms as certified either in the HUBZone or 8(a) programs in the Federal Procurement Data System – Next Generation. In 2020, the General Services Administration Office of Inspector General found $89 million in procurements erroneously recorded as small business in the Federal Procurement Data System–Next Generation."

Concern
Contracting Officers are responsible for verifying that a HUBZone firm is eligible at the time of offer by checking the Dynamic Small Business Search System and/or SAM.gov (13 CFR 126.607 and 126.608).

Discussion
GSA owns and is responsible for the Federal Procurement Data System – Next Generation (FPDS-NG) system. This issue is related to the management of FPDS-NG and oversight of contracting offices across the government, which is not in the purview of either the HUBZone or 8(a) Program to check and verify. As mentioned in the GSA OIG report, FPDS-NG currently has system limitations related to reporting. The SBA does not have the authority to address these limitations directly

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

The OIG report states, "OIG continues to find that SBA does not consistently detect ineligible firms in its small business contracting certification programs…Historically, OIG audits have found that SBA did not consistently detect ineligible firms in its preference contracting programs. In 2018 and 2019, we found SBA did not ensure only eligible firms entered the HUBZone program or consistently detect ineligible firms in the 8(a) program."

Concern

By inclusion, the SBA OIG implies this is an ongoing issue and does not recognize the issues that were resolved.

Discussion

OIG characterizes this as an ongoing issue but does not include reference to the audit report. Three firms were initially identified as potentially ineligible; however, after a program exam was conducted, two were deemed eligible, and the third was decertified as non-responsive.

Additionally, OIG mischaracterizes findings from its report related to the 8(a) Program and implies that the SBA does not have effective controls in place to detect ineligible 8(a) firms. The SBA has successfully closed all the SBA OIG audit recommendations from that report. Furthermore, the SBA OIG inspected the SBA's corrective actions to reduce 8(a) firms' eligibility risks in its Report 20-19. The SBA OIG verified the corrective actions the SBA implemented to effectively ensure that program officials justified recommendations to admit firms applying to the 8(a) program, and program officials tracked complaints received about firms' participating in the 8(a) Program. The SBA OIG acknowledges these actions and the SBA's implementation of 8(a) Program policies and procedures governing the continuing eligibility review process and the process for removing firms deemed ineligible for program assistance in its Management Challenge 5, Issues "Streamlined Application Process May Expose the 8(a) Program to Higher Fraud Risk" and "Corrective Actions Are Needed to Improve Continuing Eligibility Processes and Reduce Risks of Ineligible Firms Participating in the 8(a) Program." These controls are implemented and remain active and effective.

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

The OIG report states, "Similarly, SBA's termination of the small, disadvantaged business certification program and removal of regulations allowing for protest of a firm's disadvantaged business status jeopardizes the integrity of the small, disadvantaged business goaling achievements. According to contract data retrieved from SAM.gov, in FY 2020, as much as $11.6 billion of prime contracts were awarded to small disadvantaged businesses that were not certified as either 8(a) firms, Woman Owned Small Businesses, Economically Disadvantaged Woman Owned Small Businesses, HUBZones, Service-Disabled Veteran Owned Small Businesses, or a joint venture that included a firm with one of these designated contracting program certifications. Given the sheer amount of the federal contract dollars awarded to these self-certified businesses, it is crucial for SBA to ensure that only eligible firms benefit from these contracting opportunities."

Concern

The SBA OIG inaccurately suggests that self-certified small, disadvantaged businesses (SDBs) receive special contracting opportunities, when they do not. The United States District Court, Western District of Texas, San Antonio, enjoined the government from applying the then-existing preferences for SDBs on February 27, 2009, and no new preferences have been introduced since. As such, self-certified SDBs do not benefit from any particular contracting opportunities. Further, without evidence of any inaccurate certifications, OIG concludes that a Federal Acquisition Regulation (FAR) Council rule from seven years ago — brought about by a ruling of the U.S. Court of Appeals for the Federal Circuit's ruling in November 2008 — jeopardizes the integrity of SDB goaling achievements in FY 2020.

Discussion

The FAR Council changed the SBA protest process for SDBs to a "review" process in a final rule effective October 2014 (79 FR 61746). The FAR Council stated that its changes to the SDB program were based on the Federal Circuit's decision in *Rothe*, which found unconstitutional 10 U.S.C. 2323 and resulted in agencies halting set-asides and price preferences for SDBs. The protest process is no longer applicable because agencies do not provide set-asides or price preferences for SDBs.

SBA brought its own regulations up to date in 2020 by removing references to an SDB protest, but the actual regulatory change to eliminate the protest process was enacted by the FAR Council in 2014. It is important to note that SBA did not receive a single request for review under the FAR Council's process since the change in 2014. If SBA were to conduct a review under the FAR process, the SBA potentially could recommend a firm to be considered for the remedies in 15 U.S.C. 645. It is not at all clear why the OIG is challenging the 2014 change from protest to review today, in 2021. OIG suggests that the challenge is related to the President's commitment to increase SDB contracting to 15 percent by 2025. The challenge fails to recognize, however, that, in our view, introducing a protest process where none has existed since 2014 impedes the accomplishment of the President's important initiative by creating a new barrier to entry and a new regulatory cost borne solely by disadvantaged businesses.

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

The OIG report states, "Both OIG and GAO have reported weaknesses in SBA's controls intended to ensure only eligible firms receive federal contracts set aside for WOSBs…Government contracting officers have a history of improperly awarding WOSB contracts because of certification complexities. In a 2018 audit (Report 18-18), OIG found contracting officers at various federal agencies made sole-source awards without having the necessary documentation to determine WOSB eligibility."

Concern

By inclusion, the SBA OIG implies this is an ongoing issue and does not recognize the implementation of the new formal certification process.

Discussion

OIG characterizes this as an ongoing issue but does not include that the referenced audit reports relate to the program's previous self-certification process, which no longer exists. The SBA successfully closed all recommendations related to OIG Report 18-18 and implemented its women-owned small business (WOSB) and economically disadvantaged women-owned small business (EDWOSB) certification program. While the awarding of set-aside contracts is not directly an SBA issue, by establishing and implementing regulation changes and a means for contracting officers to verify eligible WOSB Program participants, contracting officers' due diligence has been simplified to reduce contract award complexity.

Challenge 4 – SBA Risk Management and Oversight Practices Need Improvement to Ensure the Integrity of Loan Programs

Issue: SBA's Oversight of High-Risk Lending Participants

Concern

An additional accomplishment by OCRM was not appropriately noted in the final report.

Discussion

In February of 2021, SBA implemented changes to the Risk Rating System. The Risk Rating System is an internal risk management tool to assist SBA in assessing the risk of the SBA loan operations and loan portfolio of each active 7(a) Lender and Certified Development Company (CDC). Consistent with industry best practices, SBA redeveloped the model used to calculate the composite Risk Ratings of lenders and the risk associated with each SBA loan to ensure that the Risk Rating

System remains current and predictive as technologies, the economy, and available data evolve. In conjunction with the redevelopment of the Lender Risk Rating, SBA updated the Lender Portal.

Challenge 5 – SBA's Management and Monitoring of the 8(a) Business Development Program Needs Improvement

Issue: Streamlined Application Process May Expose the 8(a) Program to Higher Fraud Risk

Concern

The OIG report states, "For example, SBA no longer required that applicants submit information about the applicant firm's business structure and information on tax liens, judgements, or lawsuits" is an inaccurate statement.

Discussion

While OIG correctly acknowledges program efforts and updated this Challenge's issue to "Green: Issue Resolved or Appropriately Reduced," this statement and the example provided within the OIG report are inaccurate. The SBA has always required that applicants submit this information. Within the Certify system there are specific questions that applicants are required to answer for each of the examples mentioned in the Report.

Issue: Streamlined Application Process May Expose the 8(a) Program to Higher Fraud Risk

Concern

OIG continues to disregard the Program's nonoccurrence to the recommendation or the questioned costs. The SBA OIG implies this is an ongoing issue and does not recognize that the issues were resolved. Therefore, the finding that "SBA admitted two firms in the 8(a) program although the owners were members of unrecognized tribes, which resulted in questioned costs of $10.9 million in 8(a) set-aside contracts" lacks validity.

Discussion

The SBA did not concur with the OIG recommendation to review two firms they identified that were owned by individuals who were members of Indian tribes not federally or state recognized. OIG also recommended that the SBA determine whether those firms were eligible to participate in the 8(a) program. The determination of eligibility for the two firms was made based on SBA's interpretation of applicable regulations at the time of application approval. The SBA determined that the two firms cited by OIG met eligibility criteria for social disadvantage. OIG closed both recommendations prior to the issuance of its Management Challenges Report.

Issue: Economically Disadvantaged Determination Criteria Should Be Based on Sound Methodology

The OIG report states, "SBA's economic disadvantage definition should be based on justifiable, objective, and supportable data to ensure that the program benefits the small businesses that Congress had intended. An objective definition is fundamental for ensuring the agency has designed a system of controls that safeguard the program from firms participating in the program that are not truly economically disadvantaged."

The OIG report states, "SBA's determination of net worth is a critical starting point for many programs. The 8(a) program is intended to benefit eligible small, disadvantaged businesses. When crafting a program that strives to benefit a select demographic group, the financial limits to determine eligibility should be based on verifiable empirical analysis to ensure the intended population of small, disadvantaged businesses benefit from this program. We are currently planning an audit of the agency's procedures used to define economic disadvantage in 2022. Currently, the Government Accountability Office is reviewing the impact SBA's net worth limits have on program participants and plans to report on the findings in 2022."

Concern

This issue is a recommendation on the policy-making authority of the Administrator of the SBA, one the SBA OIG has made before, and that was previously rejected during the rulemaking process.

Discussion

The SBA has implemented a policy decision by issuing a final rule following the rulemaking process and is adhering to the rule. The SBA does not plan to take any further action in response to this issue. The SBA OIG has attempted to explain its policy objection as a challenge to the SBA's use of empirical data by mispresenting the findings of an empirical study; however, the SBA OIG cannot point to any law or rule that the SBA did not follow in enacting this policy. The SBA OIG analysis for this issue is misleading in its presentation of the findings of the study and in its implied assertion that the SBA ignored the study as part of its policy-making. The SBA adopted the $750,000 standard by following the proper procedures for rulemaking. Further, the SBA explained what the study found and how those findings were incorporated into its policy making during the rulemaking process.

The SBA conducted the independent study in response to the SBA OIG request 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 concluded that the available data support an economic disadvantage threshold between $375,000 and $1.2 million. This range 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.

The SBA did not ignore the study in its policy making as implied by the SBA OIG's Management Challenge, which is further evidenced by the language included in the rule:

> SBA commissioned a study to assist the Office of Business Development in defining or establishing criteria for determining what constitutes "economic disadvantage" for purposes of firms applying to the 8(a) BD program. 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. That inherent complexity is evident in the varied economic disadvantage thresholds established by other Federal and state programs.

The SBA specifically sought and received input during the policymaking process, in response to SBA's proposal to change the threshold for 8(a) initial eligibility to match the 8(a) continuing eligibility standards, and the EDWOSB Standard. As noted in the SBA's final rule, the SBA received 146 comments supporting the proposed policy of $750,000. Zero public comment was received supporting the SBA OIG's policy position.

The SBA OIG policy position also does not take into consideration the confusion that would ensue if the SBA had a different economic disadvantage threshold for EDWOSB certification and 8(a). A policy position that supports a common standard that will allow businesses to apply for both programs at the same time has merit, and during rulemaking the public appreciated that consideration.

It should further be noted that the SBA OIG objected to the policy choice during the rulemaking process and believed that the SBA should have adopted the lowest number on the range found by the study. The SBA did not agree, and this policy disagreement was settled during rulemaking, with a decision by the Administrator to sign the rule and OMB accepting SBA's final rule for publication.

The SBA OIG does not clearly state what is problematic in their concerns with the 8(a) economic disadvantage net worth amount being in line with other preference contracting programs. The Management Challenges Report acknowledges that the SBA reviews several factors but presents a mischaracterization that the SBA did not base the change on "justifiable, objective, and supportable data." According to the regulations, the SBA can and does review personal income, personal net worth, and fair market value of all assets.

The SBA conducts its policy making consistent with the Administrative Procedures Act and with recent Supreme Court precedent (FCC v. Prometheus) regarding empirical studies and the rulemaking/policymaking process. The case holds that agencies are not required by law to support their policies with studies or statistics as it is probably impossible, and almost never the case, that the government has "perfect empirical or statistical data." The SBA OIG insistence that the SBA must put any study, particularly one that self identifies as being imperfect, above all other considerations in policymaking is improper, and is a policy position the SBA has continually rejected.

Currently, there is an ongoing GAO audit focused on the SBA's net worth limits for the 8(a) Program. As part of this audit engagement the SBA shared information in response to GAO's question about the study we commissioned to address economic disadvantage thresholds.

Challenge 6 – Identification of Improper Payments in SBA's Loan Programs Remains a Challenge

Issue: Improvements Needed to Ensure High-Risk 7(a) Loan Reviews Reduce the Risk of Losses

The SBA OIG audits and reviews have identified 7(a) loans that were ineligible, given to borrowers who did not have the ability to repay, or were not properly closed, resulting in improper payments. Improper payments occurred in part because the SBA did not adequately review related loans.

The OIG High-Risk 7(a) Loan Review Program uses an internal scoring system to prioritize loans for review by level of risk. This evaluation includes a review of high-risk loans purchased by the SBA to determine whether lenders complied with SBA requirements and identify suspicious activity. Since FY 2014, we have recommended recoveries on 17 loans totaling more than $19.3 million. In addition, the SBA identified suspicious activity on five loans totaling nearly $4 million, which were ultimately referred to our Investigations Division.

The SBA's reviews of high-risk loans have consistently identified issues regarding eligibility, repayment ability, size standards, franchise agreements, business valuations, appraisals, equity injection, and debt refinance. Our review program also has helped us identify concerns with change of ownership transactions and the SBA's identification of improper payments.

Concern
The SBA OIG conducted its assessment of the SBA's progress on this Management Challenge before improper payment rates for FY 2021 were estimated and finalized.

Discussion
In order to reduce and/or eliminate the occurrence of improper payments, the SBA developed a Corrective Action Plan for the 7(a) loan guaranty purchase centers that specifically addresses the root cause of the improper payments, and includes the following:

- Internal training for purchase processors, reviewers, and approvers for determining eligibility, repayment ability, size standards, business valuations, appraisals, equity injections, and others, in order to ensure proper recommendation of loan guarantee purchase or loan guaranty denial.
- Recovery of lender expenses that were either withheld from recovery proceeds the lender remitted to SBA or paid to the lender but were not fully justified or determined to be ineligible.

As a result of internal training and through recoveries, in FY 2021, OFPO was able to address and clear six of the loan issues identified by the OIG in its High Dollar Early Default audits with four audits remaining. Additionally, as evidenced by the reduction in the improper payment rate for 7(a) guaranty purchase from 5.51 percent in 2020 to 3.35 percent in 2021, the SBA was successful in decreasing improper payments for FY 2021.

Challenge 7 – SBA's Disaster Assistance Program Must Balance Competing Priorities to Deliver Prompt Assistance but Prevent Fraud

Issue: Reserve Staff Need Training to Sustain Productivity During Mobilization

Concern
The OIG report states that the with the massive number of staff needed to complete COVID activities, staff are not properly trained.

Discussion
The ODA respectfully disagrees with this determination and believes this issue is resolved. The ODA must always be ready to respond timely to disasters of any size, even as the mission continues to evolve, and the key to an effective response is the availability of staff who are experienced and ready to provide the assistance upon need. ODA reserve staff are an essential part of its staffing strategy and allow for immediate activation and deployment during a declared natural disaster. During onboarding and throughout an employee's time at the SBA, the ODA provides staff with substantial training to enable them to effectively execute their role within the agency. Training is extensive and dependent on the individual's role within the organization. That training investment is retained because once a staff member's contract ends with the ODA, these individuals then become essential to the ODA's cadre of reserve staff who can be effectively mobilized on short notice due to a natural disaster or declared event.

All reserve staff are provided with the SBA's Standard Operating Procedures (SOP) and have access to the SBA's Disaster Assistance Portal which allows for easy access to the agency's Numbered Memos. The SBA also implements a "just in time" training model dependent on how major any changes are to its procedures or programs.

Reserve staff training is available for a number of positions, including Loan Officers and Team Leads (Supervisory Loan Officers), Loss Verification, Public Information Officers, and Customer Service specialists. The training is consistent with the position responsibilities in accordance with established guidance and SOPs. Subsequent training is provided as the program establishes additional guidance.

Additionally, the SBA would like to reiterate that it continuously hires new staff to ensure that the agency can respond at any moment to a natural or economic disaster. At the onset of the COVID-19 pandemic (March 2020), ODA had approximately 1,200 employees. By December 2020, the ODA's staff increased to more than 11,500 trained and prepared individuals. This a profound increase in qualified staff for any federal entity and should not be overlooked. These individuals continue to expand the ODA's pool of reserve staff that can be activated for future disasters.

Issue: Improper Payment Quality Assurance Process Needs Strengthening

Concern
The OIG report states that the SBA received a historic number of EIDL applications, which puts the Agency at risk of higher levels of improper payments due to loan complexity and resources.

Discussion
The SBA disagrees with OIG on their assertion that identifying improper payments remains a challenge for the EIDL Program. The ODA has four extensive review processes put in place to minimize and mitigate fraud and improper payments. Additionally, the ODA has updated its procedures, training guides, and checklists, and explored additional tools that can be utilized by staff to ensure consistency and depth in identifying improper payments and fraud.

The ODA's review process includes:

1. A second and potentially tertiary internal review of all processed loans completed by the program office before disbursement.

2. An external question and answer (Q&A) process that takes place monthly on all loans awarded. This independent process reviews processed files and provides a feedback loop to make sure that, if any errors are identified, they do not happen again or become habitual.
3. Quarterly improper payment reviews completed by the external party, using an approved sample size based off production levels of that quarter. The improper payment reviews look at all improper payments and, if fraud is suggested, potential cases are sent to the ODA fraud review team. The spot check findings are shared with the Quality Control (QC) Specialists, QC Supervisor, and Internal Controls Director, as well as staff across ODA, and they are used to develop targeted training to mitigate the risk of misidentified improper payments and inaccurate reporting of the improper payment rate.
4. An ODA fraud review team. ODA has a third-party fraud review team that looks at any potential fraud activities. Files can be sent at any time in the process and from anyone, including the program office, Q&A team, Improper Payment review team, or whistleblowers from the community that note a concern. All reviews take place independently and outside of the loan processing process to ensure impartiality.

This multi-tiered approach allows the ODA to minimize the number of fraud and improper payments effectively and efficiently, during or shortly after an application is submitted or funds are awarded. Additionally, the ODA has provided targeted training to groups of QC Specialists, QC Leads, and the QC Supervisor based on examples of overturned improper payments to ensure they possess the knowledge necessary to accurately identify improper payments.

Challenge 8 – SBA Needs Robust Grants Management Oversight

Issue: Better Performance Measurements Needed to Monitor Grant Program Achievements

Concern

Recent OIG reviews of the SBA's administration of the Shuttered Venue Operators Grant (SVOG) program (Report 21-13) found that the SBA did not establish performance goals and measurements for the grant recipients and the SBA disagrees with this assertion.

Discussion

Although the authorizing language for the SVOG program included no specific performance measurements, the SBA worked with the Office of Program Performance, Analysis, and Evaluation in the Office of the Chief Financial Officer to create a logic model in March 2021. The model assisted the SVOG program in identifying outputs and outcomes. Using this logic model, the SBA is developing a survey to be deployed when an SVOG grantee initiates the closeout process in Salesforce. Although still in development, the survey is designed to capture key metrics, to include whether the grant assisted the venue entity to reopen sooner, leverage additional funding sources, and hire or re-hire employees.

Issue: Serious Concerns Over SBA's Risk Assessment Used for Payment Distributions and Audits for the Shuttered Venue Operators Grant Program

Concern

The OIG report states that the SVOG program could be vulnerable to fraud or misuse of taxpayer funds because of initial plans for assessing applicant risks and setting payment disbursements.

Discussion

Since the OIG's last SVOG report in April 2021 (Report 21-13), the SBA has invested substantial resources into enhancing the oversight of the SVOG program and accelerating the speed and efficiency of award making. SVOG is an emergency needs- and eligibility-based grant program responding to the imminent need for cash support to sustain performing arts businesses adversely impacted by COVID-19 pandemic shutdowns. The SBA has designated an SVOG management team and staffed up the SVOG program to review nearly 17,000 applications. The SVOG management has created an operations team that has formalized application review policies and procedures, conducts reviewer trainings, and tracks team lead designations and staffing. The SBA has implemented the SVOG program controls to ensure that applications are properly reviewed and pathways are open and staffed to process legal and/or fraud review concerns prior to making an award decision.

The SBA has implemented key internal controls and audit measures in the SVOG program including:

- Integration of an SVOG Fraud Investigation Team (FIT) into the application review and awarding process.
- Partnering with ODA Internal Controls (OIC) to complete monthly Quality Assurance reviews.
- Completing quarterly ODA OIC SVOG improper payment review.

To satisfy the urgency in providing emergency response, the SBA has placed a strong emphasis on award-making under SVOG. With the majority of SVOG initial round award decisions made, the SBA is creating the framework for a comprehensive MAC (Monitoring, Audit, and Closeout) strategy that addresses the Agency's obligation in upholding the Uniform Guidance and other applicable requirements, while also balancing the reality that the SVOG program is providing emergency support to businesses, most of which have no prior experience as Federal grantees.

Through this SVOG MAC strategy, the SBA is planning to take the following actions to timely implement award oversight and close out:

- Leverage a risk-based monitoring strategy to engage in intensive reviews of SVOG grantees.
- Implement a multi-faceted audit approach to include ongoing fraud and improper payment reviews, as well as guidance and controls to verify grantee single audit compliance.
- Deploy technical assistance activities to communicate program instructions, grant compliance, and the grant closeout process.

Payment Integrity

As required by the Payment Integrity Information Act of 2019 (PIIA), 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 implement 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.

In FY 2021, the SBA reviewed four programs and activities that were deemed susceptible to significant improper payments. The four programs reviewed are major credit programs mandated by OMB. The four programs are:

- 7(a) business loan program, which includes both guaranty purchases and guaranty approvals;
- 504 certified development company (CDC) loan guaranty approvals; and
- Disaster direct loan disbursements.

In conformance to OMB Circular No. A-123, Appendix C, the SBA conducts risk assessments on a three-year rotation cycle for programs not deemed susceptible to significant improper payments, or earlier if a program was subjected to 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 last risk assessment cycle was conducted in FY 2020. As such, no risk assessments were conducted in FY 2021.

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 2021 AFR can be found at https://paymentaccuracy.gov/.

Payment Reporting

To provide more clarity for the reader, this section is organized by the four programs and activities subjected to review for improper payments and provides statistical sampling information and review results coupled with corrective actions.

7(a) Loan Guaranty Purchases

Statistical Sampling

Sample cases were chosen for 7(a) purchase reviews using Probability Proportional to Size (PPS) Sampling with replacement from all purchases approved during the 12-month period ended March 31, 2021. 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 228 loans from the population. The sample included aggregate purchase outlays of $175,015,164 and an absolute value of improper payments of $7,613,208 within the sample. Using the Hansen-Hurwitz estimation method, the estimated improper payment rate for the 7(a) guaranty purchase population is 3.35 percent for the annual period ending March 31, 2021. This rate represents a decrease from 5.51 percent reported in FY 2020. The decrease was due to correction of administrative/process errors cited in the FY 2020 report. Further, the FY 2021 improper payment rate estimate of 3.35 percent for this program is less than the target reduction rate of 5.41 percent published in the FY 2020 AFR.

The SBA's sampling methodology is a statistically valid and rigorous plan, with a 95 percent confidence interval, plus or minus a 3 percent margin of error, the upper and lower bounds of the confidence interval. Because the lower bound of its confidence interval, 2.65 percent, is lower than the reduction target rate of 5.41 percent, in accordance with OMB Appendix C to Circular A-123 (March 2021), the 7(a) loan guaranty purchase program is considered to have met its 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 reviewers determined whether 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 categories for 7(a) loan guaranty purchase improper payments were (1) Data/Information Needed Does Not Exist, (2) Unable to Determine Whether Proper or Improper, (3) Statutory Requirements of Program Were Not Met, and (4) Failure to Access Data/Information. Improper payments generally arose when purchase processors failed to identify lenders' deficiencies in the handling of an SBA guaranteed loan. The primary reasons for purchase improper payments included:

- Reimbursement of lender liquidation expenses were ineligible, not fully justified, or not approved by SBA;
- Inability to determine borrower eligibility;
- Data entry errors resulting in overpayments and underpayments;
- Inaccurate interest rate calculation resulting in overpayments and underpayments;
- Lender failing to record/perfect the lien required by the Loan Authorization;
- Inappropriate loan structure creating a preference in favor of the lender;
- Inaccurate/missing data resulting in an inability to reconcile transcripts of account;
- Source of equity injection not verified;
- Ineligible use of proceeds; and
- Lack of sufficient or correct supporting documentation.

In order to reduce and/or eliminate the occurrence of future improper payments, a Corrective Action Plan has been developed for the 7(a) loan guaranty purchase centers. Specific corrective actions are determined based upon the primary reason for the error to prevent recurrence of the reason for the improper payment. The Corrective Action Plan includes:

- Internal training for purchase processors, reviewers, and approvers to determine proper recommendation of guarantee purchase or denial, ensuring that liquidation expenses are appropriate and/or approved, verifying the documentation and accuracy of calculations, reviewing documentation for source of equity injection, verifying proper lien positions, assessing existence of lender preference, ensuring documentation for account reconciliation is complete, and verifying proper use of proceeds and reviewing expenses for eligibility of reimbursement.
- Recovery of lender expenses that were withheld from recovery proceeds or paid, but not fully justified and deemed ineligible.

Internal feedback was provided to center staff regarding the specific loan-level deficiency upon detection.

Corrective actions are tracked at the loan level through a centralized database. The 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. Improper payments identified as a result of the FY 2021 PIIA 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, and all actions were 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 ended March 31, 2021. 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 215 loans from the population. The sample included net guaranteed approvals of $312,222,288 and improper payments of $8,302,935 within the sample. Using the Hansen-Hurwitz estimation method, the estimated improper payments rate for the annual period ending March 31, 2021, was calculated as 2.03 percent. This rate is a slight decrease from the FY 2020 rate of 2.06 percent.

The FY 2021 improper payment rate estimate of 2.03 percent for the 7(a) loan guaranty approval program is slightly more than the target reduction rate of 1.96 percent published in the FY 2020 AFR. The SBA's sampling methodology is a statistically valid and rigorous plan, with a 95 percent confidence interval, plus or minus a 3 percent margin of error, the upper and lower bounds of the confidence interval. Because the lower bound of its confidence interval, 0.27 percent, is lower than the reduction target rate of 1.96 percent, in accordance with OMB Appendix C to Circular A-123 (March 2021), the 7(a) loan guaranty approval program is considered to have met its reduction target.

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 forms 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 reasonably manner, (2) mispresented 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. Lenders with delegated authority were responsible for all identified improper payments for 7(a) loan program approvals in FY 2021. 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 2021 included:

- Lenders' failures to determine borrowers' eligibility;
- Lender's improper structure of a change of ownership;
- Lender's improper identification of a conflict of interest;
- Lender's improper structure of the loan resulting in creation of preference in favor of the lender.

As a means to reduce and/or eliminate the occurrence of future improper payments, a Corrective Action Plan has been developed 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 to prevent recurrence. Plans for improvement include the following:

- Collaborating with the Office of Credit Risk Management (OCRM) to inform the office of specific lender deficiencies for further monitoring and potential incorporation into Risk Based Reviews;
- Collaborating with the Office of Financial Assistance (OFA) to inform the office of deficiencies identified for potential incorporation into policy, regulatory, or standard operating procedure rewrite or update; and
- External training for lenders on policy requirements governing eligibility, change of ownership, conflicts of interest, and preferences in favor of the lender.

The Office of Financial Program Operations (OFPO) will share the loan level and lender deficiencies identified during the reviews with OCRM and OFA and will continue its efforts throughout the upcoming fiscal year to ensure lender deficiencies are monitored and potentially 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 2021 PIIA reviews have been resolved through recommendations to reduce or cancel the loan guaranty and/or referral to other offices. 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 generally taken within the fiscal year.

504 CDC Loan Guaranty Approvals

Statistical Sampling

For 504 CDC approval reviews, the sample cases were chosen using PPS Sampling with replacement from all loan guaranties approved during the 12-month period ended March 31, 2021. The approval population was not stratified. The SBA determined the appropriate total sample size to be 202 loans from the population. The sample included net approval outlays of $323,833,000 and improper payments of $10,982,564 within the sample. Using the Hansen-Hurwitz estimation method, the estimated improper payments rate for the annual period ending March 31, 2021, was calculated as 3.07 percent.

The FY 2021 improper payment rate estimate of 3.07 percent for this program is less than the target reduction rate of 3.71 percent published in the FY 2020 AFR. The 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, 0.72 percent, is lower than the reduction target of 3.71 percent, in accordance with OMB Appendix C to Circular A-123 (March 2021), the 504 loan guaranty approval program is considered to have met the reduction target.

For instances in which the SBA was unable to determine whether a payment was proper or improper, the SBA categorized these payments as "Unknown".[12] In FY 2021, one loan approval in the amount of $3,553,000 was categorized as an unknown payment, which translated to an Unknown Payment rate of 0.50 percent.

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 conducted to determine whether CDCs (1) originated the loans 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 improper payments in FY 2021 included:

- Ineligible borrower when loan was structured;
- Ineligible use of proceeds;
- Overstated project costs;
- Ineligible project costs;
- Non-compliance with Eligible Passive Company policy requirements;
- CDC's failure to verify franchise eligibility;
- Collateral shortfall; and
- Borrower injection shortfall.

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 improper payment with the purpose of both remedying the improper payment and preventing recurrence.

Plans for improvement include the following:

- Collaborating with the Office of Credit Risk Management (OCRM) to recommend specific lender deficiencies be monitored and incorporated into Risk Based Reviews;
- Collaborating with the Office of Financial Assistance (OFA) to inform the office of deficiencies identified for potential incorporation into policy, regulatory, or standard operating procedure rewrite or update; and
- External training for lenders to ensure appropriate documentation is obtained and analyzed prior to loan approval and to ensure that policy requirements are met.

The corrective actions are currently in process. OFPO will continue to share the loan level and lender deficiencies identified during the reviews with OFA and OCRM. OFPO will also continue its efforts to ensure CDC deficiencies are monitored and incorporated into lenders' Risk Based Reviews. External training will be provided in FY 2022.

Because 504 loans are reviewed prior to monies being disbursed, resolution of an identified improper payment is usually through obtaining additional documentation from the CDC to remedy the potential improper payment or through cancellation of the loan. There is no monetary outlay at approval, and thus no loss to the federal government. 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 PIIA reviews have been resolved through obtaining additional documentation, loan modification, or cancellation of the loan. 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 SBA Office of Disaster Assistance 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 review covers three primary compliance areas:

12 The Payment Integrity Information Act of 2019, §3552 (c)(2)(A) states that when an agency cannot determine, due to lacking or insufficient documentation, whether a payment is proper or not, the payment shall be treated as improper.

(1) basic eligibility; (2) adherence to relevant laws, rules, regulations, and standard operating procedures; and (3) credit worthiness. For FY 2021, the reporting period covered April 1 through March 31. The review population consisted of disaster loan disbursements made during the 12-month period ending March 31, 2021, with total disbursements of approximately $544,975,000. A sample of 503 payments were selected for testing, which yielded a weighted estimated improper payment rate of 13.4 percent, the estimated amount of improper payments was approximately $72,844,000. Due to the broad variance level of 95 percent, there was no statistical difference between the ODA's FY 2020 rate of 11.9 percent and the 13.4 percent calculated for FY 2021.

The Disaster Direct Loan program had a monetary improper payment rate of 5.8 percent. The loans captured in the remaining rate are loans made to the right recipient and for the correct amount that would have been made regardless. The loans were missing paperwork or documentation and thus were not financial mistakes.

Corrective Action

In FY 2021, the most prevalent root cause for the disaster direct loan improper payments stemmed from missing required documentation, making up 58 percent of the improper payment rate.

In FY 2022, the SBA will complete a comprehensive analysis to ensure that all documents required are relevant to the loan process. The SBA expects this will provide us a more realistic non-monetary improper payment rate in the future.

The SBA acknowledges the current statistical model is too broad at 95 percent. These large ambiguities in sampling procedures cause higher variabilities in the improper payment rates and have little correlation to causations. The SBA currently has an RFP for a new statistician who will better determine our sampling improper payment process as well as our ultimate improper payment rate.

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. In some instances, the loan is referred to the Guaranty Denial Team for further action. Determination of a course of action is made on a case-by-case basis, depending on the specific details of the reason for the improper payment. 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 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 the annual improper payment reviews in 504 loan program approvals are resolved through obtaining additional documentation, loan modification, or cancellation of the loan. Improper payments identified as a result of the FY 2021 PIIA reviews have been resolved through obtaining additional documentation, or cancellation or reduction of the loan guaranty and/or referral to other offices within the Office of Capital Access, as appropriate. Determination of a course of action is made on a case-by-case basis, which varies substantially depending on the circumstances of the loan approval and lender's 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 is the cost of funds related to the over disbursement.

Supplemental Disaster Relief Administrative Funds – Payroll and Travel

The improper payment for the Supplemental Disaster Relief Administrative Funds – Payroll and Supplemental Disaster Relief Administrative Funds – Travel for FY 2020 were below the statutory threshold. As such, in FY 2021, these programs moved from Phase 2 back to Phase 1 of payment integrity reporting.

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) Business Loan Guaranty Program, the 504 Certified Development Company Loan Guaranty Program, the Disaster Direct Loan Program, Disbursements for Goods and Services, the Small Business Investment Company Financing Guaranty 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 approvals and 504 loan program approvals 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.

Supplemental Disaster relief administrative payroll expenses recapture audits would not be cost effective. In FY 2020, it was determined that the associated cost and labor hours to conduct a review exceeded the amount of improper payments identified. As such, the cost of the recapture audit exceeded the return.

Supplemental Disaster relief administrative travel expenses recapture audits would not be cost effective. In FY 2020, it was determined that the associated cost and labor hours to conduct a review exceeded the amount of improper payments identified. As such, the cost of the recapture audit exceeded the return.

Agency Improvement of Payment Accuracy with the Do Not Pay Initiative

The SBA has implemented the Do Not Pay Initiative (DNP) 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 E-Tran, the SBA's electronic loan processing/servicing system, and the Guaranty Purchase Tracking System (GPTS). These systems are 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.

The **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	Modified
Restatement	No

Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Approval of PPP Loan Guarantees	1	0		1	0
Reporting of PPP Loan Guarantees	1	0		1	0
Controls over the Subsidy Reestimate[13]	1	0		N/A	1
Controls over COVID-19 EIDLS and Grants[14]	1	0		N/A	1
Service Organization Used for COVID EIDLs and Grants	1	0		1	0
Service Organizations Used for Loan Guarantee Programs	1	0		1	0
Entity Level Controls	1	0		N/A	1
Controls over Restaurant Revitalization Program and Shuttered Venues	0	1		N/A	1
Controls over PPP Loan Guarantees	0	1		N/A	1
Controls over the Evaluation of Service Organizations	0	1		N/A	1
Total Material Weaknesses	7	3		4	6

Summary of Management Assurances

Effectiveness of Internal Control over Financial Reporting (FMFIA § 2)

Statement of Assurance	Modified

Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Controls over PPP Loan Guarantees	0	1	0	N/A	N/A	1
Controls over COVID-19 EIDLs and Grants	0	1	0	N/A	N/A	1
Controls over the Subsidy Reestimate	0	1	0	N/A	N/A	1
Controls over the Evaluation of Service Organizations	0	1	0	N/A	N/A	1
Controls over Monitoring and Accounting of Restaurant Revitalization and Shuttered Venues Operators Grants Programs	0	1	0	N/A	N/A	1
Entity Level Controls	0	1	0	N/A	N/A	1
Total Material Weaknesses	0	6	0	N/A	N/A	6

13 Material weakness was titled "Subsidy Reestimate of PPP Loan Guarantees" in FY 2020 AFR.

14 Material weakness was titled "Approval of COVID EIDLs and Grants" in FY 2020 AFR.

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 do not conform to financial management system requirements.					
Non-Conformances	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Federal Financial Management System Requirements	0	1	N/A	N/A	N/A	1
Federal Accounting Standards	0	1	N/A	N/A	N/A	1
Total Non-conformances	0	2	N/A	N/A	N/A	2

Compliance with Section 803(a) of the Federal Financial Management Improvement Act (FFMIA)		
	Agency	Auditor
1. Federal Financial Management System Requirements	Lack of compliance noted	Lack of compliance noted
2. Applicable Federal Accounting Standards	Lack of compliance noted	Lack of compliance noted
3. USSGL at Transaction Level	No lack of compliance noted	No lack of compliance noted

Grants Programs

Category	2–3 Years FYs 2018–19	3–5 Years FYs 2016–18	More than 5 Years Before FY 2016
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 has used the following procedures to assess risk in the Agency's grant closeout process and improve closeout rates:

- Evaluating the nature and type of grants issued to recipients
- Examining Agency policy and procedures related to grant closeout
- Reviewing the consistency of procedures with federal regulation, industry standards, other guidance, including but not limited to evaluating the complexities of procedures in the grant closeout process; assessing the population of expired grant accounts; reviewing information systems used to process grant data; assessing challenges; and assessing internal controls

To maintain 100 percent accuracy in the closeout rate, the Agency developed a second-tier approval mechanism to ensure all grant awards are in compliance and accurately closed in its grants management information technology systems. The closeout team reviews procedures, including the number of grants by period of expiration, the number with zero-dollar balances, and the number with undisbursed balances.

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 U.S.C. 687g	Failing to File Report Timely for a Small Business Investment Company (SBIC)	1966	2021	$274	Office of Investment and Innovation	86 F.R. 52955 (9/24/21)
Small Business Act, 15 U.S.C. 650(j)(1)	Failing to File Report Timely for a Small Business Lending Company (SBLC)	2004	2021	$6,820	Office of Capital Access	86 F.R. 52956 (9/24/21)
Small Business Act, 15 U.S.C. 657t(e)(2)(B)	Types of Formal Enforcement Actions	2020	2021	$250,000 to $252,955	Office of Credit Risk Management	86 F.R. 52956 (9/24/21)
Small Business Act, 15 U.S.C. 634(b)(6) and Program Fraud Civil Remedies Act 31 U.S.C. 3802(d)	Administrative Remedies for False Statements and Claims	1986	2021	$11,803	Multiple offices	86 F.R. 52956 (9/24/21)
Small Business Act, 15 U.S.C. 634(b)(6) and Program Fraud Civil Remedies Act 31 U.S.C. 1352	Penalty for Violation of Lobbying Restrictions	1990	2021	not less than $20,731 and not more than $207,314	Multiple offices	86 F.R. 52956 (9/24/21)

Appendices

Success Stories

SENDER ONE CLIMBING

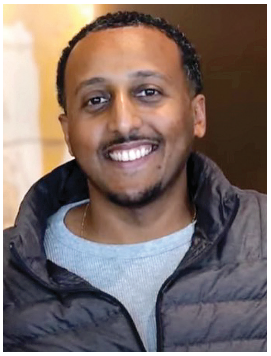
Alice Kao
Co-Founder and CEO
Santa Ana, CA

Alice Kao discovered climbing while living in London during a challenging time in her life. Through the sport and the community she found around it, Kao rediscovered herself and connected with others. In 2011, Kao returned to the U.S. and continued climbing. For Kao and her co-founders, climbing served as an avenue for self-discovery and a wellspring for community during transitional times in their lives. Together, they started **Sender One Climbing**. They now have two locations, one of which hosted the 2020 Pan American Championships, where two athletes qualified for the 2020 Tokyo Olympics.

Sender One Climbing closed three times between March 2020 and 2021. The first time they closed, they furloughed 135 of their 159 staff members. Alice contacted her banker to look for solutions to keep her business going. At the time, she didn't know funding was available to help businesses impacted by COVID-19. Her banker notified her as soon as PPP funding was available and helped guide her through the application process. During the time that her business was closed, Alice invested in making the improvements and repairs that would have been difficult while the gym was open.

Of the SBA's assistance, Alice says, "Without my first 7(a) [loan], I wouldn't have been able to do this. Without the pandemic funding, I wouldn't have been able to keep my employees on. I wouldn't have been able to do the upgrades that I did to help me reopen my business." Sender One Climbing is preparing to open its third location in 2023 and plans to access the support of the SBA once again in that venture.

BOON BOONA COFFEE



Efrem Fesaha
CEO and founder
Renton, WA

After his initial business plan to open an East African coffee shop was rejected by banks, **Efrem Fesaha** didn't give up. Instead, he pivoted to sourcing quality green coffee from Ethiopia for East African communities in the U.S. He sought mentorship and advising through the SBA's SCORE program which assisted him with his business plan and financial projections. With this assistance, he was able to obtain a microloan to open his coffee shop, **Boon Boona Coffee**, in Renton, WA.

During the pandemic, Efrem accessed the SBA's Paycheck Protection Program, Economic Injury Disaster Loan, and Restaurant Revitalization Fund assistance programs to keep his business afloat and to continue to employ his team. Despite attempts to transition to a curbside pickup model, Boon Boona's sales dropped significantly as COVID-19 mitigation restrictions went into place in March of 2020. "I was forced to lay a lot of my team off, which as a first-time employer, was the toughest decision and toughest experience of mine," Efrem indicated. "The SBA was successful in helping us because it was the only way we would be able to bring back our team. The only way we could weather the storm." With the assistance of these COVID-19 relief programs, Boon Boona Coffee was able to pivot their business as demand once again rose, upgrading their website in response to an increase in online orders, creating a monthly subscription box with nationwide shipping, and taking on wholesale clients.

Appendix 1 – Contact SBA: Useful Websites 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/about-sba
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/size
Starting a business?	www.sba.gov/business-guide
Capital	
Small Business Loans & Grants	www.sba.gov/funding-programs
Lender Resources	www.sba.gov/lenders
Surety Bonds	www.sba.gov/funding-programs/surety-bonds
Export Products	www.sba.gov/exporting
Fund Your Business	www.sba.gov/business-guide/plan/fund-your-business
Contracting	
Government Contracting	www.sba.gov/federal-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/local-assistance/sbdc
Women's Business Centers	www.sba.gov/local-assistance/wbc
SCORE	www.sba.gov/local-assistance/score
Veterans Business Outreach Centers	www.sba.gov/local-assistance/vboc
Disaster Assistance	
Disaster Assistance	www.sba.gov/disaster
COVID-19 Relief Options	www.sba.gov/coronavirus
Disaster Assistance Customer Service Center (Toll Free)	(800) 659-2955
SBA Information	
SBA National Answer Desk (Toll Free)	(800) 827-5722
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.

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.

7(j) — **7(j) Management and Technical Assistance Program**
The 7(j) program provides specialized assistance to underserved small businesses.

7(m) — **7(m) Microloan Program**
The microloan program provides small, short-term loans to small businesses and certain types of nonprofit childcare centers.

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.

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.

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.

AGA — **Association of Government Accountants**
The AGA is the member organization for government financial management professionals.

APG — **Agency Priority Goal**
GPRAMA requires federal agencies to establish a set of 2-year APGs that reflect the highest priorities of agency leadership.

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.

ARP(A) — **American Rescue Plan (Act)**
The American Rescue Plan Act of 2021 provides relief to individuals and businesses affected by the COVID-19 pandemic.

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.

BATF — **Business Assistance Trust Fund**
A revolving trust fund in which all donated funds are to be deposited.

BLIF — **Business Loan and Investment Fund**
The BLIF assists eligible small businesses through various loan programs.

CAP Goals — **Cross-Agency Priority Goals**
CAP Goals are a limited number of Presidential priority areas where implementation requires active collaboration among multiple agencies.

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.

CJ — **Congressional Justification**
The CJ is a federal agency's annual budget request to Congress.

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.

CEAR — **Certificate of Excellence in Accountability Reporting**
The CEAR is awarded to federal agencies that are considered to have excellent Agency Financial Reports.

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.

COVID-19 — **Coronavirus Disease, 2019**
Highly contagious respiratory disease caused by the SARS-CoV-2 virus.

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.

DCMS **Disaster Credit Management System**
DCMS is the electronic system used to process loan applications for all new disaster declarations.

DLF **Disaster Loan Fund**
The DLF assists eligible small businesses impacted by disasters.

DNP **Do Not Pay Initiative**
The DNP was established by IPERIA to support federal agencies with their efforts to prevent and detect improper payments.

DO **District Office**
The SBA's District Offices are responsible for the delivery of the SBA's many programs and services throughout the country.

DoD **Department of Defense**
The DOD is the federal agency charged with coordinating national security and the armed services.

DTI **Debt-to-Income**
DTI ratio is derived by dividing monthly debt payments by monthly gross income

EAA **Economic Aid to Hard-Hit Small Businesses, Non-Profits and Venues Act**
The Economic Aid Act authorizes the U.S. Small Business Administration to guarantee additional loans under the temporary Paycheck Protection Program and adds a second temporary program to SBA's 7(a) Loan Program titled, "Paycheck Protection Program Second Draw Loans."

EDAP **Expedited Disaster Assistance Loan Program**
The EDAP is a loan guarantied by SBA for up to $150,000.

EDP **Entrepreneurial Development Program**
The EDP account reports entrepreneurial development expenses.

ECS **Enterprise Cybersecurity Services**
Cybersecurity strategies designed to safeguard data as it travels between distant wireless devices and onto cloud servers.

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 Grants**
One year funding opportunity to help increase the number of SBIR and STTR proposals.

FBO **FedBizOps**
FBO is the Federal Government's website that posts all federal procurement opportunities with a value over $25,000.

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.

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.

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.

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.

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.

FITARA **Federal Information Technology Acquisition Reform Act**
FITARA is legislation to improve the acquisition and management of federal information technology assets.

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.

FR **Financial Report of the U.S. Government**
A record of the United States government's financial activities.

FTA **Fiscal Transfer Agent**
The central registry for all guaranteed individual loan and SBA pool certificate interests.

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 half-time.

FY — **Fiscal Year**
The Federal Government fiscal year begins October 1 and ends the following September 30.

GAAP — **Generally Accepted Accounting Principles**
GAAP is the standard framework of guidelines for financial accounting generally known as accounting standards or standard accounting practice.

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.

GPRAMA — **Government Performance and Results Act (GPRA) Modernization Act**
The GPRAMA modernizes the federal government's performance management framework, retaining and amplifying some aspects of the Government Performance and Results Act (GPRA) of 1993 while also addressing some of its weaknesses.

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.

GTAS — **Governmentwide Treasury Account**
Symbol Adjusted Trial Balance System: A system used by government entities to provide proprietary financial reporting and information about budget execution to the Department of the Treasury.

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.

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.

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.

ICD — **Internal Controls Division**
The ICD ensures managers comply with internal control standards.

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.

IDAP — **Immediate Disaster Assistance Program**
IDAP is a guaranteed disaster loan program for small businesses that have suffered physical damage or economic injury due to a Declared Disaster.

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.

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.

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.

ISS — **Industrial Specialists for Size**
Specialists who perform size determinations for protests.

IT — **Information Technology**
IT refers to matters concerned with the design, development, installation, and implementation of information systems and applications.

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.

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.

MAFD — **Maximum Accepted Fixed Debt**
MAFD are standards used to calculate the risk of loan approvals.

MAT **Modification Adjustment Transfer**
A transfer made between the financing account as the general fund.

MRA **Master Reserve Account**
The SBA's fiscal agent maintains this escrow fund to facilitate the operation of the Certified Development Company program.

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.

OBD **Office of Business Development**
The OBD assists small, disadvantaged businesses to gain access to federal and private procurement markets.

OCA **Office of Capital Access**
The OCA is responsible for small business loans, lender oversight, and the Surety Bond Guaranty program.

OPPCFO **Office of Performance, Planning, and the Chief Financial Officer**
The OPPCFO is responsible for the financial leadership of the Agency, including all disbursements, management, and coordination of planning, budgeting, analysis, and accountability processes.

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.

OCRM **Office of Credit Risk Management**
The OCRM manages program credit risk, monitors lender performance, and enforces lending program requirements.

OCORM **Office of Continuous Operations and Risk Management**
OCORM ensures enterprise-wide disaster planning, readiness, and implementation of ERM best practices for the SBA.

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 disaster losses for individuals and businesses.

OFA **Office of Financial Assistance**
Oversees the SBA's credit programs that provide capital alternatives for small businesses not adequately served by conventional lending.

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.

OGC **Office of General Counsel**
The OGC provides comprehensive legal services to the Administrator and all Agency offices.

OGCBD **Office of General Contracting and Business Development**
The Office of Government Contracting and 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.

OIG **Office of Inspector General**
The OIG conducts and supervises audits, inspections, and investigations relating to SBA programs and operations.

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.

OPM **U.S. Office of Personnel Management**
The OPM is the Federal Government's human resources agency.

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.

OSDBU **Office of Small Disadvantaged Business Utilization**
OSDBUs located within each federal agency enable small disadvantaged businesses to gain access to economic opportunity through federal contracts.

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.

QAR **Quality Assurance Review**
The QAR is a review to identify any deficiencies, to include improper payments.

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.

RRF **Restaurant Revitalization Fund**
The RRF is COVID-19 relief program authorized under the American Rescue Plan.

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.

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.

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.

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.

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.

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.

SBLC **Small Business Lending Company**
SBLCs are non-depository small business lending companies listed by the SBA Office of Capital Access.

SDB **Small Disadvantaged Business**
A firm that is owned or controlled by one or more disadvanted persons and qualifies as small according to the SBA's size standards.

SE **Salaries and Expense**
Operating expenses of the Agency.

SMC **Senior Management Council**
SMC was established by the Administrator to ensure the SBA had an effective system of internal controls.

SOP **Standard Operating Procedure**
An SOP is the primary source of the Agency's internal control.

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.

SVOG **Shuttered Venues Operator Grant**
SVOG is a COVID-19 relief program authorized under the American Rescue Plan.

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.

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.

USSGL **The United States Standard General Ledger**
USSGL provides a uniform chart of accounts and technical guidance for standardizing federal agency accounting.

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.

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.

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.

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 OPPCFO maintains a database to track the recommendations through to the conclusion, or Final Action. During FY 2021 there were 86 Final Actions, resulting from 1 monetary and 85 non-monetary recommendations.

The following tables depict the SBA's Final Action activity for FY 2021 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, 2020 – September 30, 2021

Recommendations	Number of Recommendations	Disallowed Costs
A. Recommendations with management decisions on which final action had not been taken at the beginning of the period.	19	$301,165,018
B. Recommendations on which management decisions were made during the period.	1	$10,800,476
C. Total recommendations pending final action during period.	20	$311,965,494
D. Recommendations on which final action was taken during the period.		
1. Recoveries:		
(a) Collections and Offsets	1	$855,116
(b) Property		
(c) Other		
2. Write-Offs	12	$91,160,589
3. Total	13	$92,015,705
E. Recommendations needing final action at the end of the period.	7	$219,940,789

Table II Final Action on Audit Recommendations with Funds Put to Better Use
October 1, 2020 – September 30, 2021

Recommendations	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	$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, 2021

Report # 17-19, Audit of SBA's Microloan Program

Program: OCA

Date Issued: 9/28/17

Management Decision Date: 1/4/18

Explanation: For the two remaining recommendations planned activities are Recommendation 1—to integrate Microloan portfolio performance into the PAC Report, as microlender performance and compliance is now overseen by OCRM. The OPSM and OCRM worked together to develop automated Microloan reporting that mirrors current 7(a) and 504 deliverables. Microloan portfolio performance is integrated into the PAC Report. Additionally, microlender performance and compliance is monitored by OCRM via the Microloan Lender Performance report and the Microloan Reporting report. Recommendation 4—to sync timing of the updated manual with the implementation of the reporting system as noted above. The OPSM and OCRM worked together to develop automated Microloan reporting that mirrors current 7(a) and 504 deliverables. Microloan portfolio performance is integrated into the PAC Report. Additionally, microlender performance and compliance is monitored by OCRM via the Microloan Lender Performance report and the Microloan Reporting report. The estimated completion date is December 31, 2021.

Report # 18-03, FY 2017 Financial Statement Audit

Program: OCA

Date Issued: 11/14/17

Management Decision Date: 1/10/18

Explanation: The one remaining recommendation requires the Office of Capital Access (OCA) monitor and perform procedures over the service organization's attestation report regarding user control considerations. The systems and operational transition between the outgoing Fiscal Transfer Agent (FTA) and the incoming FTA were completed at the end of August 2021. The FTA will submit a report next year after having 12 months of operational track record detailing user control considerations. The estimated completion date is September 30, 2022.

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: Revised regulations were published and subsequently rescinded under the CARES Act that addressed the arrangements between poultry integrators and growers on appropriate affiliation determinations. Due to the Final Rule rescission, the current due date was extended to provide additional time to reconsider and conduct a new rule making. The estimated completion date is March 31, 2022.

Report # 19-08 SBA's HUBZone Certification Process

Program: OGCBD

Date Issued: 3/28/2019

Management Decision Date: 3/29/2019

Explanation: The SBA is in the process of re-baselining Certify. GCBD has worked closely with OCIO and has a time frame to begin and complete system development and implementation. The OCIO is reviewing the Certify modules carefully to ensure proper steps are followed and has been communicating with the GCBD team. The revised dates for commencing and completing a complete HUBZone system replacement are June 2022 – December 2023. GCBD has provided a justification and an extension request to OIG for estimated completion date of December 31, 2023..

Report # 19-15 7(a) High Risk Loan

Program: OFPO

Date Issued: 7/10/2019

Management Decision Date: 7/11/2019

Questioned Costs: 3,000,297.00

Explanation: Loan remains open due to complex financial issues related to business appraisals and franchise agreements. The SBA has requested documentation from the lender related to appraisal valuations and to specific clauses within the borrower's franchise agreement. Once documentation is received and reviewed, the SBA will document resolution of the issue and close this audit item. The estimated completion date is December 1, 2021.

Report # 19-16 7(a) High Risk Loan

Program: OFPO

Date Issued: 8/14/2019

Management Decision Date: 8/15/2019

Questioned Costs: 1,367,417.00 and 691,715.00

Explanation: Loan remains open due to complex financial issues related to the use of proceeds from the sale of a business the source of a borrower's equity injection. The SBA has requested documentation from the lender related to borrower's personal bank accounts and source of the equity injection. Once documentation is received and reviewed, the SBA will document resolution of this issue. If not resolved through documentation, the SBA will bill the lender to close this audit item. The estimated completion date is December 1, 2021.

Report # 19-17 SBA's All Small Mentor-Protege Program

Program: OGCBD

Date Issued: 9/17/2019

Management Decision Date: 9/17/2019

Explanation: Recommendation 3—On May 27, 2020, GCBD provided the OIG with the May 2020 BTIC presentation for Certify. System developments are pending. On March 15, 2021, GCBD issued a request to the OIG for a one-year extension to March 30, 2022. On March 24, 2021, the OIG requested supporting documentation in order to review the extension request. GCBD provided a revised milestone on implementation of the M/P Certify module to the OIG on June 17, and they have agreed to extend the action due date to September 30, 2022. Recommendation 4—the SBA is taking these steps to fulfill functional requirements for the ASMPP: 1) revalidating functional and data requirements for the program by documenting them and providing to ASMPP Director for staff coordination and approval, 2) performing development to deliver a complete end-to-end workflow that delivers the approved functional requirements and ASMPP-specific analysis criteria, and 3) performing development of case management reporting to enhance management's ability to monitor quality and throughput. GCBD currently awaiting an update from the Certify Working Group. The estimated completion date is September 30, 2022.

Report # 20-03 Audit of SBA's Oversight of High-Risk Lenders

Program: OCA

Date Issued: 11/12/2019

Management Decision Date: 11/15/2019

Explanation: Six recommendations. Recommendation 1—OCRM will include the recommended changes in the revised SOP 51 00 2, which is currently being finalized. The estimated completion date is December 13, 2021. Recommendation 2—OCRM is working with OPSM to develop a database/workflow management tool to more effectively manage the oversight of high-risk Lenders. It is currently in development, awaiting a source of funding and is expected to be implemented by the end of FY 2022. Recommendation 3—OCRM submitted requested documentation to OIG for closure on September 28, 2021. Recommendation 4—OCRM conducts quarterly meetings to discuss high-risk lenders and is preparing quarterly meeting minutes for submission to the OIG. The estimated completion date is December 13, 2021. Recommendation 5—the communications protocol will be included in the revised SOP 51 00 2, which is currently being finalized. The estimated completion date is December 13, 2021. Recommendation 6—OCRM has the Loan File Review Team reviewing the loans to determine if deficiencies exist and were corrected. The estimated completion date is December 31, 2021.

Report # 20-05 KPMG Management Letter Communicating Matters Relative to SBA's FY 2019 FSA

Program: OCA

Date Issued: 12/10/2019

Management Decision Date: 3/10/2020

Explanation: Two recommendations. Corrective Actions completed. Closed by OIG October 27, 2021.

Report # 20-08 Audit of the SBA's Community Advantage Pilot Program

Program: OCA

Date Issued: 3/18/2020

Management Decision Date: 3/9/2020

Explanation: Six recommendations. Recommendation 1—the SBA has encouraged CA lenders to participate in the PPP Program. The SBA has also implemented and executed the CA Recovery Loan Program with CA lenders. With the passage of the Economic Aid Act, the SBA implemented the 2nd round of PPP loans, initially opening this program only to Community Financial Institutions (CFIs), which include many CA lenders in an effort to increase smaller loans to underserved borrowers. The SBA is continuing to evaluate options for expanding access to capital in underserved areas through the CA Pilot program. The estimated completion date is December 31, 2021. Recommendation 2—the OFA has determined that aligning the rates is feasible and is in the process of publishing a final rule that will align the variable rates for CA loans with all 7(a) loans up to $250,000. OFA is currently drafting and clearing the final rule and expects to be able to publish the final rule in Q1 FY 2022. The estimated completion date for this recommendation is December 31, 2021. Recommendation 3—the OFA has complied and requested closure for Recommendation 3. Recommendation 4—the OCRM is evaluating a management interview to be conducted as part of its Risk-Based Reviews that will be used to assess a CA Lender's provision of M&TA and will consider the frequency in which a Lender provides M&TA as a factor in the determination of whether the CA Lender's expertise is adequate. The estimated completion date for this recommendation is December 31, 2021. Recommendation 5—the OFA and OCRM have requested additional time to collect and review CA Lender reported M&TA information to determine possible enhancements to the annual CA performance analysis. The estimated completion date for this recommendation is December 31, 2021. Recommendation 6—the OFA has complied and requested closure for Recommendation 6.

Report # 20-17 Evaluation of Certify.SBA.gov

Program: CIO

Date Issued: 3/18/2020

Management Decision Date: 3/9/2020

Explanation: Five recommendations. The OCIO is in the process of collaborating with the GCBD to determine the next steps in satisfying the recommendations. A contract has been awarded for the assessment of certify.sba.gov to determine the path forward. The estimated completion January 15, 2022.

Report # 20-18 High Risk 7(a) Loan Review Program

Program: OCA

Date Issued: 8/25/2020

Management Decision Date: 4/16/2021

Explanation: Loan remains open due to complex financial issues related to documentation of the source of a borrower's equity injection. The SBA requested a legal opinion for this loan. Once the legal opinion is received and reviewed, the SBA will document resolution of the issue and close the audit item. The estimated completion date is December 1, 2021.

Report # 20-20 Compliance with the Debt Collection Act

Program: OCA

Date Issued: 9/30/2020

Management Decision Date: 9/30/2020

Explanation: 10 recommendations.

Recommendation 1—the SBA received an exemption from the mandatory notice and transfer provisions and a suspension of debt collection until December 31, 2021, from the Department of Treasury. After this suspension expires, the SBA will review loans assigned to the Resolution Center that are 180 days or more delinquent and transfer debts to Treasury Cross-Servicing as appropriate. The OFPO requested the OIG extension to November 19, 2021. Recommendation 2—the OFPO drafted revisions to SOP 50 52 2, Disaster Loan Servicing and Liquidation. Revisions include the evaluation of all loans with collateral for foreclosure and placement into foreclosure before they are 180 days delinquent. In June 2021, the OFPO drafted an additional chapter for COVID EIDL. The SOP is currently in Agency clearance. The estimated date for completion is November 19, 2021. Recommendation 3—the OFPO drafted revisions to SOP 50 52 2, Disaster Loan Servicing and Liquidation. Revisions include clear communication that all debts 180 days delinquent be transferred to Treasury Cross-Servicing unless the debts meet a valid transfer exemption. In June 2021, OFPO drafted an additional chapter for COVID EIDL. The SOP is currently in Agency clearance. The estimated date for completion is November 19, 2021. Recommendation 4—the OFPO submitted documentation to close this recommendation to the OIG on August 23, 2021. The estimated date for completion is November 19, 2021. Recommendation 5—the OFPO submitted to OIG for final closure May 11, 2021. The estimated date for completion is November 19, 2021. Recommendation 6—the transition of COVID EIDL to the OCA has delayed progress. The estimated date for completion is November 19, 2021. Recommendation 7—SBA received an exemption from the mandatory notice and transfer provisions and a suspension of debt collection until December 31, 2021, from the Department of Treasury. After this suspension expires, the SBA will review loans currently assigned to the Center, and designated as exempt, the Agency will verify obligors' exempt status and transfer debts to Treasury Cross-Servicing as appropriate. The estimated date for completion is November 19, 2021. Recommendation 8—the OFPO submitted 1824 to OIG for final closure May 11, 2021. The estimated date for completion is November 19, 2021. Recommendation 9—the OFPO will issue an internal memorandum to the Center reinforcing the requirements of workout agreements to ensure compliance with the Debt Collection Improvement Act. The estimated date for completion is November 19, 2021. Recommendation 10—the transition of COVID EIDL to the OCA has delayed progress. The estimated date for completion is November 19, 2021.

This page intentionally left blank.

Acknowledgments

This Agency Financial Report was produced with the energies and talents of the SBA staff. To all these dedicated individuals listed below, and those not listed, the Office of Performance, Planning, and the Chief Financial Officer would like to offer sincere thanks and acknowledgment.

Melissa Atwood
Anne Barnes
Rachel Beasley
Dorothy Bell
Rory Berges
Brittany Borg
Jason Bossie
Johnathan Brame
Tonia Butler
Jeffrey Davis
Krzysztof Fizyta
Erica Gaddy
Leslie Godsey
Kathleen Graber
Blake Hoing
Scott Holland
Angela Inmon
Natalie Kiser
Emily Knickerbocker
Terri Luebs
Maureen Moore-Vellucci
Christine O'Neill
Mathew Pascarella
Tony Paul
Andrea Peoples
Mike Peterson
Janette Porter
Trevor Postlethwaite
Steve Ramey
Marjorie Rudinsky
AnnMarie Schaef
Michael Simmons
Deron Smallwood
Scott Stilmar
Zahid Syed
Yvonne Walters
Lucine Willis
Hellen Wong

We would also like to acknowledge the Office of Inspector General and KPMG LLP for their professionalism while conducting the audit of the Fiscal Year 2021 Financial Statements. We offer our special thanks to Schatz Publishing Group and Omnidigital Studio, Inc. for contributions in producing this report.

U.S. Small Business
Administration

Office of Performance, Planning,
and the Chief Financial Officer

409 Third Street, S.W. Washington, DC 20416