SBA U.S. Small Business Administration

Agency Financial Report

Fiscal Year 2022

ABOUT THIS REPORT

The U.S. Small Business Administration's Agency Financial Report (AFR) for FY 2022 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 2022 Annual Performance Report* (APR) is the other report and is part of the *FY 2024 Congressional Justification* (CJ). The CJ/APR is scheduled for publication in February 2023. The reports can be found at: www.sba.gov/performance.

FY 2022 HIGHLIGHTS

(Dollars in Thousands)

	FY 2019 (unaudited)	FY 2020 (unaudited)	FY 2021 (unaudited)	FY 2022 (unaudited)
Principal Program Portfolio[1]	$ 143,516,446	$ 835,987,031	$ 713,196,138	$ 559,170,974
Total Assets	$ 16,718,652	$ 897,533,990	$ 562,417,681	$ 378,012,365
Total Liabilities	$ 15,085,044	$ 718,056,018	$ 503,539,063	$ 395,123,603
Total Net Position	$ 1,633,608	$ 179,477,972	$ 58,878,618	$ (17,111,238)
Total Net Cost of Operations	$ 136,526	$ 554,231,547	$ 346,283,553	$ 47,096,949
Total Budgetary Resources	$ 12,342,598	$ 1,518,667,904	$ 1,347,118,849	$ 420,033,718

(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: performance.management@sba.gov

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U.S. Small Business Administration

SBA'S MISSION

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

HOW THIS REPORT IS ORGANIZED

The U.S. Small Business Administration's *FY 2022 Agency Financial Report* (AFR) provides financial and performance information for the fiscal year beginning October 1, 2021, and ending September 30, 2022. 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.

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 a message from the Chief Financial Officer, the audit transmittal memorandum from the Inspector General, the Independent Auditors' report, and the 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

November 15, 2022

On behalf of the team at the U.S. Small Business Administration who works every day to advance the American dream of entrepreneurship, I am pleased to present our FY 2022 Agency Financial Report. This report highlights the SBA's substantial impact and improvement over the previous fiscal year as the federal agency responsible for helping our nation's 33 million small businesses and innovative startups access the funding and resources they need to start and grow, and for ensuring businesses and the communities they serve can recover and build resilience in the face of disasters.

Fiscal Year 2022 was a period of significant change and growth for America's small businesses, as well as economically devastating natural disasters, and this is reflected in SBA's historic financial relief, support and program improvements. During this period, our nation realized high levels of new business starts, strong job creation, historically low unemployment, and historic investments in infrastructure, American manufacturing, innovation and clean energy to build an economy that works for all Americans.

The SBA's dedicated staff and their mission-driven implementation of both core and emergency programs and services—including COVID-19 relief, small business lending, investment and innovation, federal contracting support, trade promotion, technical and skills training, and disaster response—are at the heart of this success. The Agency has worked diligently to ensure opportunities for America's entrepreneurs, and has helped millions of small businesses reopen, rebuild, and grow.

The Agency also achieved notable regulatory and programmatic reforms and milestones during FY 2022, including: improvements to the SBA Community Advantage (CA) loan program; further implementation of Equity in Procurement contracting reforms working in partnership with the White House and partner agencies; streamlined service delivery with critical office realignments; and the implementation of the Community Navigators Pilot Program. Based on preliminary reported impacts, we expect these regulatory and programmatic reforms to provide strong economic returns for America's small businesses.

At the SBA, we work with a network of lenders to guarantee loans to small businesses that are unable to obtain credit through conventional lending. In FY 2022, the SBA approved nearly 57,000 loans in the 7(a) and 504 loan programs, providing nearly $35 billion to small businesses and supporting over 569,000 American jobs in the process. We also worked to deliver on the promise of PPP forgiveness with 91 percent of loans and 95 percent of loan volume fully or partially forgiven. Minority businesses received $10.7 billion, women nearly $4.7 billion and veterans over $1.1 billion in combined 7(a) and 504 lending. SBA's microloan program approved nearly $82.7 million in new loans at $50,000 and under, to provide help to the smallest and start-up businesses. The Agency also expanded the Community Advantage (CA) and Lender Match programs. In FY 2022, 45 percent of CA dollars were awarded to minority borrowers. Additionally, the number of lenders enrolled in Lender Match increased by 14 percent.

The SBA works to ensure that investment capital is available through its Small Business Investment Company (SBIC) program. In FY 2022, the SBA unlocked capital for over 1,200 high-growth startups and main street businesses with approximately $7.9 billion in financing. The SBA added 29 private, professionally managed investment funds for a total of over 300 SBICs delivering debt and equity financing to small businesses. The SBA also increased SBIC financings to women-, minority-, and veteran-owned small businesses, as well as those in underserved geographic areas, by four percent this year.

The SBA also provides support to small businesses to grow through procurement and global trade. With the SBA's efforts, federal agencies collectively exceeded the small business contracting goal for FY 2021, the latest year of data available. More than 27 percent of federal contracts totaling $154 billion went to small businesses—an over $8 billion increase from the previous fiscal year. This marks the ninth consecutive year in a row that the Federal Government has exceeded this goal. The SBA continues to promote equity in federal contracting, challenging federal agencies to award at least 15 percent of federal contracts to small, disadvantaged businesses (SDBs) by FY 2025. As of FY 2021, the federal government achieved the progressive goal a year in advance by delivering 11 percent of federal contracts awarded to SDBs. In FY 2022, SBA's State Trade Expansion Program (STEP) supported small businesses in expanding global trade and generated over 14,300 jobs in small businesses and $550, 867,525 in export sales.

The SBA ensures that our nation's small business owners can access the entrepreneurial training, counseling, and 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, Community Navigators, Regional Innovation Clusters, and Growth Accelerators. In FY 2022, the SBA expanded its Women's Business Centers network to every state and Puerto Rico. Across our SBA network, hundreds of thousands of American small businesses took advantage of counseling, mentoring, and training assistance.

When disaster strikes, the SBA joins the federal response to help small businesses and the communities they serve recover through direct assistance to businesses, nonprofits, homeowners, and renters. Direct low-interest loans through SBA's Economic Injury Disaster Loans (EIDL) and Physical Disaster Loans (PDL) programs have enabled borrowers to replace or repair uninsured losses, and mitigate future damage, whether through physical damage or economic injury. In FY 2022, the SBA approved more than 36,500 direct disaster loans for declared natural disasters such as floods, hurricanes, and tornadoes, totaling $1.96 billion. Additionally, the SBA continued to deliver $122.55 billion in COVID EIDL financial relief to businesses and nonprofits in response to the COVID-19 pandemic.

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 and FY 2022 Consolidated Balance Sheets as a result of its scaled COVID financial relief, the SBA under my leadership has taken actions 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 proper management of Agency resources by addressing the issues our auditor identified and continuing to strengthen management controls.

The SBA has worked to ensure that we are functioning as efficiently, effectively, and equitably as possible for America's entrepreneurs while leveraging technology, partnerships, and alliances with trusted stakeholders, and streamlining operations to eliminate waste and redundancy while improving customer experience. As we look toward FY 2023 and a future of possibilities, the SBA is committed to delivering even greater and more equitable results as well as the best possible customer service for all of America's small businesses.

Sincerely,

Isabella Casillas Guzman

Isabella Casillas Guzman
Administrator

Section 1

Management's Discussion and Analysis (Unaudited)

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 Federal Government and is the only cabinet-level federal agency fully dedicated to small business. The SBA's headquarters is 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 2022-2026 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 Ensure equitable and customer-centric design and delivery of programs to support small businesses and innovative startups	GOAL 2 Build resilient businesses and a sustainable economy	GOAL 3 Implement strong stewardship of resources for greater impact
1.1 Ensure all entrepreneurs have access to capital to start and grow their business	**2.1** Help small businesses recover from the pandemic and become more resilient	**3.1** Strategically manage resources by integrating quality data, evidence, and risk in decision-making processes
1.2 Build a thriving national innovation ecosystem that promotes investments in all small business communities	**2.2** Prepare small businesses and rebuild communities affected by natural disasters	**3.2** Build an inclusive and high performing workforce
1.3 Grow exporting opportunities to help small businesses across the country expand into new markets		**3.3** Develop and deploy technology-driven solutions to enhance mission delivery
1.4 Build back an inclusive and proficient small business contracting base ready to compete for all federal procurement opportunities		
1.5 Build an equitable entrepreneurial ecosystem through tailored training and counseling		

STRATEGIC GOAL ONE

Ensure Equitable and Customer-Centric Design and Delivery of Programs to Support Small Businesses and Innovative Startups

Strategic Goal One aims to improve access to SBA programs and services for all entrepreneurs.

The *Office of Capital Access* assists small businesses with obtaining capital via the 7(a), 504, and Microloan programs, and bonds through the Surety Bond Guarantee program. PRIME Technical Assistance Grants Program provides training and technical assistance to underserved entrepreneurs and microenterprise development organizations and programs.

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. Additionally, business development 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, SCORE, Community Navigator Pilot Program, 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 active duty, National Guard and Reservists, veterans, and veteran or military spouses through Veterans' Business Outreach Centers, Boots to Business, and other grant programs.

The *Office of Field Operations* is responsible for connecting and supporting entrepreneurs with the Agency's products and services through 10 regional offices and 68 district offices. Each of the SBA's programmatic areas are directly supported by specialist field staff.

STRATEGIC GOAL TWO

Build Resilient Businesses and a Sustainable Economy

Strategic Goal Two focuses on how the SBA can rebuild a sustainable economy fueled by small businesses.

The *Office of Capital Access* supports the Disaster Assistance Program, the only SBA program not limited to small businesses. Additionally, the SBA oversees Paycheck Protection Program loans, Restaurant Revitalization Fund grants, and COVID EIDL loans in support of pandemic relief.

The *Office of Disaster Assistance* provides short- and long-term assistance after disasters by engaging with district offices and resource partners to aid their communities even after the disaster declaration deadlines have closed. The SBA communicates its preparedness and disaster resources through outreach that raises awareness and underscores seasonal risks. The office also oversees Shuttered Venue Operator Grants Program in support of pandemic relief.

STRATEGIC GOAL THREE

Implement Strong Stewardship of Resources for Greater Impact

Strategic Goal Three focuses on SBA resources and ways to optimize them to best support the small business community.

The *Office of Performance, Planning, and the Chief Financial Officer* leads the Agency's performance management, program evaluation and evidence-building activities, financial management, and acquisition management functions.

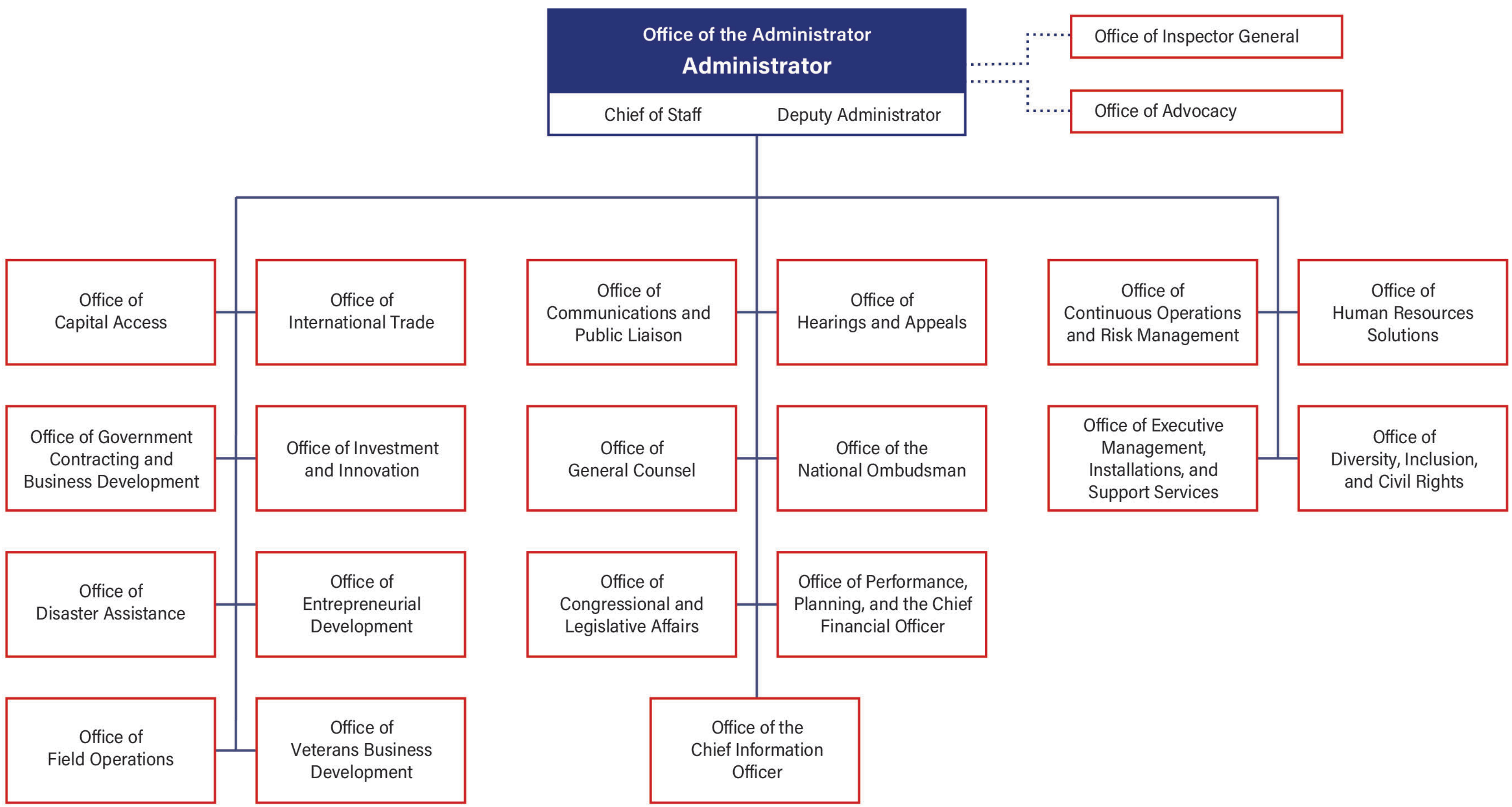
The *Office of Executive Management, Installations, and Support Services* supports resource and core administrative functions, including grant management, facilities, records management, and personnel security.

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.

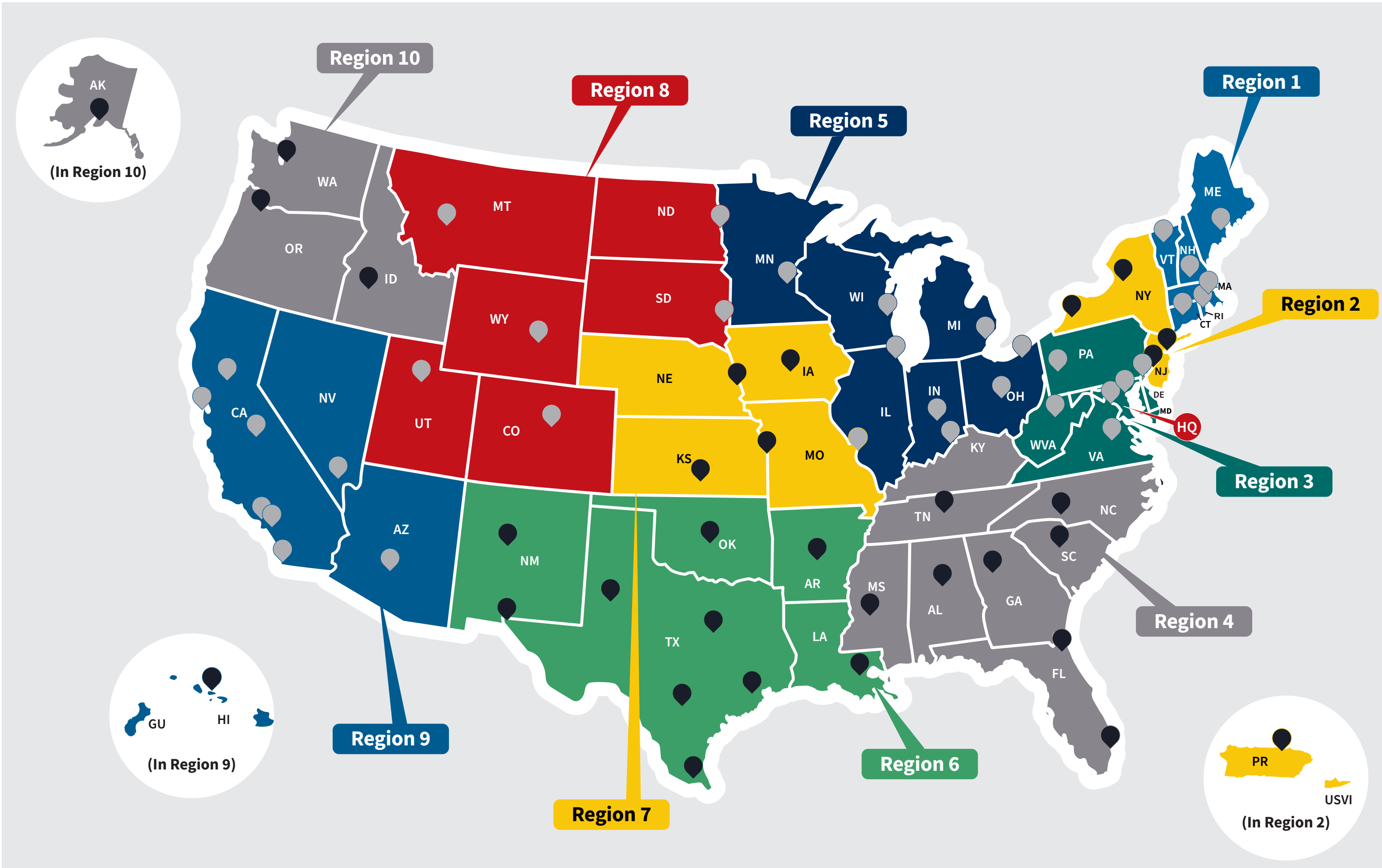
The *Office of the Chief Information Officer* provides information technology leadership, product services, and operational support for the SBA to maximize internal efficiency and responsiveness to small businesses.

Other offices that support the strategic goals and objectives include the *Office of the National Ombudsman; Office of Continuous Operations and Risk Management; 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*.

SBA ORGANIZATION CHART



SBA FIELD OFFICE LOCATIONS



EXECUTIVE SUMMARY

America's 33 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.

This year, the SBA published the Agency's *FY 2022–2026 Strategic Plan*, which established the following strategic goals:

1. *Ensure equitable and customer-centric design and delivery of programs to support small businesses and innovative startups*
2. *Build resilient businesses and a sustainable economy*
3. *Implement strong stewardship of resources for greater impact*

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 published in February 2023.

Financial Results

For FY 2022, the SBA's total budgetary resources used for staffing, operations, and loan subsidy costs were $35.5 billion. Total nonbudgetary resources for loan financing used to make direct loans and purchase guarantied loans in default were $340.2 billion. The SBA's guarantied portion of the outstanding loan principal decreased $271.5 billion in FY 2022 to $163.8 billion. During FY 2022, new guaranties disbursed by SBA participating banks were $32.6 billion, a $271.4 billion decrease from last year. In FY 2022, purchases of defaulted guarantied loans increased from $874 million last year to $6.0 billion. The loans receivable portion of the SBA credit program portfolio increased in FY 2022 to $322.0 billion, from $245.4 billion in FY 2021. The spike in loans receivable was caused by the increase in disaster loans in FY 2022.

Performance Results

Capital: In FY 2022, the SBA approved nearly $35 billion or more than 57,000 7(a) and 504 loans to small businesses. 7(a) loans, 504 loans, microloans and surety bonds helped to support more than 621,000 American jobs. The SBA invested more than $7.9 billion in 1,200 small businesses through the Small Business Investment Company program, which supported almost 130,000 jobs.

Contracting: The SBA continued to partner with agencies across the Federal Government to expand small business contracting opportunities. From FY 2016 through FY 2021, small businesses were awarded nearly $760 billion in federal contracts (FY 2022 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 helped entrepreneurs start more than 20,000 new businesses in FY 2022. Additionally, the SBA's Community Navigators Pilot Program served more than 7,400 clients and helped small businesses access over $100 million in grants and loans. Under the community navigator approach, traditional business assistance organizations enlist trusted, culturally knowledgeable partners to conduct targeted outreach to specific, underserved sectors of the entrepreneurial community.

Disaster Assistance: In FY 2022, the SBA approved more than 36,500 direct disaster loans for events such as floods, hurricanes, and tornadoes, totaling $1.96 billion. The Agency managed 338 disaster assistance declarations during FY 2022. In addition to supporting communities before, during, and after natural disasters, the SBA continued to oversee COVID-19 relief programs in every state and territory.

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. For 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, the SBG program provides financial compensation to the other party. The SBA guarantees bonds issued by a surety company 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 a network of 62 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 140 nonprofit educational centers across the nation. Many WBCs provide multilingual services, and some 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 10,000 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.

Community Navigator Pilot Program — Through the Community Navigator Pilot Program, the SBA engages in targeted outreach to underserved communities through states, local governments, resource partners, and non-profit organizations. Under the community navigator approach, traditional business assistance organizations ("hubs") engage trusted, culturally knowledgeable partners ("spokes") to conduct targeted outreach to specific sectors of the entrepreneurial community.

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 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 if funds are spent for eligible uses.

Shuttered Venue Operators Grants – The Economic Aid to Hard-Hit Small Businesses, Nonprofits, and Venues Act established these grants to support shuttered venues because of the COVID-19 pandemic. Recipients are not required to repay the grants if funds are spent for eligible uses within established timeframes.

SUMMARY OF COVID-19 FINANCIAL IMPACTS

In FY 2022, the SBA continued to assist small businesses in both pandemic relief and core programs, supporting significant growth in small business recovery and stability while continuing to implement oversight functions for CARES Act, Economic Aid Act, and American Rescue Plan Act programs that saved millions of jobs and kept small businesses in operation. The pandemic's adverse economic impacts continue to cause issues such as supply chain disruptions, worker shortages, and changes in consumer spending habits. Going forward, the SBA will continue to perform oversight and monitoring activities on pandemic-related programs, such as requests for loan forgiveness, required reporting for grants recipients, and other activities.

The SBA approved more than 11 million applications for the Paycheck Protection Program (PPP) and provided over $799 billion in lending over the lifetime of the program.[1] The program ended in May 2021, and existing borrowers may be eligible for PPP loan forgiveness. As of September 2022, over 10 million applications been submitting requested PPP loan forgiveness, with nearly $753 billion total forgiveness paid.[2]

For the COVID EIDL program, by April 2022, the SBA had approved nearly 4 million EIDL loans totaling nearly $378 billion, more than 601,000 Targeted EIDL Advance payment (grants) totaling over $5 billion, and more than 453,000 Supplemental Targeted EIDL Advance payment (grants) totaling over $2 billion.[3] In May 2022, the SBA's COVID EIDL funds were exhausted and the SBA was no longer accepting COVID EIDL loan increase requests or requests for reconsideration, with the application portal closing on May 16, 2022.

The Shuttered Venue Operators Grant (SVOG) program, established by the Economic Aid Act and amended by ARPA, included over $16 billion in grants for shuttered venues. In July 2022, the Agency completed all grant processing for the SVOG program, awarding more than $14.6 billion in grants. The SBA will continue to monitor and deliver required compliance activities for these grants. In addition, the Agency awarded more than $28.6 billion in Restaurant Revitalization Fund (RRF) grants to more than 100,000 restaurants, bars, and other businesses. Established in March 2021, the SBA stopped accepting applications in July 2021. The Agency continues to manage the annual reporting requirement for venues to report on fund use.

The SBA's total assets in FY 2022 were $378 billion, compared with $562 billion in FY 2021. Total liabilities in FY 2022 were $395 billion, compared with FY 2021 of $504 billion. The SBA's net position and net cost of operations decreased compared with FY 2021. Total budgetary resources decreased from $1.3 trillion in FY 2021 to $420 billion in FY 2022. More information on the financial impacts can be found in the Analysis of Financial Results section.

1 SBA, "Paycheck Projection Program (PPP) Report, Summary of All PPP Approved Lending, approvals through 05/31/2021", at Paycheck Protection Program (PPP) Report: Approvals through 05/31/2021 (sba.gov).
2 SBA, "Forgiveness Platform Lender Submission Metrics | September 11, 2022" at Forgiveness Platform Lender Submission Metrics, September 11 (sba.gov).
3 SBA, "Disaster Assistance Update Nationwide COVID EIDL, Targeted EIDL Advances, Supplemental Targeted Advances, April 28, 2022 (figures as of April 27, 2022)," at https://www.sba.gov/document/report-covid-19-eidl-reports-2022.

ANALYSIS OF PERFORMANCE RESULTS

Summary of Performance Results

The following section presents key FY 2022 performance data. The presentation is organized by strategic objective, which follows the SBA's *FY 2022-2026 Strategic Plan*. Detailed information on all SBA program performance data, including explanations of variances, will be presented in the FY 2022 Annual Performance Report to be published in February 2023.

Strategic Goal 1: Ensure Equitable and Customer-Centric Design and Delivery of Programs to Support Small Businesses and Innovative Startups

S.O.	Performance Measure	FY 2019 Actual	FY 2020 Actual	FY 2021 Actual	FY 2022 Goal	FY 2022 Actual
1.1	Number of Jobs Supported by 7(a) Loans, 504 Loans, Microloans, and Surety Bonds	556,019	552,497	729,034	683,000	621,856
1.2	Number of Jobs Supported by SBIC Financings	111,201	91,557	126,431	130,000	129,098
1.3	Number of Jobs Supported by Businesses Receiving Export Grants and Loans	N/A	N/A	25,159	26,000	3,990[4]
1.4	Number of Jobs Supported by Federal Contract Set-Asides	677,000	699,000	691,700	715,000	Data Lag[5]
1.5	Number of New Business Starts through SBA Counseling and Training Programs	20,377	19,660	28,771	Baseline	Data Lag[6]

Strategic Goal 2: Build Resilient Businesses and a Sustainable Economy

S.O.	Performance Measure	FY 2019 Actual	FY 2020 Actual	FY 2021 Actual	FY 2022 Goal	FY 2022 Actual
2.1	Small Business Employment in the United States (Millions)	65	64.7	62.1	65	Data Lag[7]
2.2	Customer Satisfaction Rate for Disaster Loan Approvals	83%	78%	76%	77%	79%

Strategic Goal 3: Implement Strong Stewardship of Resources for Greater Impact

S.O.	Performance Measure	FY 2019 Actual	FY 2020 Actual	FY 2021 Actual	FY 2022 Goal	FY 2022 Actual
3.1	Customer Satisfaction Rate of Financial Management Services for SBA Employees	4.4	4.6	4.7	4	4.3
3.2	Federal Employee Viewpoint Survey Global Satisfaction Rate	70%	72%	70%	70%	Data Lag[8]
3.3	Inspector General Maturity Rating	2.8	2.8	3	3.2	2.58[9]

4 State Trade Expansion Program (STEP) FY 2022 data is not yet available and will be published in the FY 2022 Annual Performance Report.
5 Federal Contracting data continues to be certified by the SBA and will be available by summer 2023.
6 New Business Starts FY 2022 data is not yet available and will be published in the FY 2022 Annual Performance Report.
7 Full year data for FY 2022 has not yet been published. Source: Bureau of Labor Statistics; Business Employment Dynamics Data by Firm Size Class https://www.bls.gov/web/cewbd/table_f.txt
8 At the time of publication, the FEVS Global Satisfaction Rate is not yet available. FY 2022 data will be published in the FY 2022 Annual Performance Report.
9 The SBA, like many federal agencies, experienced a decrease in its Inspector General Maturity Rating (FISMA rating) in FY 2022. This result is due to updated evaluation criteria introduced in FY 2022.

Verification and Validation of Performance Data

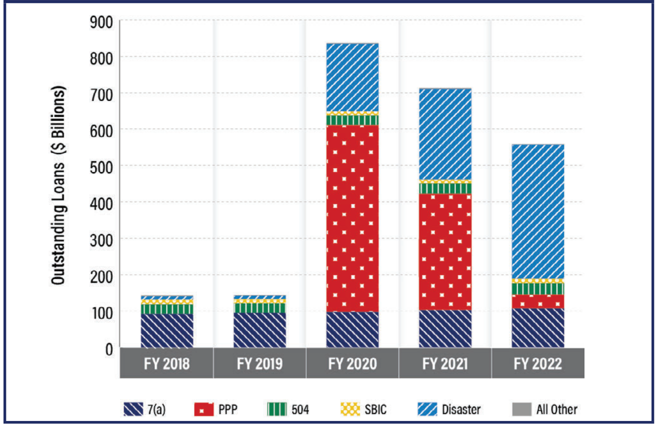
Managing for results and integrating performance, financial, and budgetary information requires valid, reliable, and high-quality performance measures and data. Improving data quality continues to be a priority for the SBA. The SBA's performance analysts work with program office leads across the Agency 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 rigorously 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 the 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 $559.2 billion.[10] During FY 2022, the portfolio decreased by $154 billion, or 21.6 percent. The single and largest decrease was the continued reduction of the Paycheck Protection Program (PPP), a 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 $279.6 billion (-87.8 percent), whereas the SBA's 7(a) and 504 loan portfolios expanded by $3.2 billion (3.1 percent) and $1.9 billion (6.7 percent), respectively. The SBIC portfolio increased by $2 billion (19.4 percent) and the Agency's disaster loan portfolio had the largest increase of $117.7 billion (47.2 percent), as the COVID Economic Injury Disaster Loans (EIDL) program continued to grow. All other portfolios increased by $593 million (28.2 percent). (see **Chart I**).

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

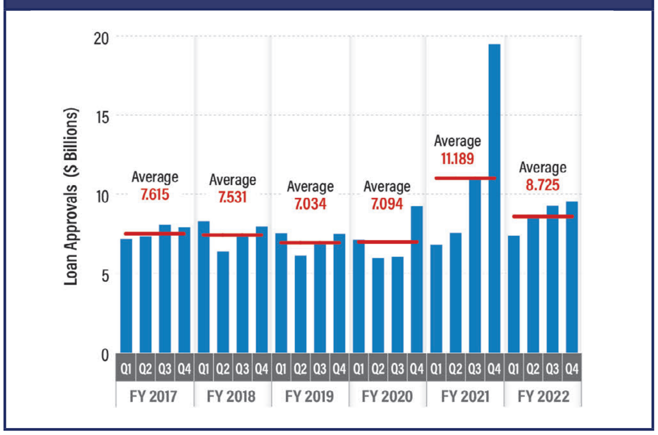


FY = fiscal year. PPP = Payment Protection Program.
SBIC = Small Business Investment Company.

New Guarantied Loans

The quarterly average loan volume increased in FY 2022 with an average of $8.7 billion. **Chart II** demonstrates the trend in loan approvals since FY 2017.

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



FY = fiscal year. Q1 = first quarter, etc.

10 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.

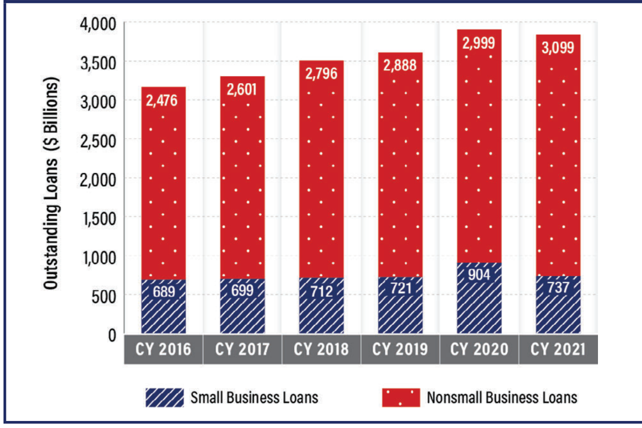
At least three main factors contributed to the loan guaranty portfolio's recent changes:

Continuous Growth in the Economy — Real Gross Domestic Product in the United States increased throughout each quarter of 2021, but started to trend downwards in 2022, with a rate of -0.6 percent in the second quarter of 2022. Despite continued economic recovery and a return of consumer spending, the reduction in government support related to the COVID-19 pandemic and inflationary pressures contributed to an overall decline in Real GDP in 2022.[11]

Changes in Market Volatility — Inflation remained low throughout 2020 (on average, 1.2 percent),[12] but picked up sharply in April 2021 to 4.2 percent, then 5 percent in May and 5.4 percent in June 2021. This level was maintained until another jump in October 2021 to 6.2 percent, and in December the year ended with a monthly rate of 7 percent. These increases throughout 2021 led to an average monthly increase of 4.7 percent for the year. In 2022, the monthly inflation rate continued to climb, peaking at 9.1 percent in June 2022 in part due to the increased cost of consumer goods and services. Conversely, while the unemployment rate surged to a peak of 14.8 in April 2020, it has decreased significantly throughout 2021 and 2022 to 3.5 percent in September 2022.[13]

Market for Small Business Lending — Data from the Federal Deposit Insurance Corporation (FDIC) showed that the total market for business loans increased between 2016–2021 by 21 percent ($670 billion). However, 93 percent ($623 billion) of this increase comes from loans to nonsmall businesses,[14] whereas total small business loans increased by $47 billion. Thus, the ratio of small business loans compared with the total bank market has decreased between 2016–2021, with a marked decrease in 2020–2021 (see **Chart III**). Furthermore, the banking industry's trend toward consolidation, reflected in the reduction of commercial banks by 17 percent[15] between 2016–2021, makes the SBA's guaranty products more critical for growing small businesses that may be denied credit in the private loan market.

Chart III: Outstanding Commercial Loan to Small vs Nonsmall Businesses

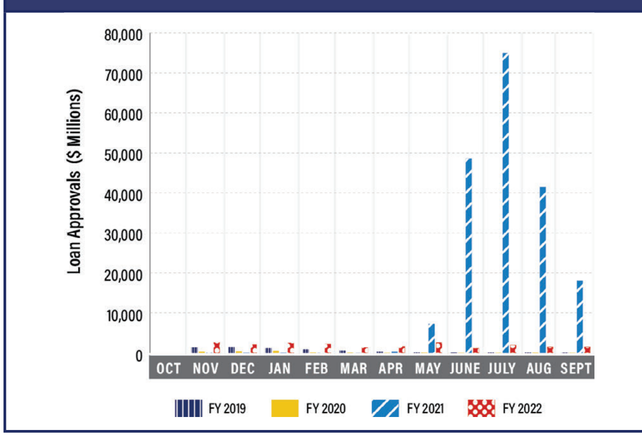


CY = calendar year.

New Direct Loans

In FY 2022, the SBA's gross approvals for the Disaster Assistance loan program continued to grow by 48 percent to $36.7 billion against an FY 2021 total of 24.7 billion. In FY 2022, the EIDL program continued to contribute to the overall increase in disaster lending as compared to the pre-pandemic period. **Chart IV** illustrates the relative sum of disaster loans in FY 2022 by month, compared with the prior three fiscal years.

Chart IV: Monthly Gross Disaster Assistance Loan Approvals



FY = fiscal year.

11 U.S. Department of Commerce, Bureau of Economic Analysis: www.bea.gov/newsreleases/glance.htm.
12 U.S. Department of Labor, Bureau of Labor Statistics: www.bls.gov/cpi/home.htm.
13 U.S. Department of Labor, Bureau of Labor Statistics: data.bls.gov/timeseries/LNS14000000.
14 Nonsmall businesses are firms that have more than 500 employees. https://www.fdic.gov/analysis/quarterly-banking-profile/index.html.
15 https://www.fdic.gov/bank/statistical/stats/.

Aside from the FY 2020–2021 COVID EIDL loans, most of the Disaster Assistance loan portfolio's outstanding balance includes 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 2009. Delinquency rates for the Agency's major loan programs followed this national downward trend. Delinquency rates for the 7(a) loan program declined from the 3.8 percent peak in January 2009 to 0.84 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 0.9 percent in February 2020.

The CARES Act provided pandemic 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 zero percent in the last six months of FY 2020. With the expiration of CARES Act funds, both programs have seen more variability in the delinquency rate during FY 2021–2022.

As of July 2022, the average FY 2022 year-to-date (YTD) 7(a) delinquency rate of 0.56 percent is slightly below the FY 2021 average delinquency rate of 0.64 percent. The 7(a) rate remained low throughout FY 2022, staying below one percent every month and generally trending down each month of the fiscal year.

Monthly 504 delinquency rates increased and experienced greater variability in FY 2021, peaking at 3.4 percent in September. In FY 2022, the delinquency rate trended downward throughout the fiscal year. The average FY 2022 YTD 504 delinquency rate of 1.6 percent is significantly below the FY 2021 average delinquency rate of 2.1 percent. The SBA will continue to monitor the variability and level of 504 delinquency rates closely post-CARES Act.

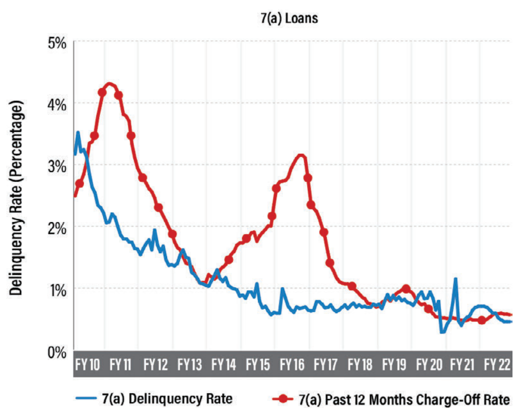
Portfolio Performance — Charge-Offs

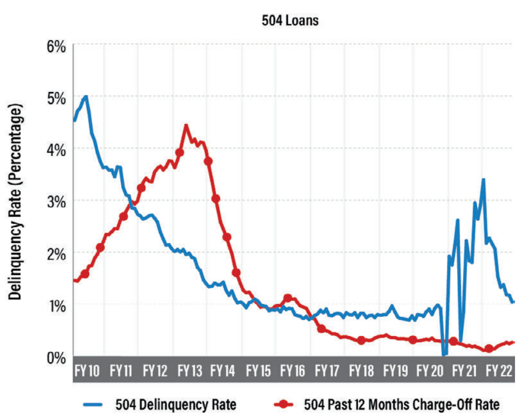
The 12-month charge-off rate for the 7(a) loan program sharply declined between FY 2010–2013, falling from 4.3 percent in the fourth quarter of 2010 to 1.2 percent in the third quarter of 2013. The rate increased but ultimately decreased in July 2022 to 0.6 percent (see **Chart V**). The 7(a) loans not sold on the secondary market become a charge-off after all efforts to recover a delinquent balance were 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 again closely trends with the delinquency rate in FY 2022.

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 2022. 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, but as of July 2022, it does not yet appear to be a factor.

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





FY = fiscal year.

FORWARD LOOKING ANALYSIS

The SBA works to equip America's nearly 33 million small businesses and innovative startups with the tools, resources, and support they need to start, expand, recover, and navigate the aftereffects of the COVID-19 pandemic. The SBA continues to administer and provide oversight for programs implemented to reduce the pandemic's impacts on small businesses and reimagine the Agency's service delivery in virtual and hybrid spaces while improving access for underserved populations. The following areas serve as both challenges and opportunities that factor into the SBA's strategies for delivering on outcomes and using taxpayer resources efficiently. The Agency will continue to review these factors as it implements its programs to ensure optimal performance.

Pandemic Recovery, Business Adaptation, and Economic Recovery

While SBA support was crucial to saving small businesses and fueling their recovery, many businesses continue to feel the effects of ongoing economic change. As the Nation's economy moves through post-pandemic recovery, small businesses and entrepreneurs continue to negotiate fluctuations in consumer habits, workforce shortages, real estate costs, supply chain disruptions, natural disasters and other disruptors that inhibit small business stability and growth. The SBA can help businesses and entrepreneurs adapt to new market forces through increased access to capital, government contracting opportunities, technical assistance, and disaster recovery. Small business growth and stability is a key factor in job creation and heathy communities.

Millions of small businesses received government support during the pandemic, and the SBA will continue helping businesses build resilience, create jobs, and increase revenues as challenges and volatile conditions in the market remain. Rising inflation has challenged businesses to increase prices or decrease staff, and reduced profits stand in the way of continued growth. Access to capital is a critical element for small businesses to mitigate disruptions and become more robust. The SBA continues to assist small businesses in recovering and growing in the new normal, and it will continue to invest in business innovation and in supporting innovative start-ups as part of its comprehensive programming to support a healthy business ecosystem and entrepreneurs.

Climate Crisis

A natural disaster can destroy lives, businesses, and communities. Moreover, natural disasters have become more intense and more costly. In 2021, the U.S. experienced 20 separate billion-dollar weather and climate disaster events, second only to the record 22 separate billion-dollar events in 2020.[16] 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. Research shows that for every $1 spent on hazard mitigation, up to $6 in future disaster recovery costs are saved.[17] In 2022, the SBA spotlighted the promotion of its disaster mitigation loan option through an Agency Priority Goal to drive increased awareness of this mitigation option and encourage businesses and homeowners to invest in their own preparedness. By financing property improvements that help prevent future damage caused by flooding, fires, severe winds, or other natural disasters, businesses and homeowners can proactively reduce the impact of future disasters and shorten recovery time when disasters do occur. The SBA continues to modernize its response in communities that have experienced a natural disaster event by updating technology and streamlining its ability to onboard staff.

In addition to the Disaster Assistance program, the SBA is responding to Executive Order 14057 *Catalyzing Clean Energy Industries and Jobs through Federal Sustainability* by prioritizing resources for the operation and procurement of electric vehicles and associated charging infrastructure. The Agency will only replace vehicles from the existing fleet when necessary, to accomplish the transition to a motor vehicle fleet of clean and zero-emission vehicles.

Technology and Automation

As small businesses experienced a rapid evolution of technology and automation during the COVID-19 pandemic, the SBA undertook significant programmatic improvements across the Agency. These initiatives have scaled the use of technology and prioritized customer experience and increased access for minority and disadvantaged small business

16 https://www.climate.gov/news-features/blogs/beyond-data/2021-us-billion-dollar-weather-and-climate-disasters-historical
17 Source: National Institutes for Building Sciences, 2018.

populations. Virtual training platforms and online tools allow the SBA to reach further into communities and reduce barriers to services for previously underserved populations. Not all entrepreneurs have access to broadband internet services, and some face challenges connecting to resources. The SBA will continue adapting and developing new platforms to reach entrepreneurs in emerging markets. The Agency will continue to streamline processes, increase accessibility, and deliver broad equitable support across programs to more communities and entrepreneurs who have faced historic barriers to small business ownership.

A Changing Federal Workforce

The federal workforce landscape continues to evolve as persistent challenges, such as a growing percentage of Agency employees eligible for retirement, meet with new planning efforts for the future of work and workplace modernization. Over the past two and half years, the SBA has increased workplace flexibilities for employees, including remote work and telework when appropriate. The SBA will determine how to reconfigure its physical workplaces in alignment with position distribution (i.e., remote work, telework, and onsite) models to help eliminate unused space and identify annual cost savings.

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 SBA needs a workforce that is representative of the public it serves and that 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 necessary tools and resources, the Agency will be able to better support America's small businesses.

ANALYSIS AND HIGHLIGHTS OF FINANCIAL STATEMENTS AND RESULTS

Highlights of Financial Results (as of September 30)

(Dollars in Thousands)

At End of Fiscal Year	2022	2021	$ Change
CONDENSED BALANCE SHEET DATA			
Fund Balance with Treasury	$ 56,225,809	$ 316,852,301	$ (260,626,492)
Credit Program Receivables and Related Foreclosed Property, Net	321,528,158	245,445,095	76,083,063
All Other Assets	258,398	120,285	138,113
Total Assets	**$ 378,012,365**	**$ 562,417,681**	**$ (184,405,316)**
Debt	362,801,468	262,654,877	100,146,591
Downward Reestimate Payable to Treasury	5,591,451	11,742,037	(6,150,586)
Loan Guaranty Liability	25,708,234	227,831,513	(202,123,279)
All Other Liabilities	1,022,450	1,310,636	(288,186)
Total Liabilities	**395,123,603**	**503,539,063**	**(108,415,460)**
Unexpended Appropriations	10,558,338	69,132,143	(58,573,805)
Cumulative Results of Operations	(27,669,576)	(10,253,525)	(17,416,051)
Total Net Position	**(17,111,238)**	**58,878,618**	**(75,989,856)**
Total Liabilities and Net Position	**$ 378,012,365**	**$ 562,417,681**	**$ (184,405,316)**
For the Fiscal Year			
STATEMENT OF NET COST BY STRATEGIC GOAL			
Goal 1: Ensure Equitable and Customer-Centric Design and Delivery of Programs to Support Small Businesses and Innovative Startups	$ (1,052,501)	$ 22,325,528	$ (23,378,029)
Goal 2: Build Resilient Businesses and a Sustainable Economy	47,877,837	322,741,620	(274,863,783)
Goal 3: Implement Strong Stewardship of Resources for Greater Impact	150,014	1,184,918	(1,034,904)
Costs Not Assigned	121,599	31,487	90,112
Net Cost of Operations	**$ 47,096,949**	**$ 346,283,553**	**$ (299,186,604)**
CONDENSED STATEMENT OF NET POSITION			
Beginning Unexpended Appropriations	$ 69,132,143	$ 183,460,572	$ (114,328,429)
Total Budgetary Financing Sources	(58,573,805)	(114,328,429)	55,754,624
Ending Unexpended Appropriations	**$ 10,558,338**	**$ 69,132,143**	**$ (58,573,805)**
Beginning Cumulative Results of Operations	$ (10,253,525)	$ (3,982,600)	$ (6,270,925)
Total Financing Sources	29,680,898	340,012,628	(310,331,730)
Less: Net Cost of Operations	47,096,949	346,283,553	(299,186,604)
Ending Cumulative Results of Operations	**$ (27,669,576)**	**$ (10,253,525)**	**$ (17,416,051)**
Ending Net Position	**$ (17,111,238)**	**$ 58,878,618**	**$ (75,989,856)**
CONDENSED STATEMENT OF BUDGETARY RESOURCES			
Unobligated Balance Brought Forward	$ 295,788,920	$ 699,661,256	$ (403,872,336)
Other Budgetary Resources, Net	-	3,120,760	(3,120,760)
Appropriations (discretionary and mandatory)	(22,774,310)	236,667,028	(259,441,338)
Borrowing Authority (discretionary and mandatory)	113,703,268	93,935,801	19,767,467
Spending Authority from Offsetting Collections	33,315,840	313,734,004	(280,418,164)
Total Budgetary Resources	**$ 420,033,718**	**$ 1,347,118,849**	**$ (927,085,131)**
Obligations Incurred, Budgetary	$ 35,455,067	$ 348,440,145	$ (312,985,078)
Obligations Incurred, Nonbudgetary	340,161,321	699,531,213	(359,369,892)
Unobligated Balances, Available and Unavailable	44,417,330	299,147,491	(254,730,161)
Total Status of Budgetary Resources	**$ 420,033,718**	**$ 1,347,118,849**	**$ (927,085,131)**

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 Generally Accepted Accounting Principles (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 FY 2022, the SBA continued to support the recovery of the American economy from the COVID-19 pandemic. The American Rescue Plan (ARP) Act established the Restaurant Revitalization Fund (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 if funds are used for eligible uses no later than March 11, 2023. 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 $420.0 billion 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 liability for loan guaranties 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.

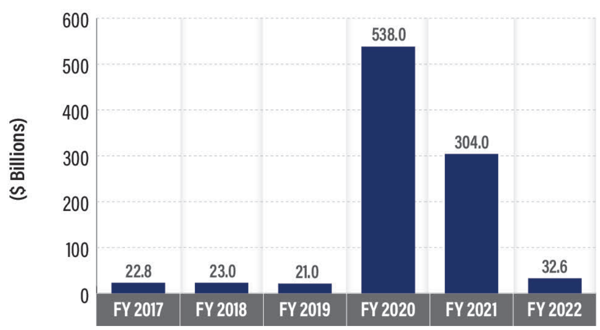
The credit subsidy cost is the net present value of expected cash inflows and outflows over the life of a guarantied loan or the difference between the net present value of expected cash flows and the face value of a direct loan. The SBA receives budget authority annually to fund its credit programs. 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 $163.8 billion as of September 30, 2022, a decrease of $271.5 billion from the $435.3 billion guaranteed as of September 30, 2021, (see Note 6.C in the financial statements). As shown in **Chart VI**, new guaranties disbursed by the SBA participating banks during FY 2022 were $32.6 billion, a $271.4 billion decrease compared to the FY 2021 figure of $304.0 billion.

Chart VI: Guarantied Loans Disbursed

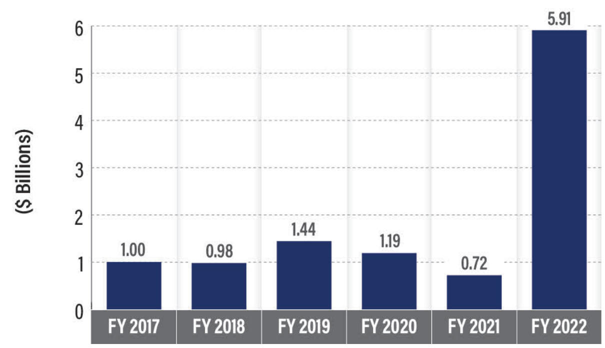


FY = fiscal year.

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 the Treasury, whereas decreases are returned to the 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 $321.5 billion in FY 2022, an increase of $76.1 billion from FY 2021. The change in the credit program receivables resulted from an increase of $117.8 billion in direct disaster loans as a direct result CARES Act funded loans. As reflected in **Chart VII**, guarantied loan purchases increased $5.1 billion in FY 2022 to $5.9 billion.

Chart VII: Purchases of Guarantied Loans



FY = fiscal year.

Financial Position

Assets

The SBA had total assets of $378.0 billion at the end of FY 2022, down $184.4 billion from FY 2021. Total assets decreased due to a $260.6 billion decrease in Fund Balance with Treasury combined with a $76.1 billion increase in Credit Program Receivables and Related Foreclosed Property.

Liabilities

The SBA had total liabilities of $395.1 billion at the end of FY 2022, down $108.4 billion from FY 2021. Liabilities consist primarily of the Principal Payable to the Bureau of the Fiscal Service, Loan Guarantee Liabilities, and Downward Reestimate Payable to Treasury.

The Principal Payable to the Bureau of the Fiscal Service increased $100.1 billion in FY 2022 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 Loan Guarantee Liabilities 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 Loan Guarantee Liabilities for each loan program cohort is reestimated annually. Increases are funded by the Treasury while the Agency returns the decreases to the Treasury. The Loan Guarantee Liabilities decreased $202.1 billion primarily due to a decrease in current year subsidy, loan modifications, and subsidy reestimates offset by an increase in miscellaneous recoveries. Note 6.E in the financial statements provides additional detail.

The Downward Reestimate Payable to Treasury decreased $6.2 billion in FY 2022. The decrease was a direct result of overall changes within guarantied Loan program reestimates, compared with the Payroll Protection Program which had a downward reestimate of $2.7 billion in FY 2022. The reestimate is mostly due to fewer forgiveness payments processed in FY 2022 than anticipated for both the 2020 and 2021 cohorts. This led to a decline in the forecasted lifetime forgiveness amount as a percentage of disbursements for both cohorts. The lower lifetime forgiveness rate estimate is partially offset by an increase in forecasted defaults for the 2020 and 2021 cohorts. Note 6.I in the financial statements provides additional detail.

Net Position

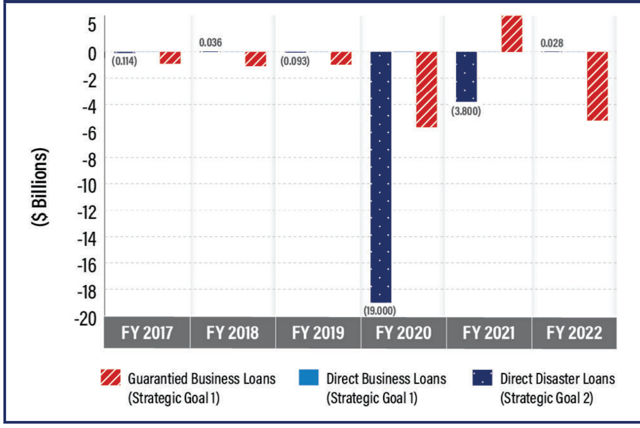
Cumulative Results of Operations is the accumulative difference between expenditures and financing sources since the inception of the Agency. This negative balance increased $17.4 billion primarily because unfunded upward subsidy reestimates at year-end for the Paycheck Protection Program was lower for FY 2022 compared with FY 2021, while 7(a) loan and disaster loan programs were higher. Upward subsidy reestimates determined at year-end are funded in the following year when they are received.

Unexpended Appropriations decreased $58.6 billion this year primarily because the amount of appropriations received and expended was less than the appropriations received and expended in FY 2022 for business, disaster, and administrative activities combined with a rescission of $35.5 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. Net reestimates for the business loan programs were downward in FY 2022 compared to the net upward reestimate in FY 2021, 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 2022. The PPP program had a net downward reestimate of $2.73 billion for FY 2022 and is attributable fewer forgiveness payments processed in FY 2022 than anticipated for both the 2020 and 2021 cohorts. The net downward reestimate in the 7(a) program of $1.7 billion is mostly due to better than projected actual loan performance in FY 2022. 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



FY = fiscal year.

The Disaster Assistance program had a net upward reestimate of $28.0 billion in FY 2022 compared to $3.8 billion downward reestimate in FY 2021. The upward reestimate is primarily due to higher projected loss rates for COVID EIDL loans. The higher projected loss rates are primarily due to lower expected recovery rates on defaulted small dollar loans as well as higher assumed defaults. 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 2022, Total Budgetary Resources decreased from $1.3 trillion in FY 2021 to $420.0 billion in FY 2022. This decrease was primarily due to a decrease in appropriations and spending authority from offsetting collections as well as other factors shown in the Highlights table and following discussion.

Appropriations (discretionary and mandatory) decreased $259.4 billion in FY 2022 because of the year over year decrease in appropriations to fund CARES Act programs. Borrowing Authority increased $19.8 billion in FY 2022 due to an increase in borrowing needed to cover disaster loan making. Spending Authority from Offsetting Collections decreased $280.4 billion in FY 2022. This decrease is primarily attributable to a decrease in the amount of subsidy collected in business.

Status of Budgetary Resources

The Total Status of Budgetary Resources decreased $927.0 billion in FY 2021 to $420.0 billion in FY 2022. Nonbudgetary obligations decreased by $359.4 billion, mainly resulting from the PPP forgiveness payments, PPP fees, and increased downward reestimates for both disaster and business programs. Budgetary obligations decreased $313.0 billion largely due to decreased subsidy obligations for the business subsidy associated with the PPP program.

Unobligated balances as of September 30, 2022 and 2021, were $44.4 billion and $299.1 billion, which included $28.2 billion and $6.4 billion of unavailable unobligated balances, respectively. These balances were unavailable because they were unapportioned by the OMB. The SBA accumulates the majority of unobligated balances in its nonbudgetary financing accounts ($35.6 billion in FY 2022 and $234.2 billion in FY 2021) 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 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 at 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 provides training and tools 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 the internal control framework prescribed in GAO's *Standards for Internal Control in the Federal Government*, known as the Green Book.

The SBA Senior Management Council (SMC) was established to oversee the Agency's internal control system. The SMC is chaired by the Deputy Chief Financial Officer and 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 2022 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.

In 2022, the SBA continued to execute the methodology prescribed to address the pandemic programs created by new legislation. The methodology applied to all programs established by the Coronavirus Aid, Relief, and Economic Security Act (CARES), Economic Aid Act, and American Rescue Plan Act (ARPA). The Agency worked with applicable program offices to conduct risk assessments for the 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 to identify deficiencies for remediation. Risk assessments will continue in FY 2023 for programs that exceed the materiality threshold.

Furthermore, the SBA continued with the development and execution of the FY 2022 Annual Assessment Plan. Internal control assessments were conducted for the Shuttered Venue Operator Grant (SVOG) program, the Restaurant Revitalization Fund (RRF), the Community Navigator Pilot Program (CNPP), Fresno Commercial Loan Servicing Center, Disaster Loans-Santa Anna, and Entity Level Controls. To continue supporting the implementing new programs, end-to-end process documentation was developed to highlight key processes and controls.

The FY 2021 Financial Statement Audit identified weaknesses and deficiencies that required corrective actions. The SBA worked with responsible officials to develop corrective actions and process documentation to support the remediation of existing deficiencies. The remediation efforts resulted in improvements, and internal controls continue to evolve since the inception of new COVID-19 and ARPA-related programs. The Agency has collaborated with program offices to support the remediation of corrective actions and implement new controls related to Section 1112 payments, the PPP loan review process, PPP Loan Forgiveness, SVOG, and RRF. Efforts will continue beyond FY 2022 until remediation is complete.

The SBA's Enterprise Risk Management (ERM) Board, which is chaired by the Deputy Administrator and/or Chief of Staff, brings together senior leadership on a monthly basis from the SBA's major program and support offices to discuss the management of the agency's top risks and share risk management best practices. The Office of Continuous Operations and Risk Management (OCORM) facilitates the ERM Board meetings and is responsible for implementing ERM agency wide. The SBA took several steps to strengthen risk and fraud efforts: established an anti-fraud entity responsible for oversight and coordination of SBA's fraud risk prevention, detection and response activities, integrated the ERM process for identifying and managing risks with the strategic planning process, conducted an ERM maturity assessment, developed an agency-wide fraud risk assessment tool to assess Agency programs and operations, and, as directed by OMB, approved the agency-wide risk profile that identified cross-cutting risks related to fraud, technology, and operations. The SBA delivers enterprise level cybersecurity and privacy services that empower the Agency to better support the small business community through robust yet flexible processes and mechanisms. This strategy produces measurable results, such as a 67 percent increase in the SBA's FISMA maturity rating over a multiyear period (1.8/5 in FY 2018 to 3.0/5 in FY 2021). In FY 2022, the Agency saw a decrease in its overall FISMA maturity rating to 2.58. There were multiple factors for this decline, the most significant being the change in evaluation criterion levied on agencies across the Federal Government, with little or no time to prepare before evaluation commencement. This caused a notional decrease in FISMA Maturity scores across the Federal Government.

The SBA will incorporate the changes derived from the new evaluation criterion and continue developing its cybersecurity program in the areas of configuration management, cybersecurity training, asset management, vulnerability management, supply chain risk evaluation and management, red team penetration testing, network segmentation, Dev/Sec/Ops, risk quantification, and automation of controls assessments.

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 2022 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.[18]

SBA financial systems continued to process a high volume of transactions this fiscal year, processing 4.8 million payments and 32 million General Ledger transactions primarily to support the various programs providing pandemic emergency relief resources for America's small businesses. Earlier in the year, the Agency focused on improvements and enhancements for disbursements of the various pandemic programs. In the latter part of FY 2022, the SBA focused on improving the collections processes for the anticipated repayments.

The SBA 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 addition, the Agency has worked closely with the Quality Service

18 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 Office (QSMO) for Financial Management at the U.S. Treasury as they establish a marketplace for financial systems to be utilized by agencies for modernization efforts. The SBA also worked with the QSMO for Grants Management at the U.S. Department of Health and Human Services (HHS) to integrate the SBA's financial system with the HHS Grant Solutions system. These efforts align with the goal stated in OMB Memorandum M-19-16 to effectively and efficiently deliver centralized mission support functions for agencies.

The SBA continued to take 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 SBA's Chief Data Officer supported the program offices with leveraging financial data and utilizing data analytics to meet the goals of the agency's Fraud Risk Management action plan.

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 System* — This SBA-built system supports the lifecycle of loan guarantee processing, loan program funds control, management and accounting for loan servicing, and loan-related expenses.
- *Financial Management System* — This SBA-built system consolidates administrative and loan activity, manages cash and control funds, and supports financial reporting.

Management Assurances: FMFIA and FFMIA Assurance Statement for FY 2022

The Small Business Administration continued to strengthen its internal controls over core and COVID-related programs and operations during FY 2022. 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 has advanced a strong framework to achieve this end, its independent auditor issued a disclaimed opinion on the Agency's FY 2022 Consolidated Balance Sheet and reported material weaknesses in internal controls. Although the SBA believes its efforts to develop and implement controls in FY 2022 for its COVID-related programs have remediated material weaknesses identified from the FY 2021 audit, the SBA will continue to work closely with the Office of the Inspector General and its auditor to further resolve findings next year. Further, the SBA has provided responses outlining proposed corrective actions for remediation of identified deficiencies to the auditor.

The SBA's management team manages risks and maintains 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*. SBA managers issued assertions to me as to the status of the FY 2022 internal controls in their areas of responsibility. These assertions were supported by internal testing, checklists, and other management reviews.

FMFIA section 2 requires Agency heads to 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, 2022, as the internal controls over operations, reporting, and compliance with applicable laws and regulations operated effectively except for certain controls noted below. The SBA developed and implemented controls to remedy the material weaknesses identified in the FY 2021 audit, but the material weaknesses remain because of the timing of SBA's corrective action plan implementation which did not cover the entire FY for 2022. The FY 2022 audit identified material weaknesses in the following areas:

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

In addition, 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 substantially comply 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 is providing a modified assurance that its financial management systems substantially comply with FFMIA for FY 2022.

The SBA remains committed to ensuring it achieves its mission by supporting critical programs with strong controls and accountability. The agency is working diligently to evaluate identified material weaknesses and non-conformances to make further adjustments necessary to bring its programs into compliance.

Isabella Casillas Guzman
Administrator
November 15, 2022

Summary of Material Weaknesses

1. **Controls over Paycheck Protection Program (PPP) Loan Guarantees Need Improvement** – The auditor identified deficiencies in the PPP loan forgiveness review, loan reporting, and purchases process. Specifically, the auditor identified deficiencies in: (a) the design and implementation of controls to ensure PPP loan guarantees were completely and accurately reviewed (b) controls were designed and implemented to ensure the status of PPP loan guarantees were complete and accurate, and (c) a comprehensive loan process for PPP purchases. The SBA continues to implement a Corrective Action Plan (CAP) that includes the implementation of the Paycheck Protection Program Loan Review Plan with a detailed review process to ensure the PPP Loans are accurately designed, implemented, and reported.

2. **Controls over COVID-19 Economic Injury Disaster Loans (EIDLs) and Grants Need Improvement** – The auditor identified deficiencies in the design and implementation of controls related to COVID-19 EIDL. Specifically, the auditor determined the SBA did not design and implement adequate controls to ensure the SBA provided loans to eligible borrowers and accurately recorded. The SBA will ensure procedures for the COVID EIDL servicing incorporate a comprehensive review process that includes how it identified, tracked, resolved, loans and funds that are returned to the SBA are managed. In addition, the SBA will conduct an internal control assessment to determine the controls in place are properly designed and operating effectively.

3. **Controls over the Subsidy Reestimate Need Improvement** – The auditor identified deficiencies in the design and implementation of controls over the review of the data inputs used in the (a) PPP Reestimate and (b) Disaster Reestimate models. The SBA will continue to implement a Corrective Action Plan (CAP) that will include a repeatable 1502 impact analysis that considers the expected impacts of 1502 reports. For Disaster Reestimate, the SBA will further consider any adjustments needed as a result of additional information available for the year-end reestimate calculation. The SBA will document any adjustments to the methodology in updated Disaster reestimate Model Overview and Disaster and COVID EIDL Assumption Development memos.

4. **Controls over the Evaluation of Service Organizations Need Improvement** – The auditor identified deficiencies in the SBA obtaining 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 related to (a) Service organizations used for COVID-19 EIDLs and Grants and (b) Service Organizations Used for Loan Guarantee Programs. Specifically, SBA did not provide evidence of adequate monitoring activities performed over the relevant internal control environment at Rapid Finance, such as obtaining and reviewing an assurance report. In addition, management did not provide evidence as to whether there are adequate user entity controls designed, implemented, and operating effectively that complement Rapid Finance's controls. Additionally, SBA was unable to provide evidence of adequate monitoring activities performed over the relevant internal control of Summit platform's control environment, such as obtaining and reviewing an assurance report. In addition, management did not provide evidence as to whether there are adequate user entity controls designed, implemented, and operating effectively that complement Summit Platform controls. SBA will develop a System and Organization Controls (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 Accounting and Monitoring of Restaurant Revitalization (RRF) and Shuttered Venues Operators Grant (SVOG) Programs Need Improvement** – The auditor determined that SBA did not ensure it designed and implemented adequate controls to ensure that it approved and dispersed RRF and SVOG awards to eligible borrowers in conformance with the related legislation and program terms. The SBA is reviewing RRF awards to confirm eligibility and use of funds compliance. This will include all RRF Awards with a flagged PPP loan. The SBA will continue to send email reminders to RRF Award recipients to ensure they are aware of the mandatory reporting requirements. The SBA will determine the appropriate plan for recovering the funds from recipients who did not report their use of RRF funds or from those deemed ineligible.

6. **Entity Level Controls Need Improvement** – The auditor determined the SBA did not adequately maintain its entity level controls to ensure reliable and accurate financial reporting is produced. The auditor identified deficiencies related to (a) risk assessments and (b) monitoring. Specifically, the SBA did not design and implement an effective risk assessment and monitoring process. In FY2023, the SBA will develop and implement a plan to assess high risk programs. Additionally, the SBA will continue to perform a significant programs identification analysis quarterly for the purpose of identifying, early in the fiscal year, programs that might prove significant to the financial statements at year-end. The SBA will engage and communicate with the program offices early to assess, monitor, and address identified risks and associated controls and the effects on financial reporting and compliance with relevant laws and regulations.

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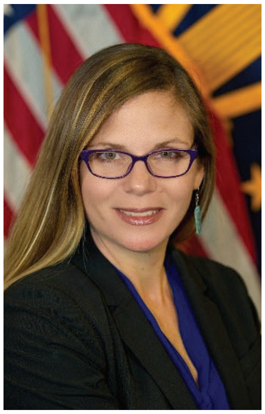
Section 2

Financial Reporting (Unaudited)

MESSAGE FROM THE CHIEF FINANCIAL OFFICER



November 15, 2022

I am pleased to issue the SBA's FY 2022 Agency Financial Report as of September 30, 2022. 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.

In FY 2022, the SBA continued to respond to the COVID-19 pandemic and implement stimulus legislation to mitigate its impact. The pandemic led to a significant federal response that continued this year. The ongoing execution of CARES Act programs, in addition to programs implemented under the auspices of the Economic Aid Act and the American Rescue Plan Act, were essential in saving millions of jobs and helping small businesses stay open. In alignment with the SBA's mission statement and goals to facilitate the vitality of small businesses and strengthen the economic recovery of communities after disasters, the Agency has issued its FY 2022–2026 Strategic Plan to further the Administration's vision to help all entrepreneurs achieve their dreams.

The SBA continued to focus on protecting the economy while strengthening controls to prevent fraud, waste, and abuse. During FY 2022, the Agency implemented the Fraud Risk Management Board (FRMB), a governing body that serves as the SBA's anti-fraud entity. The FRMB has made significant progress through the performance of fraud risk assessments of key programs and the development of a fraud risk management strategy that will guide the maturity of the Agency's fraud risk management program. In addition, the Agency has documented process for new programs and implemented new controls to prevent fraud and strengthen the reliability of the values presented in the Agency's financial statements. The Agency understands implementation and oversight of these significant efforts are crucial to ensuring taxpayer dollars are appropriately awarded.

The SBA continues to work towards improving its audit outcomes through collaborative partnerships across the Agency along with a forward leaning strategy that prioritizes the most critical corrective action needs and optimizes resources.

I look forward to supporting the mission of the SBA and sharing those achievements next year. I also thank the dedicated SBA team that achieved these great successes and developed the FY 2022 Agency Financial Report.

Sincerely,

Kate Aaby
Associate Administrator for Performance, Planning, and the Chief Financial Officer

INSPECTOR GENERAL’S AUDIT REPORT

Office of Inspector General

U.S. Small Business Administration

MEMORANDUM

DATE: November 15, 2022

TO: Isabella Casillas Guzman
Administrator

FROM: Hannibal “Mike” Ware
Inspector General

SUBJECT: Independent Auditors’ Report on SBA’s Fiscal Year 2022 Financial Statements (Report 23-02)

I am pleased to present the attached independent auditors’ report on the U.S. Small Business Administration’s (SBA) financial statements for fiscal year (FY) 2022, 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, 2022 and 2021, and the related notes to these statements. Our contract with KPMG required that the audit be performed in accordance with auditing standards generally accepted in the United States of America, Government Auditing Standards issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Bulletin No. 22-01, Audit Requirements for Federal Financial Statements.

KPMG’s responsibility was to express an opinion on the consolidated balance sheets based on their audit. KPMG was not engaged to audit the consolidated statements of net cost and changes in net position, and combined statements of budgetary resources for the years ended September 30, 2022 and 2021, and the related notes to these statements.

In the audit, KPMG reported significant matters for which they were unable to obtain sufficient and appropriate audit evidence to provide a basis for an audit opinion on SBA’s balance sheet as of September 30, 2022. Accordingly, KPMG issued a disclaimer of opinion on the consolidated balance sheets as of September 30, 2022 and 2021.

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 Paycheck Protection Program, Economic Injury Disaster Loan program, the Restaurant Revitalization Fund, and Shuttered Venue Operators Grant program.

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

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- Credit Program Receivables and Related Foreclosed Property, Net
- Other than Intragovernmental Advances and Prepayments
- Downward Reestimate Payable to Treasury
- Loan Guarantee Liabilities

For the period ended September 30, 2022, KPMG identified six material weaknesses and two significant deficiencies in internal control 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 with applicable laws or other matters required to be reported under Government Auditing Standards or OMB Bulletin No. 22-01.

In connection with the contract, we reviewed KPMG's report and related documentation and inquired of its representatives. Our oversight protocols included evaluation of major work products, attendance at critical meetings, review of significant findings and examination of related evidential matter. 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. Our review disclosed no instances where KPMG did not comply in all material respects with U.S. generally accepted government auditing standards. KPMG is responsible for the attached auditors' report dated November 15, 2022, and the conclusions expressed. However, OIG provides negative assurance of this audit.

We provided a draft of KPMG's report to SBA's Chief Financial Officer, who concurred with its findings and recommendations and agreed to implement the recommendations. SBA remains committed to excellence in financial management and looks forward to furthering progress in the coming year. The Chief Financial Officer's response is included in Appendix IV.

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: Arthur Plews, Chief of Staff
Peggy Delinois Hamilton, Special Counsel for Enterprise Risk
Katherine Aaby, Associate Administrator, Office of Performance, Planning, and the Chief Financial Officer
Patrick Kelly, Associate Administrator, Office of Capital Access
John Miller, Deputy Associate Administrator, Office of Capital Access
Erica Gaddy, Deputy Chief Financial Officer, Office of Performance, Planning, and the Chief Financial Officer
Joshua Barnes, Recovery Director, Office of Disaster Assistance
Therese Meers, General Counsel
Michael Simmons, Attorney Advisor, Office of General Counsel
Tonia Butler, Director, Office of Internal Controls

Attachment

INDEPENDENT AUDITORS' REPORT ON FY 2022 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 Audit of the Consolidated Financial Statements

Disclaimer of Opinion

We were engaged to audit the consolidated balance sheets of the United States (U.S.) Small Business Administration (SBA) as of September 30, 2022 and 2021, and the related notes to the consolidated balance sheets (the consolidated financial statements).

We do not express an opinion on the accompanying consolidated financial statements of the SBA. Because of the significance of the matter described in the Basis for Disclaimer of Opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the consolidated financial statements.

Basis for Disclaimer of Opinion

During fiscal year 2022, SBA continued to execute provisions of the Paycheck Protection Program and Economic Injury Disaster Loan programs, and the Restaurant Revitalization Fund and Shuttered Venues Operators Grant programs that were authorized by the Coronavirus Aid, Relief, and Economic Security Act of 2020 and related legislations. 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 this matter, we were unable to determine whether any adjustments might have been necessary related to Credit Program Receivables and Related Foreclosed Property, Net; Other than Intragovernmental Advances and Prepayments; Downward Reestimate Payable to Treasury; and Loan Guarantee Liabilities.

Other Matter – Report on Certain Fiscal Year 2022 and 2021 Information

We were not engaged to audit the consolidated statements of net cost and changes in net position, and combined statements of budgetary resources for the years ended September 30, 2022 and 2021, and the related notes to these statements. Accordingly, we express no opinion on them.

Other Matter - Interactive Data

Management has elected to reference to information on websites or other forms of interactive data outside the 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.

KPMG

Responsibilities of Management for the Consolidated Financial Statements

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our responsibility is to conduct an audit of the SBA's consolidated financial statements in accordance with auditing standards generally accepted in the United States of America (GAAS), *Government Auditing Standards,* and Office of Management and Budget (OMB) Bulletin No. 22-01, *Audit Requirements for Federal Financial Statements*, and to issue an auditors' report. However, because of the matter described in the Basis for Disclaimer of Opinion section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these consolidated financial statements.

We are required to be independent of the SBA and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit.

Required Supplementary Information

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

Report on Internal Control Over Financial Reporting

In connection with our engagement to audit the SBA's consolidated balance sheet as of September 30, 2022, we considered the SBA's internal control over financial reporting (internal control) as a basis for designing audit 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 the SBA's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 were not identified. However, as described in the accompanying Appendices I and II, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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

KPMG

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.

Report on Compliance and Other Matters

In connection with our engagement to audit the SBA's consolidated balance sheet as of September 30, 2022, 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 balance sheet. However, providing an opinion on compliance with those provisions was not an objective of our engagement, 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. 22-01, and which are described in Appendix III.

We also performed tests of the 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, and accordingly, we do not express such an opinion. The results of our tests disclosed instances in which the 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 the SBA's financial management systems did not substantially comply with the United States Government 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 consolidated financial statements, other instances of noncompliance or other matters may have been identified and reported herein.

SBA's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the SBA's response to the findings identified in our engagement and described in Appendix IV. The SBA's response was not subjected to the other auditing procedures applied in the engagement to audit the consolidated financial statements and, accordingly, we express no opinion on the response.

Purpose of the Reporting Required by Government Auditing Standards

The purpose of the communication described in the Report on Internal Control Over Financial Reporting and the Report on Compliance and Other Matters sections is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the SBA's internal control or compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Washington, DC
November 15, 2022

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) 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 Fund (RRF) and Shuttered Venues Operators Grant (SVOG) 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) Reporting of PPP Loan Guarantees, (B) Forgiveness Review of PPP Loan Guarantees, and (C) Purchases 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; (B) Service Organizations Used for Loan Guarantee Programs; and (C) Service Organization Used for the SVOG Program.

During fiscal year 2022, SBA continued to implement provisions of the PPP, COVID-19 EIDLs, RRF, and SVOG programs. These programs were authorized and funded by the Coronavirus Aid, Relief, and Economic Security Act of 2020, the Paycheck Protection Program and Health Care Enhancement Act, the Economic Aid to Hard-Hit Small Businesses, Nonprofits, and Venues Act, and the American Rescue Plan Act. The referenced laws from this point forward are collectively referred to as the CARES Act and related legislation. The CARES Act and related legislation were passed by Congress to provide emergency assistance in response to the extensive effects of the public health and economic crisis arising from the Coronavirus Disease 2019 (COVID-19) pandemic. In fiscal year 2022, SBA processed forgiveness and purchase payments for the 2020 and 2021 cohort of PPP loan guarantees, and continued to issue additional COVID-19 EIDLs, and RRF and SVOG program awards.

1. Controls over PPP Loan Guarantees Need Improvement

A. 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.

For fiscal year 2022, the average number of monthly, lender loan status reports for the 7(a) and PPP loan guarantee programs that had not been submitted or not processed was 16 percent and 9 percent, respectively, of the average active loans. Additionally, we tested a sample of 135 PPP loan guarantees and noted variances for 39 sampled items with the accuracy of the outstanding principal balance recorded by SBA and the confirmation response received from the respective lenders.

The deficiencies were caused by insufficient monitoring controls over the follow-up process performed for lender loan status reports that were not submitted, submitted incorrectly, or not processed and a lack of accountability over the lenders who do not submit loan status reports timely or correctly.

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

- 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
- 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 – Reporting of PPP Loan Guarantees</u>

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

1. Design and implement controls to ensure the population of nonreporting loan status reports or loan status reports with errors is complete and accurate.
2. Determine and enforce policies and controls to hold lenders accountable for submitting loan status reports timely and correctly.
3. Design and implement controls to monitor incomplete or inaccurate PPP lender loan status reports on an ongoing basis, including the review and resolution of loan status reports with errors.

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

4. Design and implement controls to assess the accounting considerations, based on the results of the lender loan status reports review process for PPP loan guarantees, including the impact on the reestimate and balances presented in the consolidated financial statements, and record any necessary adjustments.

B. Forgiveness Review of PPP Loan Guarantees

Management did not adequately design and implement controls to ensure 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. During fiscal year 2022, $167 billion of loan forgiveness payments were processed for loans determined by the contractor as 'No Further Action'.

In addition, SBA's process for the 2021 cohort of PPP loan guarantees did not identify and resolve a complete population of potential noncompliance flags. More specifically, SBA did not ensure the 2021 cohort of PPP loan guarantees 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 limited flags that were identified, SBA did not have a sufficient monitoring process implemented to ensure that lenders followed established procedures and adequately addressed the eligibility concerns raised for the limited number of flags identified by the case management system's automated screening.

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

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.

<u>Recommendations – Forgiveness Review of PPP Loan Guarantees</u>

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

5. Develop and enforce a policy and controls that require the adequate review, validation, and monitoring of the outputs of the case management system and maintenance of documentation evidencing the review.
6. 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 and maintenance of documentation evidencing the review.
7. Perform a thorough review of the 2021 cohort of PPP loan guarantees. 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.
8. Develop and document an effective funds recovery plan and controls to ensure funds disbursed to ineligible recipients as part of the forgiveness review process are recovered and reported accurately in a timely manner.

C. Purchases of PPP Loan Guarantees

Management did not adequately design and implement controls to ensure purchase requests of PPP loan guarantees were reviewed to verify that requesting lenders met the origination requirements prior to approving and disbursing the loan. There was not an approved, documented, comprehensive process implemented prior to purchase transactions being processed.

In addition, SBA performs a manual review of purchase requests of PPP loan guarantees with a subset of flags while all other requests are automatically approved and processed. There was not an adequate review of the determination of the subset of flags requiring manual review as 16 additional flags were added at the end of the fiscal year after purchase requests for PPP loan guarantees with those flags had already been processed.

Also, when determining which subset of flags would require a manual review for purchase requests, SBA determined the flags that may indicate lenders did not meet the origination requirements prior to approving and disbursing the PPP loan. However, SBA did not consider all guidance issued to lenders when determining the subset of flags that would require a manual purchase review and indicate that lenders did not meet origination requirements. Specifically, SBA did not consider the procedural notices issued to lenders to address the flags identified prior to approving the 2021 cohort of PPP loan guarantees.

The PPP loan guarantee purchases review process also relies on the identified flags from the case management system. However, management did not have adequate controls to ensure the completeness and accuracy of flags identified and resolved.

The deficiencies were caused by an inadequate risk assessment performed to ensure sufficient controls were designed and implemented for the review of PPP loan guarantee purchase transactions and a lack of policy and controls that require the adequate training, onboarding, and monitoring of lenders executing their responsibilities in the PPP loan origination 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 – Purchases of PPP Loan Guarantees

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

9. Perform a thorough and complete analysis of all requirements communicated to lenders for the PPP program and determine how to evaluate whether lenders met the requirements prior to disbursing a PPP loan. The analysis should include evidence to support the adequacy of SBA's review process when determining which purchase requests will require additional review.
10. Develop and document an effective funds recovery plan and controls to ensure funds disbursed to ineligible recipients as part of the purchases review process are recovered and reported accurately in a timely manner.

2. Controls over COVID-19 EIDLs Need Improvement

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

- More than one COVID-19 EIDL was approved and disbursed to the same borrower;
- COVID-19 EIDLs 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 with eligibility concerns were issued to borrowers.

As of September 30, 2022, there were a total of 182,298 approved and disbursed COVID-19 EIDLs (with a total value of $15,618,781,808) flagged within the loan repository system that were potentially issued to ineligible borrowers. The loans were flagged for one or more of 14 different codes. The codes corresponding to COVID-19 EIDLs are: Research Duplicate 9 Digit Tax Identification Issue; Potential Fraud; EIDL Criminal Record; EIDL Bankruptcy; Treasury – Do Not Pay - Death Sources; Treasury - Do Not Pay – SAM; Treasury – Do Not Pay - TOP Education; Confirmed Fraud; Fraud; Potential Identity Theft; Confirmed Identity Theft; Manual Review Potential Fraud; Original Loan was Correct but Identity Theft on the Loan Modification; and DCI Awaiting Legal Review.

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.

According to management, a review plan was implemented and ongoing to address the COVID-19 EIDLs identified with eligibility concerns and indicated in the loan repository system by hold codes. However, management was not able to provide sufficient evidence of a consistent process documenting how the COVID-19 EIDLs with eligibility concerns were identified and resolved. This would include the specific rules that were developed and applied for the COVID-19 EIDLs portfolio to identify and designate COVID-19 EIDLs with hold codes that may indicate eligibility concerns, the approved rationale for why only those rules were applied, and any testing or review performed on the implementation and application of the rules.

The deficiencies were caused by an inadequate design and implementation of controls within the COVID-19 EIDLs processing portal, a lack of effective procedures implemented to adequately train, onboard, and monitor the performance of loan officers involved in the COVID-19 EIDLs origination process, and the inadequate design and implementation of controls in the COVID-19 EIDLs loan review process to ensure hold codes were appropriate, reviewed, and resolved consistently.

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 of the Credit Program Receivables and Related Foreclosed Property, Net and Downward Reestimate Payable to Treasury line items, and related elements in the consolidated financial statements.

Recommendations – Controls over COVID-19 EIDLs Need Improvement

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

11. Perform a thorough review of the COVID-19 EIDLs and determine which transactions were not in conformance with the CARES Act and related legislation and provided to ineligible recipients.
12. Implement adequate controls over the loan review process to ensure that COVID-19 EIDLs identified with eligibility concerns are complete and the specific eligibility concerns identified are accurate.
13. Document a comprehensive process for the COVID-19 EIDLs review process, including how loans with eligibility concerns are identified, tracked, and resolved.
14. Develop and document an effective funds recovery plan and controls to ensure funds disbursed to ineligible recipients as part of the COVID-19 EIDLs review process are recovered and reported accurately in a timely manner.

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

15. Assess the accounting considerations, based on the results of the review process for COVID-19 EIDLs, 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 subsidy 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 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 the PPP loan forgiveness review process were used to develop a significant assumption in the PPP reestimate model. However, there were not effective monitoring controls over the performance of the PPP loan forgiveness 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 PPP loan forgiveness review process was not adequately designed to ensure 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.
- The impact that the PPP purchases review process may have on another assumption in the PPP reestimate model. In particular, management did not adequately design and implement controls to ensure the purchase requests for PPP loan guarantees were reviewed to verify that requesting lenders met the origination requirements prior to approving and disbursing the loan. There was not an approved, documented, comprehensive process implemented prior to purchase transactions being

processed and changes made to the process at the end of the fiscal year were not communicated and evaluated for impact on the reestimate model.

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.

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 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, Credit Program Receivables and Related Foreclosed Property (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 Need Improvement</u>

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

16. Continue implementing controls to accumulate relevant, complete, and accurate data on which to base the subsidy reestimate models for the PPP and COVID-19 EIDLs portfolios.
17. Design and implement adequate review and approval controls over the reestimate models for the PPP and COVID-19 EIDLs portfolios by appropriate levels of management, and to coordinate with relevant program offices to assess the integrity of relevant data inputs used in the 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

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 COVID-19 EIDLs transactions. The service organization control environment includes the operation of the system used for COVID-19 EIDLs 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.

The deficiencies were caused by management not holding 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 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 the risk of misstatements in the Credit Program Receivables and Related Foreclosed Property (Net), and Downward Reestimate Payable to Treasury line items, and related elements in the consolidated financial statements.

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

We recommend the Administrator coordinate with the Associate Administrator for the 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 as it relates to COVID-19 EIDLs. 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 the COVID-19 EIDLs 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 7(a) loan guarantee program fiscal transfer agent, the financial service providers for the 7(a) and 504 loan guarantee programs, and the PPP forgiveness and purchases 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 PPP forgiveness and purchases platform, the relevant control environment includes the operation of the PPP loan forgiveness and PPP loan purchase 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 and subservice organizations, such as obtaining and reviewing an attestation report on the design, implementation, and operating effectiveness of controls at the service organization.

Management's evaluation of SOC 1 reports obtained for the 7(a) loan guarantee program fiscal transfer agent and the 504 loan guarantee program financial service provider were not sufficient or properly documented to aid in management's assessment of internal controls over financial reporting. Specifically, management's review of complementary user entity controls within the SOC 1 reports identified control gaps or placed reliance on controls for which deficiencies were noted. 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 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 the risk 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 the 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 as it relates to loan guarantee programs. 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 loan guarantee program 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.

C. Service Organization Used for the SVOG Program

Management did not obtain reasonable assurance on the operating effectiveness of internal controls in the service organization's control environments relevant to the external cloud service provider used for the SVOG platform in the processing of applications and monitoring the status of awards.

While a SOC 1 report was obtained for the service provider, management did not provide evidence of adequate monitoring activities performed over the relevant internal control environments at the respective subservice organizations identified in the report. In addition, management also did not provide evidence whether adequate user entity controls were designed, implemented, and operated effectively to complement the service organization's controls. Finally, management did not provide evidence of adequate evaluation of the control exceptions noted in the report and the impact to SBA's internal control over financial reporting. 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 and subservice organizations and the effectiveness of those controls.

The deficiencies were caused by management not implementing effective monitoring of the effectiveness of internal control over the assigned processes performed by relevant service organizations.

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 the risk of misstatements in the Other than Intragovernmental Advances and Prepayments line item and related elements in the consolidated financial statements.

<u>Recommendations – Service Organizations Used for the SVOG Program</u>

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

22. 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 SVOG program transactions processed on behalf of and recorded by SBA and communicate the results to the relevant program offices. 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 RRF and SVOG Programs Need Improvement

Management did not adequately design and implement monitoring controls over RRF 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. According to management, monitoring plans were implemented and ongoing. However, the monitoring process could not be relied upon for financial reporting purposes at fiscal year-end. Specifically, we noted that management was unable to provide evidence that the accounting treatment and financial reporting for the RRF 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 RRF and SVOG awards were approved and disbursed to eligible recipients in conformance with the related legislation. Management approved and disbursed RRF and SVOG 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. We noted that RRF and SVOG award recipients also had a PPP loan guarantee with an alert or flag that were not resolved prior to the approval of the (RRF) award.

The deficiencies were caused by an inadequate entity wide control environment to design and implement sufficient review and monitoring controls related to the RRF and SVOG programs. In addition, there was a lack of a sufficient analysis performed to determine the appropriate accounting treatment for the 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 Other than Intragovernmental Advances and Prepayments line item and the related elements in the consolidated financial statements.

Recommendations – Controls over Accounting and Monitoring of RRF and SVOG Programs Need Improvement

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

23. Design and implement a sufficient ongoing review of RRF and SVOG awards disbursed and identify recipients that may not have been eligible to receive the awards in accordance with the program's terms, especially for recipients with flagged PPP loan guarantees.

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

25. Develop and document an effective funds recovery plan and controls to ensure funds disbursed to ineligible recipients as part of the RRF and SVOG review process are recovered and reported accurately in a timely manner.

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

26. Design and implement controls to ensure the accounting treatment established to record the balances related to the RRF and SVOG programs are 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 weaknesses across several entity level control categories. We noted the following conditions.

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

1. 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 forgiveness review process was not designed to ensure the reviews performed were to a sufficient level of precision to ensure the related balances were free of material misstatement.

2. While risk assessments were planned, they were not completed in fiscal year 2022 for material programs, including COVID-19 EIDLs, PPP, and Debt Relief Program payments.

Monitoring: Management did not design and implement effective monitoring processes. The following matters were noted concerning various program areas. Specifically, we noted that SBA did not have adequate or effective monitoring controls related to:

3. PPP lenders

4. Internal control over processes performed by service organizations.

5. RRF and SVOG program award recipients.

6. 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 and related remediation of prior year control deficiencies. In addition, these deficiencies were 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 inadequate systems to implement such large-scale programs, and an insufficient number of personnel to assist in the design, implementation, and execution of internal controls. Finally, these deficiencies were caused by the lack of an effective risk assessment, communication, and monitoring processes and controls 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 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 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 that were 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 Need Improvement</u>

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

27. In conjunction with the Office of the Chief Financial Officer, complete the internal control risk assessments for programs that have a material impact on the financial statements at a process level in a timely manner. The risk assessments should include the consideration of whether controls designed and implemented are operating at a sufficient precision level in accordance with management's materiality threshold and will be sufficient for financial reporting purposes.

28. Develop and implement monitoring controls as required by the GAO's Standards for Internal Control in the Federal Government to ensure implementation of an effective internal control environment.

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

29. 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.

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

31. In conjunction with relevant program offices, develop and implement processes to ensure the timely completion of the testing and monitoring of 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.

<u>Recommendations – Payments for Covered Loans under the Debt Relief Program</u>

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

32. 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 control deficiencies that limited SBA's ability to effectively manage its information system risks. Collectively, these conditions increase the risk of unauthorized use, modification, or destruction of financial data, which may impact the integrity of information used to prepare the financial statements. In the sections below, we have omitted some technical details from the conditions and recommendations due to the sensitivity of the information. These details were communicated to management in notices of findings and recommendations.

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

- GAO's Green Book, Principle 3, Establish Structure, Responsibility, and Authority; and Principle 11, Design Activities for the Information System

- National Institute of Standards and Technology Special Publication 800-53, Revision 5, 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 was caused by the lack of a separated personnel report being provided to the relevant points of contact in program offices.

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.

Recommendations – Logical Access Controls

We recommend the Administrator coordinate with the Chief Human Capital Officer to:

33. Review and update current processes and procedures for notifying program offices of personnel separations to ensure inclusion of current primary and secondary points of contacts for each program office responsible for managing information systems.

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

34. Review the activities of the terminated employees and contractors to ensure that their accounts were not used after they separated from SBA.

35. Update the Office of Capital Access procedures to identify the control activities, responsible parties, and the process for the removal of access for terminated users upon notification from the Office of the Chief Human Capital Officer.

System Configuration Management

Management did not implement corrective actions to remediate the prior year deficiency related to the testing of patches prior to implementation. Specifically, management did not follow established policy and procedures by maintaining supporting evidence to consistently demonstrate that database and operating system patches were tested and approved prior to migration into the production environment.

The deficiency was caused by a lack of sufficient resources to implement a testing team for the patch management process and a lack of prioritization to remediate this prior year deficiency.

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.

Recommendations – System Configuration Management

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

36. 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.

37. Update the system configuration management plan to require internal control documentation for patch management and application changes as required by GAO's Standards for Internal Control in the Federal Government.

38. 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. 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.

2. 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.

3. Ensure their own assurance process was sufficient to identify material weaknesses that existed during the fiscal year in addition to those identified by external auditors.

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

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

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

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

Recommendations – FMFIA

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

39. 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.

40. 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.

41. 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 RRF 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 Chief Financial Officer to:

42. 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 DRAFT AUDIT REPORT ON FY 2022 FINANCIAL STATEMENTS

Appendix IV

CFO Response to Audit Report on FY 2022 Financial Statements

November 15, 2022

TO: Hannibal M. Ware, Inspector General

FROM: Kate Aaby, Associate Administrator for Performance, Planning and the Chief Financial Officer

SUBJECT: FY 2022 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 2022 and FY 2021 Consolidated Balance Sheets. 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 result.

The FY 2022 Agency Financial Report includes the programs implemented under the American Rescue Plan Act, the Economic Aid Act, in addition to those programs funded under the CARES Act and subsequent legislation. As in FY 2021, the expansion of these programs during prolonged unprecedented times continued to emphasize the importance of serving small businesses as they navigate extraordinary circumstances.

The SBA has continued making tremendous progress strengthening internal controls for pandemic-focused programs and is dedicated to accountability and transparency to the American public. SBA implemented the Fraud Risk Management Board (FRMB) this year to effectively mitigate, manage and monitor fraud risks. The FRMB is chaired by the CFO and members include Deputy Associate Administrators of key Program Offices. In addition, to the governance bodies SBA has in place, the CFO and key SBA Program Offices have partnered in the development and implementation of corrective actions that will strengthen internal controls as well as address audit identified deficiencies.

The SBA Senior Management Council (SMC) which is chaired by the Deputy Chief Financial Officer and comprised SBA managers from program and support offices, actively plans and executes the Agency's internal control activities that include assessing and improving compliance, monitoring and remediation of identified deficiencies and communicating results of reviews to senior management.

As in FY 2021, the auditors identified material weaknesses related to the internal controls over six areas; PPP Loan Guarantees, COVID-19 EIDLs and Grants, Subsidy Reestimate, Restaurant Revitalization and Shuttered Venues Operators Grant Program, Entity Level Controls, and Evaluation of Service Organizations. The SBA has undergone tremendous efforts to strengthen internal controls, policies and procedures and will continue remediation efforts in the coming audit year.

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 beneficial recommendations that support our efforts to further enhance the SBA's financial management practices. We remain committed to excellence in financial management and look forward to furthering progress in the coming year.

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

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

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

For the Years Ended September 30, 2022 and 2021

(Dollars in Thousands)

	2022	2021
ASSETS		
Intragovernmental		
Fund Balance with Treasury (Note 2)	$ 56,225,809	$ 316,852,301
Advances and Prepayments	1,458	969
Total Intragovernmental	56,227,267	316,853,270
Other than Intragovernmental		
Cash and Other Monetary Assets (Note 3)	2,270	3,746
Accounts Receivable, Net (Note 5)	135,629	69,395
Loans Receivables, net:		
Credit Program Receivables and Related Foreclosed Property, Net (Note 6)	321,528,158	245,445,095
General Property, Plant and Equipment, Net (Note 7)	100,717	25,276
Advances and Prepayments	18,324	20,899
Total Other than Intragovernmental	321,785,098	245,564,411
Total Assets	**$ 378,012,365**	**$ 562,417,681**
LIABILITIES		
Intragovernmental		
Accounts Payable:		
Accounts Payable, Capital Transfers:		
Net Assets of Liquidating Funds Due to Treasury (Note 10)	$ 7,056	$ 8,369
Accounts Payable	5,725	6,612
Debt:		
Interest Payable - Loans and Not Otherwise Classified (Note 9)	251	251
Loans Payable:		
Principal Payable to the Bureau of the Fiscal Service (Note 9)	362,801,468	262,654,877
Advances from Others and Deferred Revenue	2,271	1,901
Other Liabilities:		
Benefit Program Contributions Payable	18,485	13,858
Liability to the General Fund of the U.S. Government for Other Non-Entity Assets:		
Downward Reestimate Payable to Treasury (Note 13)	5,591,451	11,742,037
Other (Note 11)	2,123	3,856
Total Intragovernmental	368,428,830	274,431,761
Other than Intragovernmental		
Accounts Payable	556,306	932,184
Federal Employee Benefits Payable	69,963	72,440
Loan Guarantee Liabilities (Note 6)	25,708,234	227,831,513
Other Liabilities:		
Accrued Grant Liability	197,716	103,138
Surety Bond Guarantee Program Future Claims (Note 8)	62,635	60,054
Other (Note 11)	99,919	107,973
Total Other than Intragovernmental	26,694,773	229,107,302
Total Liabilities	**395,123,603**	**503,539,063**
NET POSITION		
Unexpended Appropriations - Funds from Other Than Dedicated Collections	10,558,338	69,132,143
Cumulative Results of Operations - Funds from Other Than Dedicated Collections	(27,669,576)	(10,253,525)
Total Net Position	**(17,111,238)**	**58,878,618**
Total Liabilities and Net Position	**$ 378,012,365**	**$ 562,417,681**

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, 2022 and 2021

(Dollars in Thousands)

	2022	2021
STRATEGIC GOAL 1:		
Ensure Equitable and Customer-Centric Design and Delivery of Programs to Support Small Businesses and Innovative Startups		
Gross Cost	$ (663,444)	$ 26,661,690
Less: Earned Revenue	389,057	4,336,162
Net Cost of Strategic Goal 1	**(1,052,501)**	**22,325,528**
STRATEGIC GOAL 2:		
Build Resilient Businesses and a Sustainable Economy		
Gross Cost	53,026,265	326,705,064
Less: Earned Revenue	5,148,428	3,963,444
Net Cost of Strategic Goal 2	**47,877,837**	**322,741,620**
STRATEGIC GOAL 3:		
Implement Strong Stewardship of Resources for Greater Impact		
Gross Cost	150,014	1,184,918
Net Cost of Strategic Goal 3	**150,014**	**1,184,918**
COST NOT ASSIGNED TO STRATEGIC GOALS		
Gross Cost	121,599	31,487
Net Cost Not Assigned to Strategic Goals	**121,599**	**31,487**
Net Cost of Operations	**$ 47,096,949**	**$ 346,283,553**

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, 2022 and 2021

(Dollars in Thousands)

	2022	2021
Funds from other than Dedicated Collections		
Unexpended Appropriations:		
Beginning Balance	$ 69,132,143	$ 183,460,572
Appropriations Received	12,693,825	383,192,098
Other Adjustments:		
Rescissions	(35,467,645)	(146,524,623)
Adjustment - Cancelled Authority	(17,235)	(20,784)
Return of Unrequired Liquidating Fund Appropriation	(490)	(447)
Other Adjustments	(151)	(140)
Appropriations Used	(35,782,109)	(350,974,533)
Total Unexpended Appropriations	**$ 10,558,338**	**$ 69,132,143**
Cumulative Results of Operations:		
Beginning Balance	$ (10,253,525)	$ (3,982,600)
Other Adjustments:		
Current Year Liquidating Equity Activity	(460)	5,572
Other	-	(29)
Appropriations Used	35,782,109	350,974,533
Donations of Cash and Cash Equivalents	506	-
Transfers In/Out Without Reimbursement	10,115	202
Imputed Financing	44,092	35,092
Other:		
Non-entity Activity	(6,155,464)	(11,002,742)
Net Cost of Operations	**47,096,949**	**346,283,553**
Net Change in Cumulative Results of Operations	**(17,416,051)**	**(6,270,925)**
Total Cumulative Results of Operations	**$ (27,669,576)**	**$ (10,253,525)**
Ending Net Position	**$ (17,111,238)**	**$ 58,878,618**

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, 2022 and 2021

(Dollars in Thousands)

	September 30, 2022		
	Budgetary	Nonbudgetary Financing	Total
BUDGETARY RESOURCES			
Unobligated Balance from Prior Year Budget Authority, net (discretionary and mandatory)	$ 66,203,391	$ 229,585,529	$ 295,788,920
Appropriations (discretionary and mandatory)	(22,785,272)	10,962	(22,774,310)
Borrowing Authority (discretionary and mandatory)	-	113,703,268	113,703,268
Spending Authority from Offsetting Collections	830,053	32,485,787	33,315,840
Total Budgetary Resources	**$ 44,248,172**	**$ 375,785,546**	**$ 420,033,718**
STATUS OF BUDGETARY RESOURCES			
New Obligations and Upward Adjustments (total)	$ 35,455,067	$ 340,161,321	$ 375,616,388
Unobligated Balance, end of year:			
Apportioned, unexpired accounts	5,194,132	8,725,136	13,919,268
Unapportioned, unexpired accounts	1,289,000	26,899,089	28,188,089
Unexpired Unobligated Balance, end of year	6,483,132	35,624,225	42,107,357
Expired Unobligated Balance, end of year	2,309,973	-	2,309,973
Unobligated Balance, end of year (total)	8,793,105	35,624,225	44,417,330
Total Status of Budgetary Resources	**$ 44,248,172**	**$ 375,785,546**	**$ 420,033,718**
OUTLAYS, NET and DISBURSEMENTS, NET			
Net Outlays (discretionary and mandatory)	$ 35,164,861		$ 35,164,861
Distributed Offsetting Receipts	(11,965,553)		(11,965,553)
Agency Outlays, net (discretionary and mandatory)	**$ 23,199,308**		**$ 23,199,308**
Disbursements, net (total) (mandatory)		**$ 302,454,224**	

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, 2022 and 2021

(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 and DISBURSEMENTS, 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.

NOTE 1 Significant Accounting Policies

Reporting Entity

The Small Business Act of 1953 created the Small Business Administration as an independent federal agency. The 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

The 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

The 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. 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. 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 the 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.

The 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 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 the 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 the 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 the SBA's appropriations received that 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 the SBA's financial statements. The SBA's fiduciary balances are on deposit in commercial banks. The 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. The 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 the SBA's behalf to pay liabilities and finance loan program costs. Cash receipts are deposited into the SBA's account at the Treasury. The 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 the 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 and a liability of the General Fund. The amounts represent commitments by the government to provide resources for particular programs, but they do not represent net assets to the government as a whole. When disbursements are made, the Treasury will finance the disbursements in the same way it finances all other disbursements: using some combination of receipts, other inflows, and borrowing from the public (if there is a budget deficit).

(Dollars in Thousands)

As of September 30,	2022	2021
Appropriated Funds	$ 12,101,171	$ 70,066,412
Financing Funds	43,958,137	246,630,128
Liquidating Funds	549	544
Revolving Funds	110,492	105,047
Trust Fund	671	175
Total Entity Fund Balance with Treasury	**56,171,020**	**316,802,306**
Budget Clearing Account Balance	54,789	49,995
Total Fund Balance with Treasury	**$ 56,225,809**	**$ 316,852,301**
Status of Fund Balance with Treasury		
Apportioned, unexpired accounts	$ 13,919,268	$ 292,709,995
Unapportioned, unexpired accounts	28,188,089	6,392,988
Obligated Balance Not Yet Disbursed	14,906,099	21,267,716
Expired Unobligated Balance	2,309,973	44,508
Borrowing Authority Not Converted to Funds	(3,152,409)	(3,612,901)
Nonbudgetary	54,789	49,995
Total Fund Balance with Treasury	**$ 56,225,809**	**$ 316,852,301**

Unobligated balances become available when the OMB approves the 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 the SBA's account at the Treasury using an electronic deposit system. At the end of the fiscal year, collections temporarily held by the SBA field offices pending deposit are recorded as Undeposited Collections - Cash in Transit and totaled $2.3 million and $3.7 million as of September 30, 2022 and 2021.

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 the SBA's proprietary statements, but are required to be disclosed in the notes to the SBA's financial statements. The SBA's fiduciary balances are on deposit in commercial banks.

The Master Reserve Fund is a fiduciary activity administered by the SBA's 7(a) Fiscal Transfer Agent. 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. The 7(a) secondary market program includes the SBA's guaranty of timely payment, as well as a default guaranty, to 7(a) secondary market investors. The MRF supports $38.0 billion and $36.3 billion of outstanding SBA guarantied 7(a) secondary market pool principal as of September 30, 2022 and 2021.

The Master Reserve Account is a fiduciary activity administered by the 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 the SBA's guaranty of timely payment, as well as a default guaranty, to 504 secondary market investors. The MRA supports $32.7 billion and $30.0 billion of SBA guarantied 504 debentures outstanding in the secondary market as of September 30, 2022 and 2021.

The FY 2022 Disbursements line item on the Reconciliation of Fiduciary Assets as of September 30, 2022, includes the return of $28.5 million to the outgoing 7(a) Fiscal Transfer Agent to the Master Reserve Fund. In late August 2021, the outgoing and incoming FTA determined the projected contributions were inadvertently overstated by $28.5 million and a claim was initiated. The claim was fully adjudicated in FY 2022 and the funds returned.

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,	2022			2021		
	MRF	MRA	Total	MRF	MRA	Total
Short Term Securities						
Money Market Funds	$ 501,161	$ 780,155	$ 1,281,316	$ 745,406	$ 878,654	$ 1,624,060
Treasury Bills	661,816	-	661,816	224,985	-	224,985
Total Cash and Short Term Securities	**1,162,977**	**780,155**	**1,943,132**	**970,391**	**878,654**	**1,849,045**
Long Term Securities						
Treasury Notes/Bonds Including Interest	875,912	-	875,912	1,123,152	-	1,123,152
Total Long Term Securities	**875,912**	**-**	**875,912**	**1,123,152**	**-**	**1,123,152**
Net Assets	**$ 2,038,889**	**$ 780,155**	**$ 2,819,044**	**$ 2,093,543**	**$ 878,654**	**$ 2,972,197**

RECONCILIATION OF FIDUCIARY ASSETS

For the Years Ended September 30,	2022			2021		
	MRF	MRA	Total	MRF	MRA	Total
Beginning Net Assets	**$ 2,093,543**	**$ 878,654**	**$ 2,972,197**	**$ 2,071,468**	**$ 542,818**	**$ 2,614,286**
Receipts						
Earned Income	25,862	5,393	31,255	27,035	97	27,132
Contributions	10,657,949	18,754,704	29,412,653	7,988,522	18,295,369	26,283,891
Net Realized Gain (Loss)	-	-	-	436	-	436
Total Receipts	**10,683,811**	**18,760,097**	**29,443,908**	**8,015,993**	**18,295,466**	**26,311,459**
Less Disbursements						
Payments to Investors	10,738,465	18,858,596	29,597,061	7,993,918	17,959,630	25,953,548
Total Disbursements	**10,738,465**	**18,858,596**	**29,597,061**	**7,993,918**	**17,959,630**	**25,953,548**
Ending Net Assets	**$ 2,038,889**	**$ 780,155**	**$ 2,819,044**	**$ 2,093,543**	**$ 878,654**	**$ 2,972,197**

In FY 2022, there were six bank accounts rather than the original five accounts acquired when the FTA transitioned in FY 2021. Upon further review, two accounts belong to the FTA and are unrelated to the SBA. The remaining four accounts belong to the SBA 7(a) loan program and are non-MRF in nature. Two of the four non-MRF accounts are fiduciary in nature (7a Escrow and 7a Disbursement). The balances of the two fiduciary accounts are $264.9 million and $347.0 million at September 30, 2022, and September 30, 2021. The other two non-MRF accounts are non-fiduciary 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 the 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,	2022	2021
Other than Intragovernmental		
Guaranty Fees Receivable	$ 67,913	$ 52,196
Refunds	3,093	1,146
Other	65,795	16,957
Total Other than Intragovernmental	**136,801**	**70,299**
Allowance For Loss	(1,172)	(904)
Net Other than Intragovernmental	**$ 135,629**	**$ 69,395**

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 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 Economic Aid Act also included temporary modifications to the 504 Certified Development Company program including fee waivers and CDC fee reimbursements, the authorization of the new ALP Express delivery method, and various changes to the Debt Refinancing programs to include expanded eligibility. 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.

The 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 COVID 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. The SBA stopped accepting new loan applications on January 1, 2022.

The 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 the 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 ended on May 31, 2021.

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 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.

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.

The 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

The 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 the FCRA, subsidy costs are reestimated annually.

Credit Program Receivables and Related Foreclosed Property, Net

The FCRA governs direct loans made after FY 1991. The 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 the FCRA.

Direct loans and defaulted guaranties made prior to the 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 the timely payment requirement of principal and interest due for debentures in its 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 comprises 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. The 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 comprises 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, 2022, the SBA's foreclosed property was $26.2 million related to 57 loans. The properties had been held for an average of 1,761 days. At September 30, 2021, foreclosed property was $34.0 million related to 77 loans. The properties had been held for an average of 1,711 days.

Valuation Methodology for the Liability for Loan Guaranties under FCRA

The FCRA also governs loan guaranties made after FY 1991. A liability for outstanding guaranties is included on the 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 the 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, 2022	Pre-1992 Loans	Post-1991 Loans	Total
Direct Business Loans			
Business Loans Receivable	$ 6,507	$ 223,178	$ 229,685
Interest Receivable	-	732	732
Foreclosed Property	2,609	-	2,609
Allowance	(6,161)	(26,954)	(33,115)
Total Direct Business Loans	**2,955**	**196,956**	**199,911**
Direct Disaster Loans			
Disaster Loans Receivable	262	366,973,740	366,974,002
Interest Receivable	171	14,805,758	14,805,929
Foreclosed Property	-	1,936	1,936
Allowance	(114)	(61,462,708)	(61,462,822)
Total Direct Disaster Loans	**319**	**320,318,726**	**320,319,045**
Defaulted Guarantied Business Loans & Other Loans Receivable			
Defaulted Guarantied Business Loans	3,227	3,214,141	3,217,368
Other Loans Receivable (see note below)	-	85,234	85,234
Interest Receivable	-	23,559	23,559
Foreclosed Property	1,264	20,435	21,699
Allowance	(3,034)	(2,335,624)	(2,338,658)
Total Defaulted Guarantied Business Loans & Other Loans Receivable	**1,457**	**1,007,745**	**1,009,202**
Total Credit Program Receivables & Related Foreclosed Property, Net			**$ 321,528,158**

B. Credit Program Receivables and Related Foreclosed Property, Net Continued

(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**

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,	2022	2021
Business Direct Loan Program	$ 42,950	$ 37,044
Disaster Loan Program	127,261,347	73,739,456
Total Direct Loans Disbursed	**$ 127,304,297**	**$ 73,776,500**

Outstanding Loan Obligations as of September 30,	2022	2021
Business Direct Loan Program	$ 47,145	$ 50,731
Disaster Loan Program	13,128,963	18,974,137
Total Direct Loan Obligations	**$ 13,176,108**	**$ 19,024,868**

GUARANTIED LOANS

New Loans Disbursed During the Year Ended September 30,	2022	2021
Total Principal Disbursed at Face Value	$ 38,855,280	$ 308,925,787
Total Principal Disbursed Guarantied by the SBA	32,578,412	304,023,895

Outstanding Loan Obligations as of September 30,	2022	2021
Business Guarantied Loan Programs	$ 22,416,143	$ 27,993,257

Loans Outstanding as of September 30,	2022	2021
Total Principal Outstanding at Face Value	$ 187,900,729	$ 459,593,931
Total Principal Outstanding Guarantied by the SBA	163,785,929	435,291,356

Note: Total guarantied balances as of September 30, 2022, include remitted forgiven principal that is pending lender confirmation of reduced borrower balances. There is lag in reporting between when the SBA has forgiven the principal balance and when lenders confirm they have applied the forgiveness to the borrower balance via a lender 1502 report.

D. Subsidy Cost Allowance Balances

(Dollars in Thousands)

For the Years Ended September 30,	2022	2021
Post-1991 Business Direct and Purchased Guarantied Loans		
Beginning Balance of Allowance Account	**$ 2,290,475**	**$ 2,245,434**
Current Year's Subsidy (see 6.G for breakdown by component)	3,607	3,385
Loan Modifications	-	28,298
Loans Written Off	(5,419,939)	(563,931)
Subsidy Amortization	(3,040)	(2,829)
Allowance Related to Guarantied Loans Purchased This Year	5,342,638	500,852
Miscellaneous Recoveries and Costs	152,182	82,100
Balance of Subsidy Allowance Account before Reestimates	2,365,923	2,293,309
Reestimates	(3,345)	(2,834)
Ending Balance of Allowance Account	**$ 2,362,578**	**$ 2,290,475**
Post-1991 Disaster Direct Loans		
Beginning Balance of Allowance Account	**$ 12,633,871**	**$ 5,641,474**
Current Year's Subsidy (see 6.G for breakdown by component)	14,756,882	6,669,771
Loan Modification	172,204	-
Loans Written Off	(366,244)	(48,711)
Subsidy Amortization	6,126,803	4,120,155
Miscellaneous Recoveries and Costs	66,877	32,195
Balance of Subsidy Allowance Account before Reestimates	33,390,393	16,414,884
Reestimates	28,072,315	(3,781,013)
Ending Balance of Allowance Account	**$ 61,462,708**	**$ 12,633,871**

For Disaster Loans, a Loan Modification was required for Disaster COVID EIDL payment deferment.

E. Liability for Loan Guaranties

(Dollars in Thousands)

For the Years Ended September 30,	2022	2021
Post-1991 Business Loan Guaranties		
Beginning Balance of Liability for Loan Guaranties	**$ 227,831,513**	**$ 512,712,498**
Claim Payments to Lenders/Guarantee Payments	(6,023,484)	(874,071)
Fees	1,474,784	1,118,670
Interest Supplements Paid	(1,939,216)	(4,924,818)
Interest Revenue on Uninvested Funds	275,218	4,271,118
Interest Expense on Entity Borrowings	(62,693)	(67,191)
Current Year's Subsidy (see 6.G for breakdown by component)	183,871	287,046,480
Upward Reestimates	32,540	8,990,144
Downward Reestimates	(5,230,089)	(6,264,520)
Loan Modifications	-	7,009,738
Adjustment Due to Reestimate & Guarantied Loan Purchases	680,846	373,219
Miscellaneous Recoveries and Costs	(191,515,056)	(581,559,754)
Total Ending Balance of Liability for Loan Guaranties	**$ 25,708,234**	**$ 227,831,513**

F. 2022 Subsidy Rates by Program and Component

Loan Program	Total Subsidy	Financing	Default	Other	Fee
Guaranty					
7(a)	**0.00%**	0.00%	3.95%	0.00%	-3.95%
504 CDC	**0.00%**	0.00%	4.39%	0.41%	-4.80%
504 Refi	**0.00%**	0.00%	4.47%	0.42%	-4.89%
SBIC Debentures	**0.00%**	0.00%	4.14%	0.04%	-4.18%
Direct					
Disaster	**8.96%**	-3.89%	12.62%	0.23%	0.00%
Disaster - COVID EIDL	**11.72%**	-34.29%	35.00%	11.01%	0.00%
Microloan	**6.28%**	4.07%	2.54%	-0.33%	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,	2022	2021
Business Loan Guaranties		
Defaults	$ 822,338	$ 4,816,456
Fees	(203,611)	12,940,293
Other	(434,856)	269,289,731
Subsidy Expense Before Reestimates and Loan Modifications	183,871	287,046,480
Loan Modifications	-	7,009,738
Components of Subsidy Reestimates		
Technical Assumptions/Default Reestimates	(5,220,762)	183,863
Interest Rate Reestimates	23,213	2,541,761
Total of the above Components of Subsidy Reestimates	(5,197,549)	2,725,624
Total Guarantied Business Loan Subsidy Expense	**$ (5,013,678)**	**$ 296,781,842**
Business Direct Loans		
Interest	$ 2,768	$ 2,666
Defaults	992	839
Other	(153)	(120)
Subsidy Expense Before Reestimates and Loan Modifications	3,607	3,385
Loan Modifications	-	28,298
Components of Subsidy Reestimates		
Technical Assumptions/Default Reestimates	(3,251)	(1,191)
Interest Rate Reestimates	(94)	(1,643)
Total of the above Components of Subsidy Reestimates	(3,345)	(2,834)
Total Business Direct Loan Subsidy Expense	**$ 262**	**$ 28,849**
Disaster Direct Loans		
Interest	$ (41,045,330)	$ 67,780
Defaults	42,808,837	8,631,699
Other	12,993,375	(2,029,708)
Subsidy Expense Before Reestimates and Loan Modifications	14,756,882	6,669,771
Loan Modifications	172,204	-
Components of Subsidy Reestimates		
Technical Assumptions/Default Reestimates	18,558,485	8,053,889
Interest Rate Reestimates	9,513,830	(11,834,902)
Total of the above Components of Subsidy Reestimates	28,072,315	(3,781,013)
Total Disaster Direct Loan Subsidy Expense	**$ 43,001,401**	**$ 2,888,758**

For Disaster Loans, a Loan Modification was required for Disaster COVID EIDL payment deferment.

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,	2022	2021
Disaster Direct Loan Programs	$ 617,843	$ 275,450
Business Loan Programs	163,539	159,993
Total Administrative Expense	**$ 781,382**	**$ 435,443**

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 2022 performance data for SBA's large loan programs, with 9 months of actual and 3 months of projected performance data for the Microloan and the small loan programs, and 6 months of actual and 6 months of projected performance data for the Secondary Market Guaranty program.

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,	2022	2021
7(a)	$ (1,043,011)	$ (2,662,078)
7(a) - Recovery Act	(5,498)	(4,371)
7(a) - Jobs Act	(2,716)	(7,686)
7(a) - COVID Support	(694,093)	(509,864)
504 CDC	(266,964)	(905,781)
504 CDC - Recovery Act	(4,885)	(2,630)
504 CDC - Jobs Act	(1,593)	(633)
504 CDC - COVID Support	(76,577)	(38,056)
504 CDC - Debt Refinancing	(11,706)	(92,132)
504 CDC - Debt Refinancing - COVID Support	(18,802)	(9,363)
504 First Mortgage Loan Pooling - Recovery Act	(1,129)	3,338
SBIC Debentures	(200,001)	(323,515)
SBIC Participating Securities	(10,505)	(47,406)
Secondary Market Guaranty Program	(130,803)	(8,182)
Paycheck Protection Program	(2,728,162)	7,328,120
ARC - Recovery Act	(334)	(218)
All Other Guaranty Loan Programs	(770)	6,081
Total Guarantied Loan Program Subsidy Reestimates	**$ (5,197,549)**	**$ 2,725,624**

The 7(a) Loan Guaranty program, the SBA's flagship program, had a net downward reestimate of $1,043.0 million in FY 2022. The reestimate is in part due to better than projected actual loan performance in FY 2022 and better projected loan performance for future years. The better actual performance is in part due to lower than projected unemployment rates in FY 2022 and likely continued lower purchases as an after effect of Section 1112 payments. The better projected loan performance is in part due to performance assumption and methodological updates resulting in lower projected losses. The reestimate is also in part due to lower than projected Section 1112 debt relief payments in FY 2022.

The 7(a) Recovery Act program had a net downward reestimate of $5.5 million. The reestimate is mostly due to better than expected recoveries and lower than projected Section 1112 debt relief payments in FY 2022.

The 7(a) Jobs Act cohort had a net downward reestimate of $2.7 million. The reestimate is mostly due to better than expected recoveries and lower than projected Section 1112 debt relief payments in FY 2022.

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 $694.1 million. The reestimate is in part due to better than projected actual loan performance in FY 2022 and better projected loan performance for future years. The reestimate is also in part due to higher than projected secondary market premium income in FY 2022.

The 504 Certified Development Company program had a net downward reestimate of $267.0 million. The reestimate is mostly due to better than expected loan performance in FY 2022 contributing to a downward reestimate in all but one cohort. Aggregate purchases were lower than predicted and recoveries were higher than projected by the prior year model. The reestimate is also in part due to improved projections of future loan performance for the 2018–2022 cohorts.

The 504 Recovery Act program had a net downward reestimate of $4.9 million. The reestimate is mostly due to better than expected loan performance in FY 2022.

The 504 Jobs Act program had a net downward reestimate of $1.6 million. The reestimate is mostly due to better than expected loan performance in FY 2022.

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 $76.6 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 $11.7 million. The reestimate is mostly due to better than expected loan performance in FY 2022 contributing to a downward reestimate in all cohorts. The reestimate is also in part due to improved projections of future loan performance for the 2018–2022 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 Debt Refinancing COVID support program had a net downward reestimate of $18.8 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 downward reestimate of $1.1 million. The reestimate is mostly due to higher than projected recoveries in FY 2022.

The SBIC Debentures program had a net downward reestimate of $200.0 million. The reestimate is primarily driven by higher than projected recoveries and lower than projected defaults in FY 2022. Notably, there were no defaults in the program in FY 2022, which contributes to the downward reestimate.

The SBIC Participating Securities program had a net downward reestimate of $10.5 million. The reestimate is mostly due to higher than projected recoveries in FY 2022.

The Secondary Market Guaranty program had a net downward reestimate of $130.8 million. The reestimate is primarily driven by higher than projected prepayments and updated economic assumptions. The latter resulted in an increase in borrower prepayment speeds and higher expected investment earnings relative to expected pool interest payments, both of which contributed to the downward reestimate.

The Paycheck Protection Program had a downward reestimate of $2,728.2 million in FY 2022. The reestimate is mostly due to fewer forgiveness payments processed in FY 2022 than anticipated for both the 2020 and 2021 cohorts. This leads to a decline in the forecasted lifetime forgiveness amount as a percentage of disbursements for both cohorts. The lower lifetime forgiveness rate estimate is partially offset by an increase in forecasted defaults for the 2020 and 2021 cohorts.

The America's Recovery Capital program had a net downward reestimate of $0.3 million. The reestimate is primarily due to higher than projected recoveries in FY 2022.

All Other Guaranty Loan programs include the SBIC New Market Venture Capital program, which had a net downward reestimate of $0.8 million. The reestimate is mostly due to higher than projected recoveries in FY 2022.

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,	2022	2021
7(m) Microloan	$ (3,207)	$ (2,841)
7(m) Microloan - Recovery Act	-	24
Intermediary Lending Pilot Program	(134)	1
SBIC Preferred Stock	-	(14)
All Other Direct Loan Programs	(4)	(4)
Total Direct Loan Program Subsidy Reestimates	**$ (3,345)**	**$ (2,834)**

The 7(m) Direct Microloan program had a net downward reestimate of $3.2 million. This downward reestimate is primarily driven by aggregate actual defaults being lower than forecasted and actual debt relief payments being lower than forecasted for the 2021 Microloan cohort.

The Intermediary Lending Pilot program had a net downward reestimate of $0.1 million. The reestimate is mostly due to lower than expected defaults in FY 2022.

The 7(m) Direct Microloan Recovery Act program and the SBIC Preferred Stock program had neutral reestimates as lifetime expected loan performance remains consistent with prior year estimates.

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,	2022	2021
Disaster	$ 28,072,315	$ (3,781,013)
Total Disaster Direct Loan Program Subsidy Reestimates	**$ 28,072,315**	**$ (3,781,013)**

The Disaster Assistance program had a net upward reestimate of $28,072.3 million. The upward reestimate is primarily due to higher projected loss rates for COVID EIDL loans. The higher projected loss rates are primarily due to lower expected recovery rates on defaulted small dollar loans as well as higher assumed defaults. The reestimate is also a result of updates to the discount rate which results in increased borrowing costs for FY 2022 COVID EIDL funded loans. The FY 2022 COVID EIDL funded cohort's discount rate increased from a formulated rate of 1.28 percent to 2.34 percent, which increases the financing costs for the cohort.

J. Loans Receivable

Business Direct

(Dollars in Thousands)

As of September 30, 2022	Pre-1992 Loans	Post-1991 Loans	Total
Loans Receivable Direct, Net, beginning of year	**$ 2,622**	**$ 188,022**	**$ 190,644**
Loans Disbursed	-	42,950	42,950
Principal & Interest Payments Received	(190)	(38,130)	(38,320)
Loans Written Off	-	(29)	(29)
Less: Interest Revenue on Uninvested Funds	-	(1,358)	(1,358)
Interest Expense on Entity Borrowings	-	5,479	5,479
Subsidy Expense	-	(3,607)	(3,607)
Upward Reestimates	-	(858)	(858)
Downward Reestimates	-	4,203	4,203
Subsidy Allowance	-	515	515
Other	523	(231)	292
Loans Receivable Direct, Net, end of year	**$ 2,955**	**$ 196,956**	**$ 199,911**

Disaster Direct

(Dollars in Thousands)

As of September 30, 2022	Pre-1992 Loans	Post-1991 Loans	Total
Loans Receivable Disaster, Net, beginning of year	**$ 398**	**$ 244,081,351**	**$ 244,081,749**
Loans Disbursed	-	127,261,347	127,261,347
Principal & Interest Payments Received	(92)	(3,372,299)	(3,372,391)
Foreclosed Property	-	(993)	(993)
Loans Written Off	-	(366,244)	(366,244)
Less: Interest Revenue on Uninvested Funds	-	(980,978)	(980,978)
Interest Expense on Entity Borrowings	-	4,773,168	4,773,168
Loan Modification	-	(172,204)	(172,204)
Subsidy Expense	-	(14,756,882)	(14,756,882)
Upward Reestimates	-	(28,554,343)	(28,554,343)
Downward Reestimates	-	482,028	482,028
Subsidy Allowance	-	(9,919,562)	(9,919,562)
Other	13	1,844,337	1,1844,350
Loans Receivable Disaster, Net, end of year	**$ 319**	**$ 320,318,726**	**$ 320,319,045**

Business Guarantied

(Dollars in Thousands)

As of September 30, 2022	Pre-1992 Loans	Post-1991 Loans	Total
Defaulted Guaranteed Loans Receivable, Net, beginning of year	**$ 1,546**	**$ 1,171,156**	**$ 1,172,702**
Claim Payment to Lenders/Guarantee Payments	-	6,023,484	6,023,484
Principal & Interest Payments Received	(321)	(797,697)	(798,018)
Fees	-	(1,474,784)	(1,474,784)
Foreclosed Property	(4)	(6,795)	(6,799)
Loans Written Off	-	(5,419,911)	(5,419,911)
Subsidy Allowance	-	1,628,475	1,628,475
Other	236	(116,183)	(115,947)
Defaulted Guaranteed Loans Receivable, Net, end of year	**$ 1,457**	**$ 1,007,745**	**$ 1,009,202**

NOTE 7 General Property, Plant, and Equipment, Net

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

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

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

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

(Dollars in Thousands)

As of September 30,	**2022**	**2021**
Leasehold Improvements	$ 1,811	$ 1,811
Amortization of Leasehold Improvements	(1,811)	(1,785)
Net	**-**	**26**
Software in Development	4,702	7,742
Software in Use	145,188	57,597
Amortization of Software in Use	(49,173)	(40,089)
Net	**100,717**	**25,250**
Total General Property and Equipment, Net	**$ 100,717**	**$ 25,276**

The increase in Software in Use represents the SBA purchase of a perpetual and unlimited license, including unlimited access and usage rights, for software and documentation developed by Goldschmitt & Associates LLC and Summit Technology Group. This includes all software and the software development framework. The system being developed is intended to be the permanent certification portal for veteran owned businesses.

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)

As of September 30,	2022	2021
Intragovernmental Liabilities - Benefit Program Contributions Payable		
Unfunded Employment Taxes Payable	$ 6,171	$ 2,137
Federal Employees' Compensation Act Payable	6,403	6,114
Total Intragovernmental Liabilities - Benefit Program Contributions Payable	**12,574**	**8,251**
Other than Intragovernmental Liabilities - Federal Employee Benefits Payable		
Federal Employees' Compensation Act Actuarial Liability	27,477	30,128
Accrued Unfunded Annual Leave	41,544	41,504
Total Other than Intragovernmental Liabilities - Federal Employee Benefits Payable	**69,021**	**71,632**
Surety Bond Guarantee Program Future Claims	**62,635**	**60,054**
Total Other Liabilities		
Total Liabilities Not Covered by Budgetary Resources	$ 144,230	$ 139,937
Total Liabilities Covered by Budgetary Resources	394,924,807	503,349,228
Total Liabilities Not Requiring Budgetary Resources	54,566	49,898
Total Liabilities	**$ 395,123,603**	**$ 503,539,063**

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, 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,	2022	2021
Principal Payable to the Bureau of the Fiscal Service		
Beginning Balance	$ 262,654,877	$ 176,173,660
New Borrowings	114,163,763	91,242,787
Repayments	(14,017,172)	(4,761,570)
Total Principal Payable to the Bureau of the Fiscal Service	**362,801,468**	**262,654,877**
Interest Payable		
Change in Interest Payable - Liquidating Funds	251	251
Total Interest Payable	**251**	**251**
Ending Balance	**$ 362,801,719**	**$ 262,655,128**

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,	2022	2021
Disaster Loan Fund	$ 318	$ 396
Business Loan and Investment Fund	6,738	7,973
Total Due to Treasury	**$ 7,056**	**$ 8,369**

NOTE 11 Other Liabilities

Other liabilities are shown in the following table.

(Dollars in Thousands)

As of September 30,	2022	2021
Other Liabilities - Intragovernmental		
Employment Taxes Payable	$ 2,117	$ 3,850
Payable to Treasury	6	6
Total Other Liabilities - Intragovernmental	**$ 2,123**	**$ 3,856**
Other Liabilities - Other than Intragovernmental		
Accrued Funded Payroll and Leave	$ 45,353	$ 58,075
Suspense Accounts	54,566	49,898
Total Other Liabilities - Other than Intragovernmental	**$ 99,919**	**$ 107,973**

All liabilities reflected are current liabilities.

NOTE 12 Leases

The SBA leases its facilities from the General Services Administration (GSA). 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 2022 and FY 2021 historical facilities lease costs were $44.8 million and $47.0 million. Future lease payments are based on FY 2023 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 2027 increased due to the increase in the total number of Occupancy Agreements still in effect until 2042.

Future Facilities Operating Lease Payments

(Dollars in Thousands)

Fiscal Year	Lease Projections
2023	$ 37,294
2024	38,413
2025	39,565
2026	40,752
2027	41,975
After 2027	116,606
Total	**$ 314,605**

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 the 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 are returned to the Treasury in the fiscal year following the accrual of the reestimates. During the year, these general fund accounts contain the 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 because both are included in the 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,	2022	2021
Entity		
Financing Fund Payable	$ (5,591,451)	$ (11,742,037)
Non-entity		
Miscellaneous Receipts Fund Receivable	5,591,451	11,742,037
Downward Reestimate Payable to Treasury	(5,591,451)	(11,742,037)
Balance Sheet Reported Payable	**$ (5,591,451)**	**$ (11,742,037)**

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 the SBA's major strategic goals are presented in the Consolidated Statement of Net Cost. Full costs comprise all direct costs for the strategic goals and indirect costs that 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 the 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 the 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 three strategic goals on a full cost allocation basis. The SBA issued its FY 2022–2026 Strategic Plan this year, and FY 2021 costs have been realigned to be comparable to the new strategic plan architecture. Strategic Goal 1 (Ensure Equitable and Customer-Centric Design and Delivery of Programs to Support Small Businesses and Innovative Startups) aims to improve access to SBA programs and services for all entrepreneurs. Strategic Goal 2 (Build Resilient Businesses and a Sustainable Economy) focuses on how the SBA can rebuild a sustainable economy fueled by small businesses. Strategic Goal 3 (Implement Strong Stewardship of Resources for Greater Impact) focuses on the SBA resources and ways to optimize them to best support the small business community. Agency administrative overhead costs are fully allocated to the programs in Strategic Goals 1, 2, and 3. The Management's Discussion and Analysis section of the SBA's annual Agency Financial Report includes additional detail on the 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 separate and independent parts of the SBA and are 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 the 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.

(Dollars in Thousands)

Gross Cost and Exchange Revenue

For the Years Ended September 30,	2022	2021
STRATEGIC GOAL 1:		
Ensure Equitable and Customer-Centric Design and Delivery of Programs to Support Small Businesses and Innovative Startups		
Intragovernmental Gross Cost	$ 170,900	$ 168,841
Other than Intragovernmental Gross Cost	(834,344)	26,492,849
Total Strategic Goal 1 Gross Cost	**(663,444)**	**26,661,690**
Intragovernmental Earned Revenue	277,457	4,208,498
Other than Intragovernmental Earned Revenue	111,600	127,664
Total Strategic Goal 1 Earned Revenue	**389,057**	**4,336,162**
STRATEGIC GOAL 2:		
Build Resilient Businesses and a Sustainable Economy		
Intragovernmental Gross Cost	$ 4,952,660	$ 4,131,299
Other than Intragovernmental Gross Cost	48,073,605	322,573,765
Total Strategic Goal 2 Gross Cost	**53,026,265**	**326,705,064**
Intragovernmental Earned Revenue	980,978	1,021,155
Other than Intragovernmental Earned Revenue	4,167,450	2,942,289
Total Strategic Goal 2 Earned Revenue	**5,148,428**	**3,963,444**
STRATEGIC GOAL 3:		
Implement Strong Stewardship of Resources for Greater Impact		
Intragovernmental Gross Cost	$ 19,587	$ 42,317
Other than Intragovernmental Gross Cost	130,427	1,142,601
Total Strategic Goal 3 Gross Cost	**150,014**	**1,184,918**
COST NOT ASSIGNED TO STRATEGIC GOALS		
Intragovernmental Gross Cost	$ 15,767	$ 3,647
Other than Intragovernmental Gross Cost	105,832	27,840
Total Gross Cost Not Assigned to Strategic Goals	**121,599**	**31,487**
Net Cost of Operations	**$ 47,096,949**	**$ 346,283,553**

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, 2022 and 2021. The SBA's budgetary resources were $44.2 billion and $413.4 billion for the fiscal years ended September 30, 2022 and 2021. Additionally, $375.8 billion and $933.7 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, 2022 and 2021.

Net Adjustments to Unobligated Balance, Brought Forward, October 1

The beginning balance brought forward for FY 2022 decreased by $3.3 billion in total. This amount reflects an increase of $3.6 billion in recoveries and a decrease of $6.9 billion in Other Changes in Unobligated Balance. This other change represents the prior year repayment of debt.

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. The 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 the SBA's annual reestimation process. The prior year's ending unobligated balances in the 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 2022 and FY 2021, the SBA received $113.7 billion and $93.9 billion of borrowing authority from the OMB. At the end of FY 2022, the SBA had $3.2 billion in borrowing authority carried over to fund direct loans and default claims to be disbursed in the future. At the end of FY 2021, the SBA had $3.6 billion in available borrowing authority. The SBA pays interest to the Treasury based on the 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, 2022 and 2021 are $44.4 billion and $299.1 billion, which include $30.5 billion and $6.4 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 ($35.6 billion in FY 2022 and $234.2 billion in FY 2021) from fees and subsidy to fund default claims in future years. In addition, unobligated balances are accumulated in budgetary accounts from appropriations ($8.8 billion in FY 2022 and $65.0 billion in FY 2021) that are used to finance the 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 that 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,		2022		2021
Intragovernmental				
Unpaid	$	1,902.8	$	3,449.1
Paid		2.5		2.9
Total Intragovernmental		**1,905.3**		**3,452.0**
Other than Intragovernmental				
Unpaid	$	14,019.7	$	20,110.1
Paid		16.2		17.8
Total Other than Intragovernmental		**14,035.9**		**20,127.9**
Total Undelivered Orders	**$**	**15,941.2**	**$**	**23,579.9**

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

There was no material difference between the FY 2021 Statement of Budgetary Resources and the President's FY 2023 budget submission. The President's FY 2024 Budget with actual numbers for FY 2022 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 2022 reported results when the budget becomes available in February 2023.

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. The 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.

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 2022
Net Operating Cost (SNC)	**$ 3,900,479**	**$ 43,196,470**	**$ 47,096,949**
Components of Net Operating Cost not Part of the Budgetary Outlays			
General Property, plant and equipment depreciation expense	-	(9,110)	(9,110)
Year-end credit reform subsidy reestimates	(23,073,605)	-	(23,073,605)
President's Budget adjustment to downward reestimates	188,692	-	188,692
Downward Modification	63,824	-	63,824
President's Budget adjustment to upward reestimates	13,491	-	13,491
Modification Adjustment Transfer (MAT), net	-	364,358	364,358
Increase/(decrease) in assets not affecting Budget Outlays:			
Accounts Receivable, net	-	2,898	2,898
Advances	489	(2,575)	(2,086)
Loans Receivable, net	-	162	162
Other assets	-	(1,476)	(1,476)
(Increase)/decrease in liabilities not affecting Budget Outlays:			
Accounts Payable	887	102,959	103,846
Accrued Grant Liability	-	(94,578)	(94,578)
Federal Employee Benefits Payable	-	2,477	2,477
Surety Bond Guarantee Program Future Claims	-	(2,581)	(2,581)
Other Liabilities	(3,262)	12,848	9,586
Other Financing Sources:			
Imputed Cost	(44,092)	-	(44,092)
Total Components of Net Operating Cost Not Part of the Budget Outlays	**$ (22,853,576)**	**$ 375,382**	**$ (22,478,194)**
Components of the Budget Outlays That Are Not Part of Net Operating Cost			
Acquisition of Capital Assets		84,551	84,551
Other Financing Sources:			
Donation of Cash and Cash Equivalents	-	(506)	(506)
Transfer out (in) without reimbursement	(115)	-	(115)
Effect of prior year credit reform subsidy re-estimates	10,462,176	-	10,462,176
Total Components of the Budget Outlays That Are Not Part of Net Operating Cost	**$ 10,462,061**	**$ 84,045**	**$ 10,546,106**
Other Reconciling Items			
Distributed Offsetting Receipts	-	(11,965,553)	(11,965,553)
Total Other Reconciling Items	**$ -**	**$ (11,965,553)**	**$ (11,965,553)**
Total Net Outlays			**$ 23,199,308**
Budgetary Agency Outlays, net (SBR)			
Budgetary Agency Outlays, net			**$ 23,199,308**

Budget and Accrual Reconciliation, Continued

(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 re-estimates	1,266,370	-	1,266,370
President's Budget adjustment to downward re-estimates	(778,039)	-	(778,039)
Downward Modification	24,134	-	24,134
President's Budget adjustment to upward re-estimates	569,892	-	569,892
Modification Adjustment Transfer (MAT), net	-	(21,626)	(21,626)
Increase/(decrease) in assets not affecting Budget Outlays:			
Accounts and Taxes 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)
FECA Actuarial Liability	-	(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 re-estimates	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**

NOTE 17 COVID-19 Activity

History

In March 2020, the Coronavirus Aid, Relief and Economic Security Act (the CARES Act PL 116-136) was enacted to provide emergency and immediate national economic relief and assistance across the American economy, including to small businesses, workers, families, and the healthcare system, to alleviate the severe economic hardships and public health threat created by the COVID-19 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 (PPP)
- 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. Additionally, 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. Additional programs include:

- Modifications to the Paycheck Protection Program
- Business Loan Fee Waiver and Debt Relief
- Targeted EIDL and Supplemental EIDL Advance
- Restaurant Revitalization Program
- Shuttered Venue Operators Grants
- Community Navigator Pilot Program

Some COVID-19 program applications closed due to funding availability in FY 2021. Authority for the PPP and Debt Relief programs expired at the end of FY 2021, and new Coronavirus Disaster Assistance Loans and Targeted EIDL Grant program no longer accepted applications after December 31, 2021.

Subsidy for Paycheck Protection Program

The Paycheck Protection Program (PPP) was established by the CARES Act. Under the Economic Aid Act additional funds were appropriated to make new First Draw PPP loans. This act also allowed 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. 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.

The Paycheck Protection Program ended on May 31, 2021. Existing borrowers may be eligible for loan forgiveness based on specified criteria.

Pursuant to P.L.117-58, 135 STAT 1347 Sec 90007(d)(1), $4.7 billion was permanently rescinded. This was recorded in fund X1154.

Business Loan Fee Waiver and Debt Relief

As a part of the CARES Act, the 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).

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). 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.

The Economic Aid Act also included temporary modifications to the 7(a) Loan Program, including temporary higher guaranty percentages and fee reductions on eligible business loans, and an increase in the maximum SBA Express loan amount.

Pursuant to P.L. 117-58, 135 STAT 1347 Sec 90007(d)(2) of the unobligated balances from amounts made available under P.L. 116-260, $255.2 million was permanently rescinded. This was recorded in fund X1154.

Targeted Economic Injury Disaster Loan Emergency (EIDL) Advance and Supplemental Advance

The COVID-19 Targeted EIDL Advance and Supplemental EIDL Advance programs provide funding to help small businesses recover from the economic impacts of the COVID-19 pandemic. No appropriations were received this fiscal year; funding is limited to carryover funding.

As of January 1, 2022, the SBA stopped accepting applications for new COVID EIDL advances.

Pursuant to P.L. 117-58, 135 STAT 1347 Sec 90007(b)(1) of the unobligated balances from amounts made available under P.L. 116-260, $15.8 billion was permanently rescinded. This was recorded in fund X0500.

Subsidy for Coronavirus Disaster Assistance Loans

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

Due to the continued adverse effects of the COVID-19 emergency, the SBA is extending the previous deferments granted to COVID EIDL Borrowers to provide an additional 6-month deferment of principal and interest payments on their COVID EIDLs. This 6-month deferment extension is effective for all COVID EIDLs approved in calendar years 2020, 2021, and 2022. COVID EIDLs have a total deferment of 30 months from the date of the Note.

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.

As of May 6, 2022, the SBA is no longer processing COVID-19 EIDL loan increase requests or requests for reconsideration of previously declined loan applications due to a lack of available funding.

Pursuant to P.L. 117-58, 135 STAT 1346 Sec 90007(a)(1) of the unobligated balances from amounts made available under P.L. 116-139, $13.5 billion was permanently rescinded. This was recorded in fund X1152.

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. Recipients are not required to repay the funding as long as funds are used for eligible uses no later than March 11, 2023.

On July 2, 2021, the SBA announced that the $28.6 billion dollar fund had been exhausted and the program closed.

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.

As of August 20, 2021, SVOG was no longer accepting new applications.

Pursuant to P.L.117-158, Section 4(a)(3), of the unobligated balance from amounts made available under P.L. 117-2, $1.2 billion was permanently rescinded. This was recorded in fund X0700.

Community Navigator Pilot Program

P.L. 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 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 education. The funding was 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

Pursuant to P.L. 117-58, 135 STAT 1348 Sec 90007(g)(1) of the unobligated balances from amounts made available under P.L. 116-136, P.L. 116-139, and P.L. 116-260, $45.8 million was permanently rescinded. This was recorded in fund X0100.

The impact of COVID-19 programs on various financial statement and footnote lines are decreases and are the result of these specific programs being closed, with no additional funding provided.

(Dollars in Thousands)

COVID-19 Activity Funded by DEF Code L, M, N, O, P, U, or V	FY 2022	FY 2021
Budgetary Resources: Unobligated (and Unexpired) Balance Carried Forward from PY	$ 64,520,626	$ 173,804,108
New Budget Authority (+)	-	378,599,623
Rescissions(-)/Other Changes (+/-) to Budgetary Resources	(28,763,165)	(144,487,635)
Budgetary Resources Obligated (-)	23,035,026	343,395,470
Budgetary Resources: Ending Unobligated (and Unexpired) Balance to be Carried Forward	10,457,142	64,520,626
Outlays, Net (Total)	23,712,329	345,858,819

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. The 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. The 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 the SBA's financial statements and the SBA's reclassified statements prior to elimination of intragovernmental balances and prior to aggregation of repeated Financial Report line items. A copy of the 2021 Financial Report can be found here: **Bureau of the Fiscal Service - Reports, Statements & Publications** (**treasury.gov**) and a copy of the 2022 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.

(Dollars in Thousands)

FY 2022 SBA Statement of Net Cost		Line Items Used to Prepare FY 2022 Government-Wide Statement of Net Cost	
STRATEGIC GOAL 1:			
Ensure Equitable and Customer-Centric Design and Delivery of Programs to Support Small Businesses and Innovative Startups			
			Non-Federal Cost
Gross Cost	$ (663,444)	$ 47,475,519	Non-Federal Gross Cost
Less: Earned Revenue	389,057	**47,475,519**	**Total Non-Federal Cost**
Net Cost of Strategic Goal 1	**(1,052,501)**		
			Intragovernmental Costs
		127,275	Benefit Program Costs
STRATEGIC GOAL 2:		44,092	Imputed Costs
Build Resilient Businesses and a Sustainable Economy		88,520	Buy /Sell Costs
Gross Cost	53,026,265	4,841,591	Borrowing and Other Interest Expense
Less: Earned Revenue	5,148,428	57,437	Other Expenses (w/o Reciprocals)
Net Cost of Strategic Goal 2	**47,877,837**	**5,158,915**	**Total Intragovernmental Costs**
		52,634,434	**Total Reclassified Gross Cost**
STRATEGIC GOAL 3:			
Implement Strong Stewardship of Resources for Greater Impact		**4,279,050**	**Non-federal Earned Revenue**
Gross Cost	150,014		
Net Cost of Strategic Goal 3	**150,014**		**Intragovernmental Earned Revenue**
		881	Buy/Sell Revenue
		1,257,554	Borrowing and Other Interest Revenue
COST NOT ASSIGNED TO STRATEGIC GOALS		**1,258,435**	**Total Intragovernmental Earned Revenue**
Gross Cost	121,599		
Net Cost Not Assigned to Strategic Goals	**121,599**	**5,537,485**	**Total Reclassified Earned Revenue**
Net Cost of Operations	**$ 47,096,949**	**$ 47,096,949**	**Net Cost**

(Dollars in Thousands)

FY 2022 SBA Statement of Changes in Net Position			Line Items Used to Prepare FY 2022 Government-Wide Statement of Changes in Net Position	
Funds from other than Dedicated Collections				
Unexpended Appropriations:				
Beginning balance	$	69,132,143	$ 69,132,143	Unexpended Appropriations, Beginning Balance
Appropriations Received		12,693,825	(22,791,696)	Appropriations Received
Other Adjustments:				
Rescissions		(35,467,645)		
Adjustment - Cancelled Authority		(17,235)		
Return of Unrequired Liquidating Fund Appropriation		(490)		
Other Adjustments		(151)		
Appropriations Used		(35,782,109)	(35,782,109)	Appropriations Used
Total Unexpended Appropriations	**$**	**10,558,338**	**$ 10,558,338**	**Total Unexpended Appropriations**
Cumulative Results of Operations:				
Beginning Balance	$	(10,253,525)	$ (10,253,525)	Cumulative Results, Beginning Balance
Other Adjustments:				
Current Year Liquidating Equity Activity		(460)	35,782,109	Appropriations Expended
Appropriations Used		35,782,109	10,000	Non-expenditure Transfers-In of Unexpended Appropriations and Financing Sources
			(460)	Non-expenditure Transfers-Out of Unexpended Appropriations and Financing Sources
Donations of Cash and Cash Equivalents		506		
Transfers In/Out Without Reimbursement		10,115	115	Expenditure Transfers-out of Financing Sources
			35,791,764	**Total Appropriations Used**
			30,537	Other Taxes and Receipts
			30,537	**Total Non-Federal Non-Exchange Revenue**
Imputed Financing		44,092	44,092	Imputed Financing
Other:			(12,336,080)	Non-Entity Collections Transferred to the General Fund of the U.S. Government
Non-entity Activity		(6,155,464)	6,150,585	Accrual for Non-Entity Amounts to be Collected and Transferred to the General Fund of the U.S. Government
			(6,141,403)	**Total Transfers and Imputed Financing**
Net Cost of Operations		**47,096,949**	**47,096,949**	**Net Cost of Operations**
Net Change in Cumulative Results of Operations		**(17,416,051)**		
Total Cumulative Results of Operations	**$**	**(27,669,576)**	**$ (27,669,576)**	**Total Cumulative Results of Operations**
Ending Net Position	**$**	**(17,111,238)**	**$ (17,111,238)**	**Net Position**

REQUIRED SUPPLEMENTARY INFORMATION

COMBINING STATEMENT OF BUDGETARY RESOURCES

For the Year Ended September 30, 2022

(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)	$ 9,891,558	$ 227,226,403	$ 18,592,257	$ 2,359,126	$ 107,561	$ 1,279,978	$ 55,614
Appropriations (discretionary and mandatory)	4,780,958	-	(1,031,430)	10,962	-	820,320	24,271
Borrowing Authority (discretionary and mandatory)	-	81,055	-	113,622,213	-	-	-
Spending Authority from Offsetting Collections	-	11,385,028	-	21,100,759	18,907	810,409	230
Total Budgetary Resources	**$ 14,672,516**	**$ 238,692,486**	**$ 17,560,827**	**$ 137,093,060**	**$ 126,468**	**$ 2,910,707**	**$ 80,115**
STATUS OF BUDGETARY RESOURCES							
New Obligations and Upward Adjustments (total)	$ 9,717,743	$ 206,824,983	$ 16,807,323	$ 133,336,338	$ 17,697	$ 1,565,634	$ 37,227
Unobligated Balance, end of year:							
Apportioned, unexpired accounts	2,356,017	8,242,645	464,106	482,491	3,423	848,343	40,228
Unapportioned, unexpired accounts	701,110	23,624,858	289,398	3,274,231	105,348	121,314	11
Unexpired Unobligated Balance, end of year	3,057,127	31,867,503	753,504	3,756,722	108,771	969,657	40,239
Expired Unobligated Balance, end of year	1,897,646	-	-	-	-	375,416	2,649
Unobligated Balance, end of year (total)	4,954,773	31,867,503	753,504	3,756,722	108,771	1,345,073	42,888
Total Status of Budgetary Resources	**$ 14,672,516**	**$ 238,692,486**	**$ 17,560,827**	**$ 137,093,060**	**$ 126,468**	**$ 2,910,707**	**$ 80,115**
OUTLAYS, NET and DISBURSEMENTS, NET							
Net Outlays (discretionary and mandatory)	$ 9,900,820		$ 17,134,131		$ (5,445)	$ 822,032	$ 35,688
Distributed Offsetting Receipts	-		-		-	(11,965,553)	-
Agency Outlays, net (discretionary and mandatory)	**$ 9,900,820**		**$ 17,134,131**		**$ (5,445)**	**$ (11,143,521)**	**$ 35,688**
Disbursements, net (total) (mandatory)		**$ 194,437,735**		**$ 108,016,489**			

(Dollars in Thousands)

	ADVOCACY	EDP	EIDL	SVOG	RRF	WCF	BATF	TOTAL	TOTAL	
BUDGETARY RESOURCES	**Budgetary**	**-**	**Budgetary**	**Budgetary**	**Budgetary**	**Budgetary**	**Budgetary**	**Budgetary**	**Nonbudgetary Financing**	**Total**
Unobligated Balance from Prior Year Budget Authority, net (discretionary and mandatory)	$ 2,804	$ 266,738	$ 29,311,549	$ 6,539,178	$ 147,506	$ 8,473	$ 175	$ 66,203,391	$ 229,585,529	$ 295,788,920
Appropriations (discretionary and mandatory)	9,466	290,150	(26,487,175)	(1,200,000)		8,168	-	(22,785,272)	10,962	(22,774,310)
Borrowing Authority (discretionary and mandatory)	-	-	-	-	-	-	-	-	113,703,268	113,703,268
Spending Authority from Offsetting Collections	-	-	-	-	-	1	506	830,053	32,485,787	33,315,840
Total Budgetary Resources	**$ 12,270**	**$ 556,888**	**$ 2,824,374**	**$ 5,339,178**	**$ 147,506**	**$ 16,642**	**$ 681**	**$ 44,248,172**	**$ 375,785,546**	**$ 420,033,718**
STATUS OF BUDGETARY RESOURCES										
New Obligations and Upward Adjustments (total)	$ 7,494	$ 478,642	$ 1,927,428	$ 4,879,290	$ 15,178	$ 1,401	$ 10	$ 35,455,067	$ 340,161,321	$ 375,616,388
Unobligated Balance, end of year:										
Apportioned, unexpired accounts	4,776	55,034	885,896	459,888	60,915	15,241	265	5,194,132	8,725,136	13,919,268
Unapportioned, unexpired accounts	-	-	-	-	71,413	-	406	1,289,000	26,899,089	28,188,089
Unexpired Unobligated Balance, end of year	4,776	55,034	885,896	459,888	132,328	15,241	671	6,483,132	35,624,225	42,107,357
Expired Unobligated Balance, end of year	-	23,212	11,050	-	-	-	-	2,309,973	-	2,309,973
Unobligated Balance, end of year (total)	4,776	78,246	896,946	459,888	132,328	15,241	671	8,793,105	35,624,225	44,417,330
Total Status of Budgetary Resources	**$ 12,270**	**$ 556,888**	**$ 2,824,374**	**$ 5,339,178**	**$ 147,506**	**$ 16,642**	**$ 681**	**$44,248,172**	**$ 375,785,546**	**$ 420,033,718**
OUTLAYS, NET and DISBURSEMENTS, NET										
Net Outlays (discretionary and mandatory)	$ 7,167	$ 398,096	$ 1,992,651	$ 4,887,684	$ (13,115)	$ 5,648	$ (496)	$ 35,164,861		$ 35,164,861
Distributed Offsetting Receipts	-	-	-	-	-	-	-	(11,965,553)		(11,965,553)
Agency Outlays, net (discretionary and mandatory)	**$ 7,167**	**$ 398,096**	**$ 1,992,651**	**$ 4,887,684**	**$ (13,115)**	**$ 5,648**	**$ (496)**	**$ 23,199,308**		**$ 23,199,308**
Disbursements, net (total) (mandatory)									**$ 302,454,224**	

Section 3

Other Information (Unaudited)

TOP MANAGEMENT AND PERFORMANCE CHALLENGES FACING THE SMALL BUSINESS ADMINISTRATION IN FISCAL YEAR 2023

U.S. Small Business Administration
Office of Inspector General

TOP MANAGEMENT AND PERFORMANCE CHALLENGES FACING THE SMALL BUSINESS ADMINISTRATION IN FISCAL YEAR 2023

October 14, 2022
Report 23-01

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MESSAGE FROM THE INSPECTOR GENERAL

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 2023*.

Over 2 years have passed since the start of the Coronavirus Disease 2019 (COVID-19) pandemic economic crisis, and OIG continues to provide independent and objective oversight of the U.S. Small Business Administration (SBA). SBA has faced a steady stream of unprecedented new challenges as the primary agency responsible for providing nationwide assistance to small businesses during the crisis.

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 2).

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 Economic Injury Disaster Loan Program and the processing of Paycheck Protection Program loan forgiveness. Pandemic response has, in many instances, magnified the challenging systemic issues in SBA's mission-related work.

OIG remains committed to protecting the interests of all American taxpayers by promoting positive change within SBA and across government. Our audits and investigations continue to keep watch over government contractors for business ethics, integrity, honesty, and competency along with SBA programs, ensuring taxpayer dollars are spent efficiently according to intent.

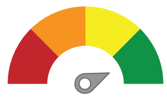
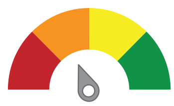
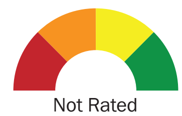
Sincerely,

Hannibal Ware
Inspector General

Color Coding to Indicate Progress in Challenges

In this report, we use 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 1).

Table 1. Color Code Definitions

COLOR	DEFINITION	COLOR INDICATOR
Green	Issue Resolved or Appropriately Reduced	
Yellow	Substantial Progress	
Orange	Moderate or Limited Progress	
Red	No Progress	
N/A	New, Not Rated	
N/A	Not Rated (extenuating circumstances)	

FY 2023 Challenges and Issues

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. Addressing the challenges will require consistent, focused attention from agency management and ongoing engagement with Congress, the public, and other stakeholders. It is also important to note that the top challenges are not listed in order of importance or magnitude, except for the COVID-19 challenge, which we address first in this report. We view all eight challenges as critically important to SBA operations.

Overall, the agency has made progress addressing this year's list of management challenges. We removed three issues this year related to the 8(a) Business Development Program, which had been included in Challenge 5. One issue was how SBA's streamlined application process may expose the 8(a) program to higher fraud risk. The second issue we removed dealt with the processes and reducing risks of ineligible firms participating in the 8(a) program. We believe that progress mitigating these issues is in large part attributable to the agency's continued effort to address outstanding internal control recommendations from our audits and evaluations.

The third issue had related to economically disadvantaged determination criteria. SBA plans to conduct an assessment of the FY 2020 changes to the economic disadvantage thresholds for the 8(a) program next year, using FY 2021 and FY 2022 data. We believe the agency's commitment to montoring the effects of the networth threshold changes mitigate this risk and the issue is no longer a top management challenge for the agency.

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

Table 2. Top Management and Performance Challenges Facing SBA in FY 2023

CHALLENGE	ISSUE
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 SBA Must Review COVID-19 EIDLs and Grants for Potential Fraud Identified in Previous OIG Reports
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 Women-Owned Small Business 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 and Monitoring Controls Need to Reflect Changing IT Design Risks Additional Progress Needed in IT 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
CHALLENGE 6 Identification of Improper Payments in SBA's 7(a) Loan Program 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 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 Comprehensive Oversight Plan with Strong Controls Will Help SBA Better Assess Risk, Distribute Payments, and Audit the Shuttered Venue Operators Grant and the Restaurant Revitalization Fund Programs Leveraging SBA's Workforce to Ensure Effective Administration of New and Significantly Expanded Grant Programs to Aid Small Businesses

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 the Coronavirus Disease 2019 (COVID-19) pandemic economic crisis. 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.

In response to the economic crisis, SBA disbursed CARES Act funds through the Paycheck Protection Program (PPP) and the Economic Injury Disaster Loan (EIDL) program in amounts unprecedented in SBA's history. The programs needed proper controls to ensure they operated as intended in this high-risk environment. The absence of a proper control environment led to significant fraud risk and vulnerabilities, which is why this continues to be a top challenge in Fiscal Year (FY) 2023.

OIG's PPP and EIDL oversight and investigative work has resulted in 449 indictments, 354 arrests, and 303 convictions as of July 31, 2022. As of July 31, 2022, OIG has received more than 208,000 Hotline complaints since the start of SBA's pandemic relief programs. Additionally, OIG collaboration with SBA and the U.S. Secret Service has resulted in the seizure of more than $1 billion stolen by fraudsters from the EIDL program. We also played a key role in assisting financial institutions in the return of another $8 billion to SBA's EIDL program. In addition, SBA has also received over $20 billion in EIDL funds returned by borrowers.

To date, we have issued 10 reports related to the PPP program and 10 reports related to the COVID-19 EIDL program.

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

Under the Economic Aid to Hard-Hit Small Businesses, Nonprofits, and Venues Act , the PPP was extended on December 27, 2020 to provide more than $284 billion in SBA-guaranteed loans. On March 11, 2021, the American Rescue Plan Act of 2021 provided an additional $7.2 billion to the PPP, which increased the total program funding to $813.7 billion. On March 30, 2021, the President signed the PPP Extension Act of 2021, which allowed SBA to continue accepting new applications until May 31, 2021.

By the end of the program, SBA had processed 11.8 million PPP loans, totaling $799.8 billion, through more than 5,400 private lenders, far more than all of SBA's combined lending under the 7(a) program from 1990 to 2019. In contrast, from FY 2000 to 2019, 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.

Under the CARES Act, SBA-guaranteed PPP loans for eligible small businesses, individuals, and nonprofits can be forgiven if proceeds were used in accordance with law. Eligible expenses include payroll, rent, utility payments, and other limited uses.

To quickly distribute funds during an economic crisis, SBA eased internal controls that could have helped to mitigate fraud and misuse of taxpayer funds. We believe this is the tip of a much larger iceberg, and we are working to identify the full extent of PPP fraud. The true magnitude of fraud in SBA pandemic assistance programs will be coming to light for many more years as these programs move through remaining stages, including loan forgiveness, repayment, and guaranty purchase.

COVID-19 Economic Injury Disaster Loan

In FY 2020, the CARES Act and the Paycheck Protection Program and Health Care 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 Plan Act of 2021 together provided an additional $30 billion in Targeted EIDL Advances and $5 billion in Targeted Supplemental EIDL Advances to eligible entities that met additional criteria.

From March 2020 to the end of December 2021, SBA received more than 27.7 million COVID-19 EIDL applications and approved 3.7 million loans totaling $303.6 billion. The COVID-19 EIDL program closed in May 2022. The severity of the economic crisis, and the demand for aid, is apparent when you compare these numbers to all other disaster loan spending outside the pandemic. Since the agency's inception in 1953, SBA has approved 2.2 million non-COVID-19 disaster loans for a total of $66.7 billion.

SBA's existing application portal and processing system were initially overwhelmed by the 4.5 million EIDL applications submitted by April 10, 2020. To ease the strain and meet high demand for COVID-19 EIDLs, SBA contracted with a vendor that had previously assisted SBA in streamlining disaster loan processing. However, setting up a new application processing system quickly presented significant risks. Because of the unprecedented demand, SBA relaxed internal controls. This expeded funds to affected businesses, but also significantly increased the risk of program misuse and fraud.

The extent of the suspected fraud will become apparent as EIDL payments start coming due in October 2022. SBA anticipates that 30 to 50 percent of the 2.9 million COVID-19 EIDLs with an original loan amount of $100,000 or less will default.

Issue: Paycheck Protection Program Susceptible to Abuse and Fraud

Yellow

Because the PPP program has closed, the issue has evolved from preventing fraud in the PPP to identifying and remedying potential and suspected fraud that has already occurred. Since the program began, reports of suspected fraud have come in from OIG Hotline complaints, financial institutions, and other law enforcement agencies.

Examples of fraud schemes include:

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

We have received an unprecedented number of OIG Hotline PPP complaints, including these potential fraud or scams:

- Loan applicants asserting a business that did not exist
- Business owners who received a loan but did not use the funds for allowable operational expenses
- 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 unemployment assistance
- Online fraudsters who offered to prepare applications for a fee
- Business owners and individuals reporting identity theft

Internal control weaknesses limited SBA's ability to actively reduce and combat fraud and increased the risk of fraudulent and ineligible applicants receiving PPP loans and loan forgiveness. Strong internal controls will help reduce fraud risk and enhance program integrity for the PPP and similar programs enacted in the future.

It is important to note that these loans are 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 which underscores the need for SBA to review loans identified as suspicious. Below is a description of issues OIG has identified related to potential fraud in the PPP.

Borrowers in the Do Not Pay Database

We coordinated with the U.S. Department of the Treasury to compare Taxpayer Identification Numbers and name data provided in PPP data files against Treasury's Do Not Pay debt, exclusions, and death data sources. We found tens of thousands of loans that matched a Treasury Do Not Pay data source record indicating potential loan ineligibility (Report 21-06).

The Treasury Department Do Not Pay system helps agencies fulfill the obligation to deny federal loans, loan insurance, and loan guarantees to businesses delinquent on federal debts and obligations. To be eligible to receive PPP funds, a business must not have any current federal debarments or suspensions, and the applicant must not have delinquent federal loans or have defaulted on any federal loans in the last 7 years. In March 2021, SBA published an interim final rule that removed the eligibility restriction that prevents business owners who are delinquent or default on their federal student loans from obtaining PPP loans.

Taxpayer Identification Number Registered after February 15, 2020

The CARES Act required 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, which may indicate the businesses were created to fraudulently gain access to program funds (Report 21-07). We note that multiple borrowers in this group of identified loans have already been arrested and others are under active investigation.

Duplicate Loans Made Under the Paycheck Protection Program

SBA did not always have sufficient controls in place to detect and prevent duplicate PPP loans (Report 21-09). OIG has pursued multiple PPP criminal fraud cases related to duplicate loans made to the same business. Additionally, other federal agencies have pursued cases involving businesses with duplicate PPP loans. Based on our earlier review of PPP loan data as of August 31, 2020, we found that lenders made more than one PPP disbursement to 4,260 borrowers, which totaled about $692 million and involved 8,731 loans.

Paycheck Protection Program Loan Forgiveness

Our evaluation of PPP loan review processes (Report 22-09) shows that the large number of borrowers who have not applied for forgiveness could be a strong indicator of fraud. Borrowers who fraudulently obtained a PPP loan are unlikely to apply for loan forgiveness because they have already obtained the funds with no intention to use them appropriately or to repay the loan.

Borrowers may submit a loan forgiveness application any time before the maturity date of the loan up to 5 years from loan origination. However, after the 10-month deferral period, if a borrower has not applied for loan forgiveness, they must begin making principal and interest payments. Most 2020 borrowers were likely to apply for forgiveness by October 31, 2021 to avoid making loan payments. Lenders then had 60 days to review a forgiveness application. Therefore, these forgiveness applications should have been submitted by lenders to SBA by December 30, 2021.

However, based upon further analysis by OIG as of May 30, 2022, we found about 150,000 PPP recipients, with loans totaling over $6.3 billion, have not applied for forgiveness with SBA or made any principal payments. Over 52,000 of these loans have defaulted and had their guaranty honored by SBA for over $2.8 billion. OIG is working on a project regarding these potentially fraudulent loans. PPP funds were intended to assist struggling business owners during a national economic crisis. We believe these 150,000 loan recipients either did not spend the money according to Congressional intent and therefore knew the loans would not be forgiven, or they had always intended to default and let the taxpayer pick up the bill.

Program Changes Expanded the Opportunity for Sole Proprietor and Independent Contractor Fraud

Changes made by SBA to expand access to the program for certain borrowers appear to have been exploited by unscrupulous applicants. In March 2021, SBA issued an interim final rule that allowed individuals who filed an IRS Form 1040, Schedule C, to calculate their maximum loan amount using gross income rather than net income (Report 22-09). 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 OIG Hotline complaints, multiple financial institutions have contacted us about a significant number of PPP deposits in personal accounts, or made to those whom the financial institutions believe do not own businesses.

Based on our analysis of the PPP loan data, many of the Schedule C loans were made by lenders that relied exclusively on third-party loan processing or software platform vendors they hired to complete loan processes. These vendors do not often have a relationship with SBA. 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. These seven lenders included financial technology (fintech) lenders, Community Development Financial Institutions, and small business lending companies.

We believe that these lenders and their reliance on third-party vendors could present SBA with several challenges moving forward, including access to loan documents. Within the context of the PPP eligibility and forgiveness process, we believe it is important for SBA to focus targeted efforts on these types of loans and review appropriate documentation to ensure these smaller loans were made to eligible businesses and minimize the losses associated with forgiveness of fraudulent loans.

SBA's Handling of Potentially Fraudulent Paycheck Protection Program Loans

In our inspection of potentially fraudulent PPP loans (Report 22-13), we found SBA did not have an organizational structure with clearly defined roles, responsibilities, and processes to manage and handle potentially fraudulent PPP loans. The agency did not establish a centralized entity to design, lead, and manage fraud risk because the agency did not establish a sufficient fraud risk framework. This was partly due to the speed in which SBA was required to launch the PPP, which was 15 days after enactment of the CARES Act, and the continuous and rapid discovery of different kinds of fraud schemes.

In addition, lenders were not always clear on how to handle PPP fraud or recover funds obtained fraudulently from the PPP that remained in the borrower's account. SBA did not provide lenders sufficient specific guidance to effectively handle potentially fraudulent PPP loans. Our report noted that SBA should provide information on the type of fraud lenders are finding and best practices for detecting and reporting that fraud to SBA and OIG. Specifically, SBA should instruct lenders on how to document and report the return of funds from the financial institution. This should include the reason for the return and any findings of fraud found by the financial institution and lender. Furthermore, SBA should provide instructions for lenders to report notice of seizures, forfeitures, and restitution to SBA. OIG has seen an increase in inquiries from financial institutions seeking guidance on how to address potentially fraudulent loans. The loan forgiveness process could potentially trigger more fraud. The instructions would help SBA properly flag loans for potential fraud and account for the loan balance. This would help determine if there are any funds due to SBA if the loan had been forgiven or guaranty purchased.

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 has since implemented fraud and eligibility controls and taken corrective actions to combat PPP fraud, including:

- Establishing a Fraud Risk Management Board in 2022
- Developing a webpage dedicating to preventing fraud and identity theft, which includes a section entitled "Lenders and Fraud Response"
- Developing aggregate review processes to identify different fraud scenarios
- Developing and implementing a Master Review Plan that established guidelines for loan and forgiveness reviews
- Increasing antifraud controls for loans originating in 2021, including checking application data against Treasury's Do Not Pay database
- Developing and implementing SBA and contractor fraud risk management policy and framework
- Increasing post-disbursement antifraud controls for loans that originated in 2020
- Commencing manual loan and forgiveness reviews
- Engaging a contractor with expertise in detection and identification of potential fraud
- Using a contractor's automated review tool and the SBA 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
- Implementing processes to refer potential fraud to SBA OIG

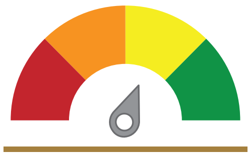
Remaining Challenges

Although SBA has made substantial progress in reducing fraud risks and preventing further loss, difficulties and challenges remain. The need to establish and utilize effective fraud, eligibility, and compliance controls while reviewing for loan eligibility, forgiveness, and guaranty purchase remains an ongoing challenge.

SBA's approach to fraud risk management allowed funds to disburse quickly, but presented risks of fraud when loans were 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. For funds disbursed on a fraudulent loan, the back-end controls established for the forgiveness stage may never be used.

SBA's plans and actions to reduce fraud risks and prevent further losses will determine how this challenge will continue to be rated in the future. Our investigations into suspected fraud and suspicious activities continue. We have ongoing or planned audit work on PPP loan eligibility, loan forgiveness, guaranty purchase, 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 reviews have found deficiencies with internal controls related to eligibility of borrowers. Our review of SBA's implementation of PPP identified thousands of loans erroneously provided to potentially ineligible borrowers. Review our sections above on the Do Not Pay database and Taxpayer Identification Numbers, which also reveal program eligibilty issues. SBA lenders also inappropriately approved loans for businesses that exceeded maximum loan amounts for the number of employees, and exceeded the maximum size allowed.

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). The Cares Act states that the maximum loan amount is obtained by multiplying the average total monthly payments by the applicant for payroll costs incurred during the 1-year period before the date on which the loan is made times 2.5, plus any outstanding amounts of Economic Injury Disaster Loans made beginning January 31, 2020.

Businesses that Exceeded Maximum Size Standards

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. 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.

Agency Progress

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

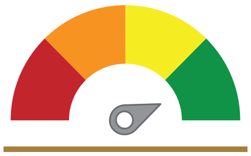
- Developing the Master Review Plan, establishing guidelines for loan and forgiveness reviews (October 2020, revised June 2021)
- Developing and implementing SBA and contractor fraud risk management policy and framework
- Developing machine learning models to focus on areas of higher risk
- Implementing automated screening to detect potentially ineligible loans

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 database, 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 in addition to SBA's corrective actions to address OIG recommendations will determine how we will rate this challenge in the future.

Issue: Paycheck Protection Program Data Reliability



Green

OIG's inspection of SBA's implementation of the PPP found the data SBA reported and the loan-level PPP data was 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

At the beginning of the PPP program, our May 2020 flash report 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 (NAICS) Data Was Incomplete

We found SBA's loan-level data on PPP NAICS 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 found that 191,003 loans totaling about $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 internal control to check data in the "number of current employees" field, these loans, totaling about $4 billion, were not validated before approving and issuing loan numbers to PPP lenders.

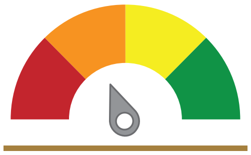
Agency Progress

SBA implemented a number of additional controls to ensure the integrity of the key data fields noted above, including:

- Adding mandatory fields in borrower and lender application processes, including NAICS code, 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, Do Not Pay, and LexisNexis at origination

We have an ongoing audit reviewing PPP loan eligibility, loan forgiveness, and guaranty purchase. We will continue to assess the reliability of PPP loan data and monitor the agency's efforts to ensure data reliability.

Issue: SBA Must Review COVID-19 EIDLs and Grants for Potential Fraud Identified in Previous OIG Reports



Orange

Because the COVID-19 EIDL program has closed, the issue has evolved from preventing fraud in the program to identifying and remedying potential fraud that has already occurred.

Several reports issued by OIG since the start of the pandemic have identified potential fraud resulting from serious control weaknesses in the system SBA used to process COVID-19 EIDL and grants. Our October 2020 inspection report of SBA's initial disaster assistance response to COVID-19 identified $78.1 billion in potentially fraudulent loans and Targeted EIDL Advances 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 loans and advances related to identity theft allegations. Our October 2021 inspection report of SBA emergency EIDL grants to sole proprietors and independent contractors (Report 22-01) found SBA provided $4.5 billion more in advances and grants than the applicants were entitled to receive. The report identified 542,897 sole proprietors and 161,197 independent contractors who received a grant of more than $1,000.

Lastly, our November 2021 inspection of the COVID-19 EIDL program recipients on the Department of Treasury's Do Not Pay List (Report 22-06) identified over $3.1 billion in EIDLs and over $550 million in emergency EIDL grants to potentially ineligible applicants in the Department of Treasury's Do Not Pay database. OIG has launched numerous investigations into the fraudulent activities found in these reports.

The agency is tasked with identifying and confirming potentially fraudulent loans and grants reported by OIG. The loans and grants in the reports listed above may overlap with each other so that the total of potentially fraudulent loans and grants may not equate to the total of all the numbers above. The loans and grants were potentially fraudulent because of these issues:

- Duplicate Internet Protocol (IP) addresses
- Duplicate email addresses
- Duplicate physical addresses
- Duplicate bank accounts
- Applicants found in Treasury's Do Not Pay database
- Applicants who registered Employee Identification Numbers (EIN) after the cut-off date
- Applicants with no EIN claiming numerous employees
- Applicants who changed their bank account numbers prior to disbursement

Although there is some overlap, there are a significant number of loans and grants that require further investigation. If fraud is confirmed or suspected, there are administrative actions the agency should take to hold the fraudsters accountable. SBA should refer the potentially fraudulent loans and grants to OIG for investigation. It will be a significant challenge for SBA to review the potentially fraudulent loans and grants and subsequently remedy those determined to be fraudulent.

Agency Progress

The fraud review team in the Processing and Disbursement Center, the Chief Data Officer within the SBA Office of Performance, Planning, and the Chief Financial Officer collaborated on a data analytics project to help identify COVID-19 EIDLs that may be associated with identity theft or fraud. The results of this project are being used by the fraud review team in the Processing and Disbursement Center with their ongoing effort to research suspected cases of identity theft and fraud.

If it is determined that a file should be flagged for suspected fraud or identity theft, an agency hold (or hold funding) is added to the processing system. Holds are added to an application at any stage. They alert staff that special attention is required and that it should be reviewed. SBA is still reviewing loans that have been in hold for review to make a fraud determination.

The agency hold review system allowed staff to review an average of up to 1,500 files a day and recategorize or refer agency holds to the SBA Office of Disaster Assistance fraud review team. The SBA completed 157,705 reviews of electronic loan files on hold as of June 17, 2022.

While SBA has made progress in identifying and reviewing fraud and agency holds, we believe the sheer volume of potential fraudulent loans and grants discovered in OIG reports will be a continuing challenge to the agency as the deferment period ends for some EIDLs in October 2022 and borrowers are expected to begin making payments on these loans.

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 government-wide goal of the Small Business Act is to ensure that 23 percent of all prime contracts are 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. This year SBA announced the federal government exceeded the FY 2021 goal, awarding 27 percent of prime countracts to small businesses. These contracts awarded to small businesses totaled $154.2 billion, an $8 billion increase from the previous fiscal year. SBA reported the federal government earned an "A" on this year's government-wide scorecard.

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. We recently found this to be the case in our evaluation of SBA's set-aside contract awarded for COVID-19 EIDL recommendation services at the beginning of the pandemic (Report 22-10). SBA awarded the contract to a small business that subcontracted with a large business without assessing whether the relationship made the two businesses affiliated. Also, we found the subcontractor exceeded the subcontracting limits for this contract, which totaled $773.8 million, at the time of our review.

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 and that those qualifying businesses are counted in the assessment. SBA's achievement reports do not portray federal contracting dollars obligated only to small businesses, and this reduces the ability of Congress and other federal policymakers to determine whether the government is maximizing contracting opportunities for small businesses.

Issue: Agencies Receive Credit for Ineligible Firms or Those No Longer in the HUBZone or Women-Owned Small Business Programs


Yellow

SBA has changed HUBZone program requirements, widening eligibility and deviating from Congressional intent. These small, disadvantaged businesses are located in historically underutilized business zones. OIG continues to find that SBA does not consistently detect ineligible firms in its small business contracting certification programs.

A disadvantaged small business enters a 9-year program and is designated as an SBA 8(a) business. Agency contracting officers have reported ineligible firms as certified either in the HUBZone or 8(a) Business Development programs in the System for Award Management (SAM.gov). In 2020, the General Services Administration Office of Inspector General found $89 million in contracting dollars erroneously recorded as awarded to small businesses in the Federal Procurement Data System–Next Generation, the contract reporting system of record at the time of the audit.

In 2018 and 2019, we found SBA did not ensure only eligible firms entered the HUBZone 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 it has employees who 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 adversely affected 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 business certification program in 2008 as a result of court decisions, and since then, firms have self certified. The awards made to these firms count toward the agency's contracting goals.

The Small Business Act requires that 5 percent of all prime and all subcontracts for the federal government be awarded to contractors with small, disadvantaged business status. In December 2021, the Office of Management and Budget raised the prime contracting goal for such businesses to 11 percent for FY 2022. Participants in the 8(a) program are considered small, disadvantaged businesses and awards made to them are also counted toward agency goals.

As of October 2022, SBA's Dynamic Small Business Search database included 149,326 firms that self certified as small, disadvantaged businesses. Firms that falsely certify they are socially and economically disadvantaged may receive federal contracts counting toward the agency's goal achievements.

Even though 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 socially or economically disadvantaged cannot be challenged. On September 9, 2022, SBA proposed to authorize reviews and protests of the small, disadvantaged business status in connection with prime contracts and subcontracts to a federal prime contract. SBA requested comments on that proposal and others by November 8, 2022.

Based on FY 2021 contract data retrieved from SAM.gov, as much as $12.4 billion in prime contracts was awarded to small, disadvantaged businesses that were not certified as 8(a), a Woman-owned Small Business, an economically disadvantaged women-owned small business, HUBZone, service-disabled veteran-owned small business, or a joint venture that included a firm with one of these designated certifications. Given the large amount of federal contracting dollars awarded to these self-certified small, disadvantaged businesses, it is crucial for SBA to ensure that only eligible firms are counted. Federal agencies will need to expand 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 have on the accuracy of the goaling achievements agencies report annually.

Agency Progress

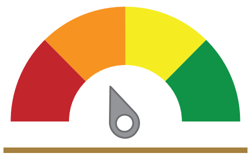
SBA has made substantial progress in adding controls to detect ineligible firms in the 8(a) and HUBZone programs. In FY 2020, SBA updated and trained staff on its HUBZone policy directives to standardize analysis and oversight. SBA started requiring that HUBZone firms annually recertify that they meet program eligibility requirements. SBA also requires each firm to complete a program examination every 3 years. As a result of implementing these program changes, SBA has taken action to decertify firms that are no longer eligible for the program. Since initiating the annual recertifications and triannual program examinations in FY 2021, SBA decertified 2,548 firms as of May 31, 2022.

SBA instituted procedures to ensure program officials justified their recommendations to admit firms into the 8(a) program. The agency is also tracking complaints about firms' eligibility to participate in the program.

While recent regulatory and procedural changes improved SBA's oversight of firms continuing in the HUBZone program, the changes also removed certain controls that are essential for proper oversight. The new HUBZone employee residency requirement may reduce the program's ability to meet legislative intent. Allowing certified businesses to count employees who are not current HUBZone residents does not ensure continual employment of individuals who live in distressed areas. We question if the full economic benefits of the HUBZone program will be realized in these areas.

Similarly, SBA's removal of regulations allowing for protest of a firm's small, disadvantaged business status jeopardizes the integrity of the federal government's small, disadvantaged business contracting and subcontracting achievements. SBA should continue to strengthen its oversight of these certification programs to ensure only eligible firms are participating.

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



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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 these businesses.

The federal government's annual contracting goal for WOSBs is 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 women-owned small business 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 2015 National Defense Authorization Act 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 be certified by an official third-party organization. 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.

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.

In September 2022, we reported that SBA established its WOSB certification process to collect documents to verify applicants met most program eligibility requirements, but did not require any documentation to ensure businesses met SBA size standards (Report 22-20). SBA analysts also did not always ensure women were the majority owners and controlled the business. In our analysis, we found 3 of the 25 firms we reviewed did not have documentation that supported a woman controlled the business. To ensure that only small businesses owned and controlled by women benefit from the WOSB certification program, SBA must create a control environment requiring all eligibility requirements to be verified.

Further, despite relying on third-party certifier's decisions on a firm's eligibility to participate in the program, SBA did not conduct consistent reviews of these organizations. This has been a challenge for the agency since 2014, when GAO first recommended SBA establish procedures to assess the performance of the third-party certifiers.

Agency Progress

SBA has made limited progress toward addressing this challenge. In July 2020, SBA launched **beta.Certify.sba.gov**, the operational platform used to manage the certification process for the Women-Owned Small Business and economically disadvantaged women-owned small business programs. In October 2020, SBA began conducting WOSB certification determinations. SBA hired additional WOSB analysts, a program director, and increased the number of staff supporting the program.

However, the agency did not develop a reliable system that accurately reports data and interfaces with other essential databases that contracting officers across the federal government rely on for awarding WOSB set-aside contracts.

Also, SBA did not ensure the staffing levels were appropriate to handle the initial surge of applications, resulting in processing times that exceeded the established timeframes. As of May 31, 2022, the WOSB program has approved 5,780 firms into the program and denied 214. 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. Development challenges and risks have increased as SBA used outward facing third-party systems to provide emergency COVID-19 and disaster economic assistance. The inherent risks and related controls outlined in this challenge are comparable to three areas on GAO's federal high-risk list: IT investments, SBA's emergency loan process, and cybersecurity. According to GAO, this list comprises federal programs and operations that need reform because they are vulnerable to waste, fraud, abuse, and mismanagement.

SBA contracted with third-party providers to provide application processing services for multiple disaster assistance programs, including PPP loan forgiveness, EIDL processing, and the Shuttered Venue Operators Grant (SVOG) program. Federal guidance, such as OMB Circular A-123 and the Federal Information Security Modernization Act (FISMA), requires agency management to validate the adequacy of controls by third-party service providers. Presidential Executive Order 14028 further emphasizes the importance of strengthening supply chain controls. The security of software used by the federal government is vital to its ability to perform critical functions. Commercial software development requires transparency, ability to resist attack, and controls to prevent tampering by malicious actors. Consequently, SBA needs to implement rigorous and predictable programs to improve security.

The SBA Business Technology Investment Council (BTIC) oversees significant IT investments and monitors system development, design, and security controls. The BTIC is responsible for implementing key provisions of the Clinger-Cohen Act (Information Technology Management Reform Act), which charges chief information officers with the duty to monitor, evaluate, and report agency performance of IT programs. The BTIC monitors development performance against requirements and baseline controls, facilitates corrective actions, and provides transparency to the investment control process.

IT investments, system development, and security controls are managed primarily through entity-level control activities. These activities allow the agency to meet its objectives, address related risks, and ensure information technology continues to properly operate. SBA must maintain and establish IT design and security control baselines essential to protect information and preserve data integrity.

Issue: SBA's IT Investment Controls Need Improvement

Orange

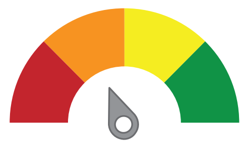
SBA must establish effective IT investment controls and ensure they meet functional requirements, projected schedules, and estimated costs. Our review of the Certify project in July 2020 (Report 20-17) showed that the project's investment cost, schedule, and performance baseline data needed to be submitted for BTIC review. This data shows the amount of work accomplished and incurred costs against the original investment baseline to provide critical management visibility on the achievement of, or deviation from, goals. Although the SBA BTIC is the principal governance body in managing SBA IT investments, it appears the most recent board meeting was on September 15, 2021. Past BTIC minutes showed limited vetting and oversight of third-party system contracts and related system development activities. BTIC minutes show limited evidence of project performance oversight on IT investments in the last 2 years. SBA used systems developed by third-party service providers to deliver the majority of its pandemic assistance.

SBA's Standard Operating Procedure IT Investment Performance Baseline Management Policy requires that the BTIC be involved for the whole life of the IT project/investment. The policy further states the BTIC should provide direction on reviewing and approving the SBA IT portfolio. The council should be helping the agency create the optimum return on its IT investment. The BTIC should be supporting the agency's mission and ensuring the accountability of SBA business and IT investments.

Agency Progress

A major focus of last year's challenge was related to agency investment controls. This year's work showed that the recommendations we made for the Certify.gov (its current version is beta.Certify.sba.gov) investment controls were not fully implemented across the agency. Our recommendations addressed agency-wide development activities. The BTIC has not published meeting minutes since September 2021. Consequently the BTIC is not providing effective oversight of IT investments.

Issue: Existing System Development and Monitoring Controls Need to Reflect Changing IT Design Risks



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During the past 2 years, SBA procured new systems from third-party service providers to deliver emergency COVID-19 disaster assistance. For example, two newly procured systems delivered $808.5 billion of disaster assistance from 2020-2021. These outward facing systems allowed accelerated delivery of critical disaster assistance funds, performing mission critical functions. These systems processed large volumes of sensitive data and were subject to cyber threats, incidents, and risks. Our audit work found the agency allowed the third-party systems to be put into service without conducting baseline control assessments. With no baseline, the agency could not perform effective continuous monitoring. Also, we found that control processes did not identify, communicate, capture privacy or identity risks. These risks include identity theft, misappropriated social security numbers, and modified applicant addresses.

The following control areas require improvement:

Enterprise-wide communication of privacy and identity risks

From 2020 to 2022, OIG identified and communicated to the agency potential privacy and identity internal control weaknesses in the disaster assistance systems. Subsequently, OIG was unable to obtain evidence that the previously identified privacy and identity risks were communicated across the agency to be considered for mitigation in other systems. The agency responds to security incidents through the Enterprise Cybersecurity Service to address cybersecurity intelligence, risk management, and incident response. However, improvement is needed to ensure identity and privacy risks are fully integrated into the risk management process.

Improved coordination for system contracts and data management

System acquisition controls play a significant role in the effective management of an information system. OCIO and program officials need to ensure third-party system security and data migration contract provisions are followed in accordance with federal guidance. Effective coordination of activities is needed throughout the project life cycle from project inception to decommissioning of a system. In our report on COVID-19 IT security controls (Report 22-19), we found SBA did not provide documentation to validate that system functionality and security was included and reviewed in the acquisition contracts. In July 2022, we found (Report 22-16) management did not follow its policies when migrating COVID-19 EIDL program data from the service provider's cloud platform to SBA's data warehouse. Without advanced planning for data migration and defined acceptance criteria, SBA took reactive measures when the contract ended.

Oversight of third-party systems used to process transactions integral to SBA's mission

SBA has an outdated system development policy which is a roadmap for the purchase, launching, and management of software and related application development activities. Updated system guidance is crucial for monitoring third-party systems used to process transactions integral to the mission of SBA. The agency must update its guidance for purchasing and related system development to validate essential controls exist before a system is put into production.

System and Organization Controls (SOC) 1 Type 2 reports for all new and existing external financial systems

OIG's Independent Public Accountant was unable to obtain reasonable assurance regarding the reliability and integrity of reported financial data for critical third-party systems, which contributed to two disclaimer audit opinions for FYs 2020 and 2021. A disclaimer of opinion results when an auditor cannot obtain sufficient information to render an opinion on an organization's financial statements. The SOC 1 Type 2 report provides assurance that reported financial data is complete and reliable.

System acceptance controls and continuous monitoring to limit security and processing risks

SBA expedited pandemic aid to eligible taxpayers, but the agency must still ensure design of system controls meets federal guidance in delivering program funds. For that reason, testing protocols must be fully addressed, even within limited timeframes, and then independently tested to ensure they operate as intended. Acceptance criteria specify the minimum desired functionality acceptable for a system to be put into operation.

The agency did not fully implement a robust internal control baseline that addressed the need for essential security controls and continuous monitoring over the third-party systems. A baseline is a set of minimum-security controls for an information system. Parts of the assessment and authorization process were incomplete or completed more than 9-14 months after the systems were put into operation.

Agency Progress

Since this challenge area was introduced last year, the agency has made limited progress by introducing a supply chain risk management policy and updating its IT Investment Performance Baseline Management Policy. The agency should continue to establish policies that address essential entity-wide controls. Some examples of these controls include independent assurance reviews of third-party financial systems, processes to identify and communicate privacy and identity risks, and an enterprise-wide system development process that ensures consistency in system design.

The agency should also continue its oversight of IT investments and related system development controls through the Business Technology Investment Council. The BTIC performs an essential governance role in implementing key provisions of the Clinger-Cohen Act, which includes monitoring, evaluating, and reporting agency performance of IT programs.

Issue: Additional Progress Needed in IT Security Controls

Yellow

Inspectors general are required by 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.

For FY 2022, the scope of the FISMA evaluation required an accelerated evaluation timeframe. It focused on a reduced core set of 20 metrics with supplemental metrics being introduced in future fiscal years. This evaluation of core metrics across the nine domains indicated that 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 eight areas. The maturity model criteria places SBA at an overall level of not effective.

Agency Progress

SBA quickly responded to identified vulnerabilities but continues to experience security control challenges in areas of user access, configuration management, security training, and risk management.

SBA made progress in supply chain risk management. The agency continues to be rated at the effective maturity level in the area of incident response. However, continued improvement is needed in the areas of risk management, including hardware and software inventories, configuration management controls around patch management, security training and access controls particularly for administrator privileges.

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 credit risk for the agency's loan portfolio of approximately $240 billion (as of March 2022), and this includes the remaining outstanding loans made through the Paycheck Protection Program (PPP). As discussed in Management Challenge 1, SBA's lack of internal controls led to significant fraud risk and vulnerabilities. Additionally, we found that SBA did not have an organizational structure with clearly defined roles, responsibilities, and processes to manage and handle potentially fraudulent PPP loans. As of March 2022, SBA has made forgiveness payments exceeding $700 billion to over 4,700 PPP lenders, which the Office of Credit Risk Management has the responsibility to oversee. PPP loans are originated by lenders and other companies that often have a low degree of expertise in SBA loan program requirements, which is why this continues to be a challenge for FY 2023.

Lenders often rely on the services of fee-based and other third-party agents to help originate, close, service, and liquidate SBA loans. Most traditional SBA-guaranteed 7(a) and 504 Certified Development Company loans are originated by lenders with delegated approval authority. Generally, these lenders are subject to only limited SBA oversight and quality control unless a borrower defaults on a loan.

Our previous audits have found SBA has not adequately recognized or managed significant lender weaknesses. In an audit of SBA's oversight of high-risk lenders (Report 20-03), we identified additional internal control weaknesses in lender oversight.

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 in managing the portfolios 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

Yellow

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 2019 audit of SBA's oversight of high-risk lenders (Report 20-03) found that the SBA Office of Credit Risk Management did not always effectively oversee high-risk lenders to identify and mitigate risks. 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

SBA has worked to address issues with its oversight of lenders in response to our audit recommendations. In FY 2021, SBA took three actions to improve its ability to oversee high-risk lenders:

- Issuance of the Final 7(a) Lending Oversight Rule and publication of Standard Operating Procedure (SOP) 50 53 (2) on supervision and enforcement
- 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
- Implementation of quarterly meetings to ensure adequate oversight of lenders with elevated risk profiles

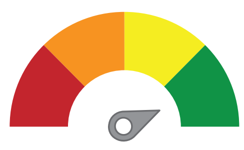
In FY 2022, SBA continues to revise SOP 51 00 and document the process for on-site lender reviews and examinations. SBA is testing the viability of improvements to oversight activities, such as a new approach to monitor lenders with higher risk profiles by performing quarterly loan file reviews and providing timely feedback.

The Office of Credit Risk Management has implemented the communications protocol that was developed in FY 2020 to document deficiencies identified during loan file reviews and to then share this information with SBA loan centers and other internal stakeholders. The communications protocol will be included in the revised SOP 51 00 2.

Although SBA has made substantive progress, agency management has indicated it needs time to finalize and implement oversight policies and procedures, including SOP 51 00 2. Agency management needs to obtain additional information to confirm that identified deficiencies have been corrected.

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 comprehensive database or workflow management tool to 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. Despite the prevalence of fraud in its loan portfolios, SBA's oversight of loan agents was limited.

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 agent 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. Prior OIG audits identified significant issues in the data quality of Form 159 being tracked by the fiscal agent. We also found that SBA had not begun tracking Form 159 in the 504-loan program.

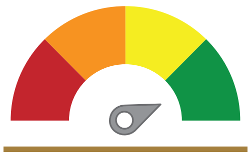
Agency Progress

SBA's oversight of loan agents has been a long-standing challenge that the agency has made great progress in resolving. SBA determined the best way to gather information on loan agents was by improving Form 159. The improved Form 159 allows SBA to aggregate and report on loan agent activity to analyze the lender's portfolio. SBA initiated targeted Form 159 reviews of lenders to determine compliance with SBA requirements. 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.

SBA contracted with a new fiscal and transfer agent who developed application and follow-up controls, including requiring lenders to electronically submit Form 159s through the Capital Access Financial System. These controls ensure critical fields on each form are completed. 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.

Because loan agent involvement in the 7(a) program is significant, it is important for SBA to have oversight tools that monitor loan agent involvement in this sizeable program. SBA also needs to effectively manage the risk introduced by high-risk loan agents. OIG plans to conduct work related to agents involved in the PPP and monitor risks related to SBA's oversight of loan agents.

Issue: Increased Risk Introduced by Lender Service Providers



Green

In August 2021, five former officers and employees at one of the largest lender service providers were convicted on all charges in a 13-year conspiracy to defraud SBA in connection with programs to guarantee loans made to small businesses.

The officers fraudulently obtained guarantees for loans SBA deemed ineligible. The officers hid signs of ineligibility from 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 risks introduced by the outsourcing of traditional lender functions to lender service providers, a type of loan agent, for some time.

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 to 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 SBA 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

Since we first reported on these issues in 2015, SBA has implemented internal controls related to the tracking and monitoring of lender service provider involvement in SBA's loan programs. SBA established a method to track lender service provider involvement at the loan level.

In FY 2020, SBA worked with a contractor to develop a performance analysis for lender service provider portfolios to identify any high-risk providers. In FY 2021 and FY 2022, SBA worked with the contractor to analyze whether lender service providers add risk to the lenders' loan portfolios. The analyses indicated that loans with a service provider generally performed worse than those without provider involvement in both guaranty purchase and early default rates.

As lender service provider involvement in the 7(a) program increases, it will be important for SBA to continue to evaluate performance and act when necessary to 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.

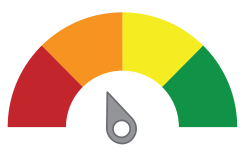
Challenge 5: SBA's Management and Monitoring of the 8(a) Business Development Program Needs Improvement

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 federal marketplace. A major benefit of the 8(a) program is that these certified firms can receive sole source and set-aside contracts. Sole-source awards are contracts proposed for award without competition. A set-aside award is a proposed contract with competition limited to small businesses. This means small businesses do not have to compete against large businesses that may have an industry advantage. The goals of these contracts and certification programs are that the federal government receives the needed services for the benefit of taxpayers and also helps diversify the economy by supporting small business.

SBA has adequately addressed issues we raised about ensuring that only eligible firms are admitted into and remain in the 8(a) program, but the agency continues to address challenges in providing effective business development assistance, as well as measuring and reporting the outcomes of the program. In February 2022, OIG issued Report 22-08, which found SBA's processes did not consistently allow for SBA or stakeholders to determine whether firms met their individual goals to successfully complete the 9-year program.

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



Orange

SBA has historically 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, 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 this, SBA has not fully established an IT system to perform regular performance monitoring and reporting for 8(a) participants to ensure progress within 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 open marketplace without program assistance (see Challenge 3 for details on Certify.sba.gov).

SBA is considering next steps for IT development that would provide those features and capabilities that can facilitate tracking, measuring, and monitoring progress. To bridge the gap in the interim, SBA in FY 2020 created the Business Opportunity Specialist Annual Review Workbook. When used, the specialist uses this Excel workbook to determine continuing eligibility and summarizes current financial conditions for each business during annual reviews.

SBA's IT challenge is not the sole reason the 8(a) program has not improved in measuring the development of firms over the years. In our February 2022 Report 22-08, we found SBA's processes did not consistently allow for SBA or stakeholders to determine whether firms met their individual goals to successfully complete the 9-year program.

SBA did not ensure specialists regularly monitored a participant's business goals, assessed business development needs, and followed up with actions for training and accountability. We found that 15 of the 40 firms tested did not have approved business plans with identified goals, making them ineligible to receive 8(a) contracts. We questioned $93 million in 8(a) set-aside or sole-source contracts that four of the firms were awarded.

SBA also did not establish performance measures at the program level to know whether the 8(a) program was successful as an SBA program. There are no relevant performance metrics to gauge the outcomes from the program or to know the effects the program is having on small businesses.

Without consistent procedures, there is no assurance that participants received the business development assistance needed for them to become viable competitors in the contracting arena. As a result, the agency continues to face challenges on how it can best manage a program that will effectively increase the participation of small businesses in the American economy.

Agency Progress

SBA made some progress to address OIG recommendations issued this year.

To address OIG's most recent report findings, SBA implemented a standard process to ensure initial business plans are monitored and annual reviews capture the 8(a) participant's business plan updates. An SBA Procedural Notice, effective August 10, 2022, requires all district offices to ensure that 8(a) firms obtain their business plan approval prior to the first contract being awarded. Program officials are working on improving the FY 2023 Business Opportunity Specialist Annual Review Workbook to better measure business development. SBA added questions to the business opportunity specialist workbook to place emphasis on monitoring a firm's strengths, financial targets, and business goals. The enhancements will help emphasize business development rather than solely focusing on eligibility and annual compliance.

SBA plans to mandate the use of the workbook for all 8(a) firms that will be admitted to the program in the near future. Until the new procedures are fully in place, the effectiveness of the workbook has yet to be determined. The agency is also working on updating standard operating procedures by August 1, 2022. SBA continues to respond to emerging issues related to the pandemic economic crisis, providing timely guidance and resources to 8(a) program participants.

Challenge 6: Identification of Improper Payments in SBA's 7(a) Loan Program Remains a Challenge

Why This Is a Challenge

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, which is why this remains a management challenge this year.

In FY 2021, the dollar amount of SBA's 7(a) loan approvals totaled $36.8 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.

About 8 years ago, 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. The 7(a) loan has been the agency's largest financing program for general business needs, so it is vital that SBA identify and reduce the risk of improper payments in order to meet its objectives for the program.

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

Yellow

Between 2014 and 2019, OIG conducted risk based reviews of 7(a) loans and recommended recoveries on 17 loans totaling more than $19.3 million. In addition, we identified suspicious activity on five loans totaling nearly $4 million, which were ultimately referred to our Investigations Division. 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.

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 identified suspicious activity.

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

SBA has made significant progress in addressing the identification of improper payments in the 7(a). 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 process and quality control reviews for 7(a) guaranteed loans to determine why the loan center reviews did not identify or correct lenders' noncompliance with SBA requirements, as 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 has been a continuing issue in our reviews and in the agency's own internal evaluations.

In FY 2022, SBA continued to provide monthly feedback to management and staff at the National Guaranty Purchase Center. Additionally, SBA is drafting revisions to the 7(a) loan servicing and liquidation requirements. SBA has stated they are finalizing and plan to issue revised requirements designed to reduce improper payments, which should result in continued progress. We continue to communicate with the agency about previous recommendations for recoveries as part of the audit follow-up process. We will 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

This SBA 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 nonprofits. SBA must continually balance the priority of quickly assisting disaster survivors in the immediate aftermath of a devastating event with the need to mitigate fraud risk and ensure program integrity. To do so, the agency faces challenges in staffing, quality assurance, and increased loan servicing requirements.

As a result of the pandemic's widespread economic effects on the U.S. economy, Congress approved legislation that increased funding to SBA's disaster loan program, providing over $520 billion in funding to the Economic Injury Disaster Loan (EIDL) program. Since the start of the pandemic, SBA has approved $390 billion in COVID-19 EIDL assistance, which is a significant increase over all disaster loan funding disbursed in the agency's 70-year history. SBA's existing disaster assistance infrastructure could not keep up with the unprecedented demand caused by the pandemic, so the agency contracted out for new systems to deliver vital aid to struggling small businesses. SBA's infrastructure must be properly equipped to ensure that staffing, processing systems, and servicing capabilities can efficiently adjust to meet future needs.

Issue: Reserve Staff Need Training to Sustain Productivity During Mobilization

Yellow

The magnitude of the pandemic relief demand (27.7 million applications received as of December 31, 2021) required SBA to rapidly increase and train staff; staffing 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, the Office of Disaster Assistance increased its permanent and temporary staff size from about 1,200 at the onset of the pandemic to more than 11,500 by December 2020. In those 9 months, the staff increased nearly 10 times.

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

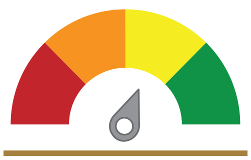
SBA management made good progress on this long-term issue during the pandemic. SBA had previously made progress in this area by implementing a cross-functional training plan, as well as online and automated tutorials, a change that resulted from an after-action report's findings on SBA's response to prior major disasters. The COVID-19 pandemic required SBA to train and mobilize the largest number of new employees ever in its history.

Effective July 5, 2022, the agency moved the entire disaster lending program from the Office of Disaster Assistance to the Office of Capital Access. The Office of Disaster Assistance will continue to manage the agency's non-lending aspects of the disaster program (such as the immediate response group).

Bringing on a large temporary staff in response to a major natural disaster will always be a challenge for any organization, including SBA. However, during the past couple of years, SBA was able to increase its staff by almost tenfold to provide COVID-19 pandemic financial assistance. The new disaster assistance employees expanded the pool of reserve staff that can be activated for future disasters. The lessons learned from this surge inform the agency's current hiring and training practices; therefore, this issue has achieved a rating of yellow.

Although the agency has now achieved a rating of yellow for this issue, the Office of Capital Access is urged to keep monitoring the need to revise and update its plan for rapid staff surge and the associated need up to update its training. This is needed to ensure a high level of customer service with reduced applicant processing times, and to ensure eligible applicants receive the federal assistance they need in a timely manner.

Issue: Improper Payment Quality Assurance Process Needs Strengthening



Yellow

SBA received a historic number of loan applications in FY 2020 and FY 2021 when COVID relief programs were established. SBA tests a statistical sample of these loans for improper payments. Because the total of the 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).

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.

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. Further, the law specifies use of the Treasury Do Not Pay database to determine award eligibility. Agencies are required to thoroughly review the databases to determine award eligibility and prevent improper payments.

SBA removed typical 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.

OIG Report 22-06 identified a lack of pre-award controls during the period March 2020 to November 2020, resulting in over $3.1 billion in COVID-19 EIDL and $550 million emergency EIDL grants distributed to potentially ineligible recipients found in Treasury's Do Not Pay databases.

SBA did not report an estimate improper payments rate for the COVID-19 EIDL program in FY 2021 because they received an exemption from OMB for this new program.

Agency Progress

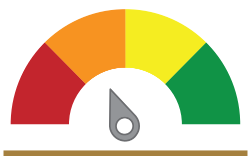
SBA has made significant improvements to the process since our February 2020 report was issued. The agency has

- conducted monthly audits for issues of non-compliance;
- conducted focused/targeted audits, reviewing a specific area to focus future training efforts;
- targeted training to quality control specialists, leads, and supervisors to continually improve knowledge necessary to accurately identify improper payments;
- established quality assurance team with an agile database to review agency holds in the agency review hold system; and
- employed an independent fraud review team to look at potential fraud activities that can be referred at any time in the loan or grant process.

Additionally, SBA issued ODA Memo 21-13 on April 28, 2021, which included a requirement to check against the Treasury Do Not Pay system prior to approval of COVID-19 EIDLs.

Overall, SBA has made substantial progress in improving the improper payment quality assurance process.OIG will conduct an inspection of the effectiveness of the new controls established to use Treasury's databases to determine SBA's effectiveness in reducing improper payments. Additionally, SBA will be reporting the estimated COVID-19 EIDL improper payments rate for the first time in FY 2022. OIG will perform its annual evaluation of the estimation process which will include determining whether the process addresses the significant fraud risk present in the COVID-19 EIDLs as identified in prior OIG reports.

Issue: Unprecedented Increase in Servicing COVID-19 EIDLs



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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 handling 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 to the 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. As of May 31, 2022, because of the unprecedented number of pandemic relief loans, SBA was servicing about 4 million outstanding disaster loans. This is over 15 times what the agency was doing before the pandemic. The current total dollar amount is about $390 billion, over 43 times the pre-pandemic disaster loan portfolio. A total of 30 months of payment deferment was instituted for all COVID EIDLs. The end of this deferment period will start to in October 2022. Because the COVID-19 EIDLs were approved with repayment terms of 30 years, the expected servicing duration of this portfolio is long term. Simply put, the number of payment transactions estimated for this portfolio is 1.4 billion (based on 4 million loans x 12 months x 30 years).

Because SBA loaned billions in pandemic relief loans, the agency has millions of additional loans in its portfolio that must be serviced. SBA does not currently have the staff or infrastructure to manage this volume. We anticipate the agency will face significant challenges in managing this volume going forward.

Agency Progress

SBA officials informed us the agency is adding additional staff and resources across the disaster servicing and liquidation centers to meet the increasing demand. As of May 31, 2022, the loan servicing staff totaled 344 across the three centers. SBA plans to achieve a COVID-19 EIDL service staff of up to 2,000 full-time employees by the end of Q2 FY23. This increase is mostly coming from the 1,500 full-time loan processing agents who will be transitioned to servicing during 2022.

To meet the increased call demand, SBA officials said they overhauled customer service by changing management and contractors, streamlined the process for adding customer service agents, added performance and quality metrics, improved call scripts and customer service guidelines.

To increase servicing efficiencies, SBA officials stated they will enhance their servicing platform. They have been developing a series of new initiatives allowing SBA to directly service the entire portfolio over the long term. These include a new e-billing capability that replaces traditional paper billing processes, a borrower self-service portal, and automated transactions for routine requests, such as loan charge off. This enhanced servicing platform is expected to be operational by the second quarter of FY 2023.

Because this issue is a significant challenge for SBA, staffing and process changes are planned but not yet in place. SBA's servicing portfolio has increased so significantly, this issue is being rated moderate or limited progress because more attention and monitoring is warranted.

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 SBA's existing entrepreneurial development grant program portfolio. Congress had authorized $45.3 billion for SBA to administer as grants to provide economic relief and technical assistance, nearly doubling SBA's existing technical assistance programs.

Because 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 have found ineffective oversight of grant recipients and systemic issues with the accuracy of SBA grant data in both financial and performance reporting.

Issue: SBA's Grants Management System Needs Improvement

Yellow

Previous OIG reports have found 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 of 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 was not completely integrated with SBA's financial system and required additional manual entry to obligate funds and authorize payments to grant recipients. The lack of an integrated system increased the need for grants management personnel to manually input entries. 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. In 2021 and 2022, SBA and the Health and Human Services GrantSolutions team trained program officials on how to use the system. The SBA Office of Grants Management also works with each program office to identify program-specific system customizations that ensure the agency complies with federal and SBA policies.

Although most of the program offices adopted the system in 2021, the Shuttered Venue Operators Grant (SVOG) program opted to use Salesforce, a contracted customer relationship management system, to manage its grants. Also, instead of using the GrantSolutions system, the Restaurant Revitalization Fund (RRF) program developed its own application portal that interfaced with the SBA Office of Capital Access's systems to manage the application intake, processing, and award approvals for pandemic assistance. Both the SVOG and RRF programs were integrated into SBA's Joint Administrative Accounting Management System.

Since 2020, SBA has been working to integrate the SBA's Joint Administrative Accounting Management System with GrantSolutions.gov. 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. While SBA continues to have to work around the limitations, grants management officials perform monthly data quality assessments of the manually input data and reports deficiencies to program offices to correct the errors. 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

Yellow

An OIG review 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 21-11) that the agency did not establish clearly defined goals with targets for the grant recipients.

Because of this, 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 grantee performance, 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 have disbursed $14.6 billion in SVOG funds without knowing whether the program successfully aided small businesses in the live arts and entertainment industry. GAO recently reported similar concerns about how SBA took limited steps in enforcing RRF reporting. Thirty-two percent of RRF recipients have not yet reported how they used their funds for 2021 (GAO-22-105442).

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 goals and set targets to more effectively ensure they were 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 SBA 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. In 2022, we reported that SBA and its grant recipient that implemented the Resource Partner Training Portal, an initiative authorized under the CARES Act, did not set targets for performance goals to assess whether the portal met the intended purpose (Report 22-07). We found the portal did not serve as a major source for COVID-19 information; SBA's Resource Partner counselors and mentors generally did not use the training portal. SBA awarded the grant recipient $18.6 million and less than 1 percent of 30 million eligible small businesses used the portal within the first year of the pandemic. Only about 62 resource partner counselors and mentors out of approximately 13,000 completed any of the training modules.

Without performance targets, program officials could not hold the Resource Partner training portal grant recipient accountable for ensuring the hub served as a major source of COVID-19 related resources for small businesses and a training portal for resource partner counselors and mentors.

The authorizing language for the SVOG program included no specific performance measurements, so SBA created a logic model in March 2021. The model helped identify outputs and outcomes for the program.

Agency Progress

SBA has made substantial progress establishing performance measures for its grant programs. In FY 2022, the SBA Office of Grants Management collaborated with all of SBA's grants-making program offices to oversee an overall approach for implementing effective performance monitoring.

The SBA Office of Entrepreneurial Development applied lessons learned from OIG's review of entrepreneurial development CARES Act awards (Report 21-11) and established a variety of output and outcome-focused measures for the Community Navigator pilot program, authorized by the American Rescue Plan Act of 2021. In the announcement for the program, SBA required grant applicants to establish realistic targets for the goals to measure achievements during grant performance.

In FY 2022, the SVOG program established performance measures, developed a customer experience and award outcomes survey, and finalized program evaluation framework to examine the effects the program had on venues' survival and other program outcomes across industry, geography, and business owner demographics. SVOG program plans to survey all award recipients on their customer experience and award outcomes as part of the grant closeout process.

Issue: Comprehensive Oversight Plan with Strong Controls Will Help SBA Better Assess Risk, Distribute Payments, and Audit the Shuttered Venue Operators Grant and Restaurant Revitalization Fund Programs

Orange

We alerted management to concerns about SBA's initial plans for assessing applicant risk and setting payment disbursements in the SVOG program.

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

SBA reported that as of July 5, 2022, the agency completed processing applications for the SVOG program. In total, SBA awarded $14.6 billion to 13,011 grant recipients, of which 9,800 received supplemental awards.

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 measurement standards to determine which grants should undergo an 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 who received $10 million, which is the maximum amount for any single award, were going to be audited. It is likely a minimal number of recipients will be subject to an audit. The office's initial 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 has finalized 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.

Some of the issues we identified on SVOG were identified by GAO for the Restaurant Revitalization Fund program. GAO's FY 2022 report (GAO-22-105442) on SBA's RFF found that while SBA emphasized putting pre-award controls in place to manage risk, there were weaknesses in the design and operation of the internal controls. As a result, the agency did not effectively prevent systemic control weaknesses throughout the award process.

Program officials did not design a fraud risk framework that assigned appropriate levels of risk to categories of applications, which left the program vulnerable to making payments to potentially fraudulent applicants. GAO found that SBA had relied heavily on third-party controls without fully leveraging data the agency already had from administering its other COVID-19 relief programs, such as the PPP. GAO found SBA underestimated the number of manual reviews that would be needed and did not thoroughly review all awards that met the criteria for a manual review. In response, SBA officials stated that they did not plan to assess the effectiveness of the controls and whether they operated as expected. OIG is working on an audit of SBA's post-award monitoring efforts.

Agency Progress

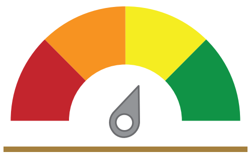
In FY 2022, we reported that even after determining multiple disbursements would better protect grant funds from fraud or misuse, SBA switched to a riskier single advance payment for all grantees (Report 22-15). This lump sum payment method may have hastened award disbursement, but multiple disbursements are a better way to protect taxpayer funds. Multiple disbursements enable program officials to verify that grant recipients used initial award funds for allowable activities, before then disbursing the remaining award. Because SBA made this change, program officials will not be able to monitor grantees' use of the proceeds until the end of the award, when closing out the grant, after all the funds have been disbursed.

In a sample of 10 awards we reviewed, program officials did not ensure they had adequate support for 3 of the grant amounts. SBA awarded these three recipients $2.6 million above the total amount that they had requested. The higher grant award amounts did not correspond to the recipients' budgets. Nor was there supporting documentation to show why SBA awarded each recipient higher amounts than they had requested.

In addition, SBA did not consistently ensure the recipient's budget accurately summarized the financial plan for the award amount. Awards made to 1,849 recipients, totaling $1.49 billion, did not have a budget that reconciled to the award amount. It is essential that SBA approve budgets that match the award amount to hold grant recipients accountable for meeting program requirements.

SBA finalized its revised oversight plan for the SVOG program and established procedures to monitor, audit, and closeout awards. The agency contracted with a firm that provided support to develop the strategy and oversight plan. SBA will audit a statistically significant sample of low, moderate, and high-risk level SVOG recipients. The contractor also developed training materials on audit and grant management policies and procedures for both SBA staff and SVOG grant recipients.

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



Yellow

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 July 5, 2022, SBA has awarded 13,011 grants, totaling $14.6 billion. With more than 13,000 grants to service through monitoring, audit, and closeout, SBA will need to leverage and maintain a skilled workforce to meet the demands of ongoing grant management and administration of new awards.

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 waiver negated the previous progress SBA had made on addressing the skills gap of the grants management workforce. We have recommended that SBA train all grants officers and program personnel on the policies, procedures, and best practices for awarding and monitoring grants (Report 19-02). To address this challenge, SBA established a training plan for all grants officers and program officials responsible for monitoring grant recipients to address the systemic weaknesses OIG found in previous audits of SBA's grants management.

Since SBA decided to make single advanced payments with minimal financial reporting requirements and agency oversight to all SVOG award recipients, the application reviewing officials must carefully review the applicants' proposed budgets to ensure funds will be used for allowable, allocable, and reasonable expenses.

GAO's FY 2022 report (GAO-22-105442) on SBA's Restaurant Revitalization Fund found that there was a greater than expected need for manual reviews because of the number of applications flagged by automated controls. In contrast to the program officials' early planning estimate of 10 percent, SBA data indicates 71 percent of applications should have been manually reviewed, of which 25 percent were considered higher risk for characteristics such as high dollar request or missing documentation. Furthermore, GAO found that there is no evidence that manual reviews were done on about 17 percent of all awards that met the criteria for requiring one.

Agency Progress

SBA made progress on ensuring the SVOG had staff, both permanent employees and contract support staff, to support the application processing. During the peak, the office had 500 staff to support the manual reviews. Similarly, for RRF, GAO found that program officials had a staff level of 400 employees to perform manual reviews, sufficient to meet anticipated needs, and therefore not a factor as to why SBA did not complete the needed manual reviews.

The program has trained staff on oversight procedures now that it has transitioned to monitoring the 13,011 shuttered venue grants. The agency detailed a grants management specialist to provide strategic guidance on all monitoring, auditing, and closeout activities.

AGENCY'S RESPONSE TO TOP MANAGEMENT AND PERFORMANCE CHALLENGES FACING THE SMALL BUSINESS ADMINISTRATION IN FISCAL YEAR 2023

OFFICE OF THE ADMINISTRATOR

U.S. Small Business Administration
Washington, D.C. 20416

Agency's Response to Top Management and Performance Challenges Facing The Small Business Administration in Fiscal Year 2023

I thank the Office of Inspector General (OIG) for its efforts to identify the top management and performance challenges facing the U.S. Small Business Administration (SBA) in its FY 2023 Management Challenge Report (MC Report). The OIG's investigation and analysis provides important insights on the threats, strengths, weaknesses, and opportunities facing our enterprise objectives.

The SBA's substantial progress, resolution, and/or appropriate reduction on 14 of the 21 issues identified in the MC Report is attributable to our continued communication, collaboration, and coordination with the OIG leadership and staff. We appreciate the recognition of these successes and the OIG's suggestions. Further, we remain dedicated to resolving the remaining seven issues, and I have directed the SBA's program, strategic, and support offices to continue to prioritize them. The insights of this report have been shared throughout the Agency so that leadership at every level can evaluate the risks and effectively prioritize resources and oversight efforts.

Below are a few examples of the SBA's commitment to addressing these challenges and adjusting to a continuously evolving operating environment amidst the increased workload of new programs and program updates, legislative changes, and changing operational priorities resulting from the COVID-19 pandemic.

Improved Fraud Controls and Cooperation with the OIG: Our Agency implemented upfront controls to mitigate fraud risks, reduce and strengthen controls, and mitigate potential fraud for PPP and COVID EIDL loans as the demand for expeditious loan program implementation increased. As a result, the SBA has been able to address and close several recommendations related to pandemic oversight. In addition, when the SBA identifies cases of suspected fraud or identity theft, the SBA's fraud review team refers the case to the OIG for possible criminal investigation. The SBA has referred over 500,000 cases of suspected fraud to the OIG since the beginning of the COVID EIDL program. The fraud review team also provides support to the OIG, the Department of Justice, the Secret Service, and other law enforcement agencies investigating and prosecuting cases of fraud.

Improved Women-Owned Small Business Federal Certification Program: The Women-Owned Small Business (WOSB) Program changed from a self-certification program to a certification program in 2020. Since October 2020, the SBA has been conducting WOSB certification determinations. The SBA has also hired a WOSB program director, additional WOSB analysts, and has increased the number of staff supporting the programs. The SBA has also updated its regulations on the certification process and the SBA's oversight of third-party certifiers.

Improved Governance of Information Technology Investments: The SBA has made great strides in its plan to improve Information Technology (IT) investment controls governance by developing an IT governance framework, reconfiguring of the Business Technology Investment Council (BTIC) into the Investment Review Board (IRB), and developing a new process for IT investment management. The Agency has also implemented IT risk assessment plans and has established regular reporting to the Agency's Enterprise Risk Management (ERM) Board.

Improved Monitoring of 8(a) Program Participants: The Agency has instituted guidance for use by Business Opportunity Specialists (BOS) nationwide that requires all district offices to ensure 8(a) firms obtain their business plan approval prior to award of the 8(a) firm's first contract. In addition, the Agency has evolved the use of the BOS 8(a) firm Annual Review to focus and measure the 8(a) firm's business development.

Lastly, the Agency is dedicated to addressing outstanding audit recommendations, many of which are closely tied to the issues identified in the MC Report. This effort, similar to the reported substantial progress noted above, has already produced benefits that will allow the SBA to better serve the Agency's stakeholders. In FY 2022, the SBA successfully implemented and closed 114 OIG audit recommendations and significantly reduced the number of recommendations open more than one year. I am proud of the SBA's skilled workforce and our ability to improve program and operation integrity and internal controls.

I look forward to continued collaboration with the OIG in our endeavor to innovate, institutionalize continuous improvement, and facilitate strategic collaboration with our stakeholders.

Sincerely,

Isabella Casillas Guzman

Isabella Casillas Guzman
Administrator

PAYMENT INTEGRITY

The Payment Integrity Information Act of 2019 (PIIA) was established to improve efforts to identify and reduce Government-wide improper payments and requires agencies to estimate improper payments and report on actions to reduce improper payments. In accordance with Office of Management and Budget (OMB) Circular A-123, Appendix C, Requirements for Payment Integrity Improvement (M-21-19), agencies are required to identify, assess, prioritize, and respond to payment integrity risks to prevent improper payments in the most appropriate manner. This report will discuss the SBA's efforts and results related to improper payment assessment and reviews. More detailed information on improper payments and information previously reported in the AFR that is not included in the FY 2022 AFR can be found on PaymentAccuracy.gov.

The SBA improper payment reviews are a multi-layered process that starts with a risk assessment. If a risk assessment indicates that 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 2022, the SBA reviewed seven programs and activities that were deemed susceptible to significant improper payments. Of the seven programs reviewed, four programs are major credit programs mandated by OMB, and three programs are new programs that were created in response to the COVID-19 pandemic. The seven programs are:

- 7(a) Loan Guaranty Approvals;
- 7(a) Loan Guaranty Purchases;
- 504 Certified Development Loan Approvals;
- Disaster Assistance Loans;
- COVID Economic Injury Disaster Loan (EIDL);
- Economic Injury Disaster Loan Emergency Assistance (Advance); and
- Paycheck Protection Loan Program (PPP).

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. In FY 2022, the SBA updated the report used to identify SBA programs subject to PIIA reporting. As a result, all programs with outlays greater than $10 million that are not currently reporting improper payment estimates were subject to a risk assessment. A total of 17 risk assessments were performed, with all 17 programs identified as being not susceptible to significant improper payments. A risk assessment was not performed on one program related to Other Administrative Spending, as the disbursement types under this program overlap with the disbursement types of the completed risk assessments. As such, the SBA will be leveraging the results from the completed risk assessments to assess susceptibility of significant improper payments for the Other Administrative Spending program.

The next sections discuss the SBA's efforts and results related to improper payment assessments and reviews.

Payment Reporting

Table 1 IMPROPER PAYMENT REPORTING AND REDUCTION OUTLOOK ($ IN MILLIONS) [1]

Program	FY 2021			FY 2022 Summary							FY 2022 Breakdown								FY 2023 Reduction Target %
	Outlays [2] $	IP %	IP $	Outlays [2] $	Proper Payment %	Improper Payment %	Unknown Payment %	Proper Payment $	Improper Payment $	Unknown Payment $	Overpayments (Outside Agency Control) %	Overpayments (Within Agency Control) %	Underpay-ments %	Technically Improper Payments %	Overpayments (Outside Agency Control) $	Overpayments (Within Agency Control) $	Underpay-ments $	Technically Improper Payment $	
7(a) Loan Guaranty Approvals	17,342.49	2.03	352.61	29,717.21	99.00	1.00	-	29,419.14	298.07	-	1.00	-	-	-	298.07	-	-	-	1.00
7(a) Loan Guaranty Purchases	568.24	3.35	19.01	706.87	95.79	4.15	0.07	677.08	29.32	0.46	-	27.83	0.38	-	-	26.66	2.67	-	4.05
504 Certified Development Loan Approvals	6,356.99	3.07	195.09	10,020.79	97.99	1.99	0.02	9,819.55	198.96	2.28	1.99	-	-	-	198.96	-	-	-	1.89
Disaster Assistance Loans	544.98	13.37	72.84	1,133.59	96.94	3.06	-	1,098.91	34.68	-	-	16.14	0.58	1.10	-	15.65	6.60	12.44	2.96
COVID-Economic Injury Disaster Loan (EIDL)	N/A [3]	N/A [3]	N/A [3]	153,811.64	95.50	4.50	-	146,894.93	6,916.71	-	-	2,722.45	0.30	2.51	-	2,600.03	461.26	3,855.42	4.40
Economic Injury Disaster Loan Emergency Assistance (Advance)	N/A [3]	N/A [3]	N/A [3]	7,849.84	90.24	9.76	-	7,083.50	766.34	-	-	849.25	-	-	-	766.34	-	-	9.66
Paycheck Protection Loan Program (PPP)	N/A [3]	N/A [3]	N/A [3]	685,179.36	95.76	1.83	2.41	656,152.31	12,529.33	16,497.71	1.83	-	-	-	12,529.33	-	-	-	N/A [4]
Total	24,812.70		639.55	888,419.30				851,145.42	20,773.41	16,500.45					13,026.36	3,408.68	470.53	3,867.86	

Table 1 presents a summary of the SBA's improper payment review results and reduction outlook.

1 Amounts and percentages reported on this table may not reconcile due to rounding differences.
2 Outlays in this report represent the base amount of the program activity related to SBA improper payments; and this amount will differ from the amount reported as outlays in SBA's President's Budget submissions because they include reestimates of subsidy cost, reimbursements to SBA administrative funds and other costs. Outlays for 7(a) loan guaranty purchases are the amount of disbursements for the purchase of defaulted guarantied loans. Outlays for 7(a) loan guaranty approvals are the amount of new guaranty approvals by banks and other SBA lending partners. Outlays for 504 CDC loans guarantied are approvals irrespective of disbursement, net of approval increases, decreases, reinstatements and cancellations for the current year. Outlays for disaster loans are loan disbursements on current year approvals.
3 Prior year data for the program is not available as FY 2022 is the first year program is reporting improper payment data.
4 An FY 2023 reduction target was not established for the Paycheck Protection Loan Program. The program ended on May 31, 2021, and no loans were awarded after the program end date.

To provide more clarity for the reader, this section is organized by the seven programs and activities subjected to review for improper payments and provides statistical sampling information and review results coupled with the SBA's planned corrective actions to address the improper payments.

7(a) Loan Guaranty Approvals

The 7(a) Loan program is the SBA's most common loan program. The 7(a) Loan program provides small businesses with short- and long-term working capital, capital to refinance current business debt, and capital for specific business expenditures. For payment integrity reporting, the 7(a) Loan program is bifurcated into 7(a) Loan Guaranty Approvals and 7(a) Loan Guaranty Purchases.

7(a) Loan Guaranty Approvals describes the loan guaranty approval process. Approximately 80 percent of 7(a) loans are approved by Lenders under their delegated authority. During the loan guaranty approval review process, the SBA reviews the 7(a) loan for calculation accuracy to ensure Lenders issued the 7(a) loans to eligible borrowers and to ensure loans are made within statutory, regulatory, and SBA issued guidelines.

Statistical Sampling

For 7(a) approval reviews, loans in the sample were chosen using Probability Proportional to Size (PPS) Sampling with replacement from all loan guaranties approved during the 12-month period ended March 31, 2022. The approval population was divided into two strata based on whether the loan was SBA Express or not. There was a total of 54,962 7(a) loan approvals, with a total approval outlays of $36,176,000,822, and an SBA Guaranteed portion of $29,717,206,426. The SBA determined the appropriate total sample size to be 233 loans from the population. The sample included net guaranteed loan approvals of $398,795,586 and improper payments of $3,251,215 within the sample. Using the Hansen-Hurwitz estimation method, the improper payments rate for the annual period ending March 31, 2022, was estimated as 1.00 percent, and the improper payment amount was estimated as $298,069,226.

The FY 2022 improper payment rate estimate of 1.00 percent for the 7(a) loan guaranty approval program is less than the target reduction rate of 1.93 percent from FY 2021. 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, 0.00 percent, is lower than the reduction target rate of 1.93 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. Additionally, for FY 2022, the SBA did not identify any unknown payments for the 7(a) loan guaranty approvals program.

For FY 2023, the SBA established a reduction target of 1.00 percent for the 7(a) loan guaranty approvals program. This FY 2023 reduction target is the same as the FY 2022 improper payment rate estimate. The root cause of improper payments in the 7(a) loan guaranty approvals program stems from shortfalls in the lenders' loan authentication process, which are outside of the SBA control. As such, keeping the reduction target rate in-line with the current improper payment rate estimate offers a conservative and realistic target for the SBA.

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 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 2022.

The root cause categories established by the Office of Management and Budget (OMB) are: (1) Statutory Requirements of Program Were Not Met; (2) Unable to Determine Whether Proper or Improper; (3) Data/Information Needed Does Not Exist; (4) Inability to Access Data/Information; and (5) Failure to Access Data/Information. The root cause for 7(a) loan guaranty approvals was Statutory Requirements of Program Were Not Met. The most prevalent cause for improper payments 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 2022 included:

- Lender's failure to identify eligibility based on affiliates;
- Lenders' failures to obtain appropriate liens;
- Lender's failure to structure the loan in accordance with business valuation; and,
- Lender's failure to identify and obtain appropriate guarantors;

Although the SBA identified the primary root cause to be Statutory Requirements of Program Were Not Met, in order to comply with the root causes identified in the OMB data-call, the SBA further identified a secondary root cause of Inability to Access Data/Information. However, it is the SBA's position that the root causes are derived from statutory requirements of the program not being met based on the aforementioned reasons.

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, and appropriate loan structure.

The Office of Financial Program Operations (OFPO) will share the loan level and lender deficiencies identified during the reviews with the OCRM and the 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 the 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 provides oversight to ensure milestones are met. All improper payments identified through the FY 2022 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.

7(a) Loan Guaranty Purchases

7(a) Loan Guaranty Purchases describes the loan guaranty purchase process. A Lender may demand that the SBA honor its guaranty on a loan if a borrower is in default or files for federal bankruptcy protection. During the loan guaranty purchase process, the SBA will purchase or honor the guaranty on a defaulted SBA loans.

Statistical Sampling

For 7(a) loan guaranty purchase reviews, the loans in the sample were chosen using PPS Sampling with replacement from all purchases approved during the 12-month period ended March 31, 2022. The purchase population was divided into four strata based on which servicing office processed the purchase and whether the loan was considered an early default, regardless of servicing office. There were 4,533 7(a) loan purchases, with total purchase outlays of $706,870,444. The SBA determined the appropriate sample size to be 246 loans from the population. The sample included aggregate purchase outlays of $199,178,963 and an absolute value of improper payments of $15,494,685 within the sample. Using the Hansen-Hurwitz estimation method, the improper payment rate for the annual period ending March 31, 2022, was estimated as 4.15 percent, and the improper payment amount was estimated as $29,324,689. For instances in which the SBA was unable to determine whether a payment was proper or improper, the SBA categorized these payments as "Unknown"[5]. In FY 2022, one loan purchase in the amount of $846 was categorized as an unknown payment, which translated to an estimated unknown payment rate of 0.07 percent and an estimated unknown payment amount of $462,490.

The estimated rate of 4.15 percent improper payments and 0.07 percent in unknown payments totals 4.22 percent and represents total estimated improper payments plus unknown payments of $29,787,179.

The SBA's sampling methodology is a statistically valid and rigorous plan, with a 95 percent confidence interval, plus

5 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.

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, 1.76 percent, is lower than the reduction target rate of 3.25 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. For FY 2023, the SBA established a reduction target of 4.05 percent for the 7(a) loan guaranty purchases program.

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 established by OMB are: (1) Statutory Requirements of Program Were Not Met; (2) Unable to Determine Whether Proper or Improper; (3) Data/Information Needed Does Not Exist; (4) Inability to Access Data/Information; and, (5) Failure to Access Data/Information. The root cause for 7(a) loan guaranty purchases improper payments was identified as Failure to Access Data/Information. Improper payments generally arose when purchase processors failed to identify lenders' deficiencies in the evaluating, processing, closing, disbursing, servicing, liquidating, or litigating 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;
- Inaccurate/missing data resulting in an inability to reconcile transcripts of account; and,
- Ineligible use of proceeds.

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 improper payments. 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, 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 2022 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.

504 Certified Development Loans Approvals

The 504 Certified Development Loans program, made available through Certified Development Companies (CDCs), provides small businesses with long-term, fixed rate financing for major assets that promote business growth and job creation. CDCs are the SBA's community-based partners: non-profit corporations certified and regulated by the Small Business Administration to package, process, close, and service 504 loans in order to promote economic development within their communities.

504 Certified Development Loans Approvals describes the loan approval process. During the loan approval process, the SBA reviews the 504 loan amount for accuracy to ensure CDC Lenders issued the 504 loans to eligible borrowers and to ensure loans are made within statutory, regulatory, and SBA issued guidelines.

Statistical Sampling

For 504 Certified Development Loan Approval reviews, the loans in the sample were chosen using PPS Sampling with replacement from all loan guaranties approved during the 12-month period ended March 31, 2022. The approval population was not stratified. There was a total of 10,969 504 Certified Development Loan Approvals, with a total outlay of $10,020,790,600. The SBA determined the appropriate total sample size to be 221 loans from the population. The sample included net approval outlays of $434,102,000 and improper payments of $10,876,144 within the sample. Using the Hansen-Hurwitz estimation method, the improper payments rate for the annual period ending March 31, 2022, was estimated as 1.99 percent, and the improper payment amount was estimated as $198,962,331. For instances in which the SBA was unable to determine whether a payment was proper or improper, the SBA categorized these payments as "Unknown". In FY 2022, one 504 loan was identified with an unknown improper payment in the amount of $116,781 and was categorized as an unknown payment, which translated to an Unknown Payment rate of 0.02 percent and an estimated unknown payment amount of $2,278,483. The unknown payment identified in FY 2021, in the amount of $3,553,000, was resolved in FY 2022 and determined to be proper.

The estimated rate of 1.99 percent improper payments and 0.02 percent in unknown payments totals 2.01 percent and represents total estimated improper payments plus unknown payments of $201,240,814.

The FY 2022 improper payment rate estimate of 1.99 percent for this program is less than the target reduction rate of 2.97 percent from FY 2021. 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, 0.21 percent, is lower than the reduction target of 2.97 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 FY 2023, the SBA established a reduction target of 1.89 percent for the 504 Certified Development Loans Approvals program.

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 root cause categories established by the OMB are: (1) Statutory Requirements of Program Were Not Met; (2) Unable to Determine Whether Proper or Improper; (3) Data/Information Needed Does Not Exist; (4) Inability to Access Data/Information; and (5) Failure to Access Data/Information. The root cause for 504 Certified Development Loan Approvals was Statutory Requirements of Program Were Not Met. The most prevalent root cause stemmed from the CDC's failure to authenticate compliance with loan program requirements at origination. The primary reasons for 504 approval improper payments in FY 2022 included:

- Lender's failure to determine proper amount of equity injection;
- Lender's failure to determine appropriate occupancy percentage; and
- Lender's failure to provide proper documentation for technical defaults on borrowers' other SBA loans.

Although the SBA identified the primary root cause to be Statutory Requirements of Program Were Not Met, in order to comply with the root causes identified in the OMB data-call, the SBA further identified a secondary root cause of Inability to Access Data/Information. However, it is the SBA's position that the root causes are derived from statutory requirements of the program not being met based on the aforementioned reasons.

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. The OFPO will continue to share the loan level and lender deficiencies identified during the reviews with the OFA and the OCRM. The 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 2023.

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. Management provides oversight to ensure milestones are met. All improper payments identified as a result of the FY 2022 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 Assistance Loans

The Disaster Assistance Loans provides low-interest loans to help businesses and homeowners recover from declared disasters. The Disaster Assistance Loans are available to all businesses located within a declared disaster area, private non-profit organizations, homeowners, and renters affected by declared disasters. Disaster Assistance Loans can be used to pay for personal or business losses not covered by insurance or funding from other government agencies, as well as for business operating expenses that could have been met had the disaster not occurred.

Statistical Sampling

For Disaster Assistance Loan reviews, the SBA applied a stratified variable sampling design that allowed statistical projection of number errors and dollar amount by reporting program. This sampling plan provides a 97 percent confidence interval and a design precision of 3 percent. The sample design measures the actual variability of the dollar data and, through a weighted set of formulas provides a natural measure of the relative sampling error. The sample size and probabilities of selections were calculated using classical stratification formulas, specifically the Neyman optimization formula. Samples were selected from loans approvals during the 12-month period ended March 31, 2022. A total of 38,704 loans were approved, with a total loan outlays of $1,133,593,985. The SBA determined the appropriate total sample size to be 510 loans from the population. The sample included net loan outlays of $35,589,544. The improper payments rate for the annual period ending March 31, 2022, was estimated as 3.06 percent, and the improper payment amount was estimated as $34,679,790.

The FY 2022 improper payment rate estimate of 3.06 percent for this program is less than the target reduction rate of 3.71 percent from FY 2021. The SBA's sampling method is a statistically valid plan, with a 97 percent confidence interval, plus a 3 percent margin of error, the upper and lower bounds of the confidence interval. Because of the reduction in the improper payment rate, the Disaster Assistance Loan program is considered to have met its reduction target. For FY 2023, the SBA established a reduction target of 2.96 percent for the Disaster Assistance Loan program.

The Disaster Assistance Loan reviews for improper payments were conducted to determine whether loans were materially in compliance with SBA guidance, including to determine whether borrowers were eligible for the disaster assistance loan, whether the amount approved was correct, whether the loan was made in accordance with existing regulations, Standard Operating Procedures (SOPs) and other internal guidance.

Corrective Action

The root cause categories established by OMB are: (1) Statutory Requirements of Program Were Not Met, (2) Unable to Determine Whether Proper or Improper, (3) Data/Information Needed Does Not Exist, (4) Inability to Access Data/Information, and (5) Failure to Access Data/Information. The root cause for Disaster Assistance Loan improper payments was Statutory Requirements of Program Were Not Met. The most prevalent cause stemmed from documentation missing from the file. The primary reasons for Disaster Assistance Loan improper payments in FY 2022 included:

- Missing hardship documentation,
- Missing documentation related to the Disaster affected Property,
- Missing documentation of voting membership, and
- Improper calculation of Earned Income.

Although the SBA identified the primary root cause to be Statutory Requirements of Program Were Not Met, in order to comply with the root causes identified in the OMB data-call, the SBA further identified a secondary root cause of Inability to Access Data/Information. However, it is the SBA's position that the root causes are derived from statutory requirements of the program not being met based on the aforementioned reasons.

The SBA revised its corrective action processes in FY 2022. Corrective actions, which typically include obtaining supporting documentation from the borrower, are completed within 15 days of being informed of the improper payment. In addition, SBA provides quarterly training to loan approval staff on the causes of and prevention of improper payments.

COVID Economic Injury Disaster Loan (COVID EIDL)

The Small Business Act authorizes the SBA to make EIDL loans to eligible small businesses and nonprofit organizations located in a disaster area. On March 6, 2020, Congress deemed the COVID-19 pandemic to be a disaster, thus allowing the SBA to declare disasters and make EIDL loans available to small businesses and nonprofit organizations suffering substantial economic injury caused by the COVID-19 pandemic.

Statistical Sampling

For COVID EIDL reviews, the SBA applied a stratified variable sampling design that allowed statistical projection of number of errors and dollar amount by reporting program. This sampling plan provides a 97 percent confidence interval and a design precision of 3 percent. The sample design measures the actual variability of the dollar data and, through a weighted set of formulas, provides a natural measure of the relative sampling error. The sample size and probabilities of selections were calculated using classical stratification formulas, specifically the Neyman optimization formula. Samples were selected from loans approved during the 12-month period ended March 31, 2022. A total of 732,649 loans were approved, with a total outlays of $153,811,639,541. The SBA determined the appropriate total sample size to be 1,029 loans from the population. The sample included net loan outlays of $555,605,701. The improper payments rate for the annual period ending March 31, 2022, was estimated as 4.50 percent, and the improper payment amount was estimated as $6,916,710,835.

The FY 2022 improper payment rate estimate for the COVID EIDL program is 4.50 percent and is in compliance with the PIIA. This is the first year the SBA is reporting improper payment estimates for this program; therefore, no reduction rates from FY 2021 are available. As of January 1, 2022, the SBA stopped accepting applications for new COVID EIDL loans or advances. As of May 6, 2022, the SBA stopped processing COVID EIDL loan increase requests or requests for reconsideration of previously declined loan applications. Because the COVID EIDL program ended as of December 31, 2021, the improper payment estimates for FY 2023 will only consist of any loan increases and reconsiderations that were disbursed after March 31, 2022. For FY 2023, the SBA established a reduction target of 4.40 percent for the COVID EIDL program.

Corrective Action

The root cause categories established by the OMB are: (1) Statutory Requirements of Program Were Not Met; (2) Unable to Determine Whether Proper or Improper; (3) Data/Information Needed Does Not Exist; (4) Inability to Access Data/Information; and (5) Failure to Access Data/Information. The root cause for COVID EIDL improper payments was Statutory Requirements of Program Were Not Met. The most prevalent cause stemmed from missing verification of business ownership.

Although the SBA identified the primary root cause to be Statutory Requirements of Program Were Not Met, in order to comply with the root causes identified in the OMB data-call, the SBA further identified a secondary root cause of Inability to Access Data/Information. However, it is the SBA's position that the root causes are derived from statutory requirements of the program not being met based on the aforementioned reasons.

The SBA revised its corrective action process in FY 2022. Corrective actions, which typically include obtaining supporting documentation from the borrower, are completed within 15 days of being informed of the improper payment. In addition, the SBA provides quarterly training to loan approval staff on the causes of and prevention of improper payments.

Economic Injury Disaster Loan Emergency Assistance (EIDL Advance)

The Economic Injury Disaster Loan Emergency Assistance (EIDL Advance) are funds awarded to existing COVID EIDL applicants who meet certain eligibility criteria. The EIDL Advances are similar to grants (without the typical requirements for grants) and are not required to be repaid. There are two forms of EIDL Advances: Targeted EIDL Advance and Supplemental Targeted Advance. Targeted EIDL Advance provides up to $10,000 to eligible low-income applicants that met specific program eligibility criteria. Supplemental Targeted Advance provides $5,000 to eligible low-income applicants that meet specific program eligibility criteria and does not need to be repaid.

Statistical Sampling

For Economic Injury Disaster Loan Emergency Advance (EIDL Advance) reviews, the SBA applied a stratified variable sampling design that allowed statistical projection of number errors and dollar amount by reporting program. This sampling plan provides a 97 percent confidence interval and a design precision of 3 percent. The sample design measures the actual variability of the dollar data and, through a weighted set of formulas, provides a natural measure of the relative sampling error. The sample size and probabilities of selections were calculated using classical stratification formulas, specifically the Neyman optimization formula. Samples were selected from advances approved during the 12-month period ended March 31, 2022. A total of 626,042 EIDL Advances were awarded, with total program outlays of $7,849,839,278. The SBA determined the appropriate total sample size to be 308 advances from the population. The sample included net outlays of $2,266,000. The improper payment rate for the annual period ending March 31, 2022, was estimated as 9.76 percent, and the improper payment amount was estimated as $766,338,968.

The FY 2022 improper payment rate estimate for the EIDL Advance program is 9.76 percent and is in compliance with the PIIA. This is the first year the SBA is reporting improper payment estimates for this program; therefore, no reduction rates from FY 2021 are available. Because the EIDL Advance program ended on December 31, 2021, the improper payment estimates for FY 2023 will only consist of any advances that were disbursed after March 31, 2022, if any. For FY 2023, the SBA established a reduction target of 9.66 percent for the EIDL Advance program.

Corrective Action

The root cause categories established by OMB are: (1) Statutory Requirements of Program Were Not Met; (2) Unable to Determine Whether Proper or Improper; (3) Data/Information Needed Does Not Exist; (4) Inability to Access Data/Information; and (5) Failure to Access Data/Information. The root cause for EIDL Advances improper payments was Statutory Requirements of Program Were Not Met. The most prevalent cause stemmed from applicant failing to document the required income reduction in order to qualify. Additional causes for improper payments included applicant failing to document citizenship, existence of the business, or that the business was located in a low-income area.

Although the SBA identified the primary root cause to be Statutory Requirements of Program Were Not Met, in order to comply with the root causes identified in the OMB data-call, the SBA further identified a secondary root cause of Inability to Access Data/Information. However, it is the SBA's position that the root causes are derived from statutory requirements of the program not being met based on the aforementioned reasons.

The SBA revised its Corrective Action processes in FY 2022. Corrective actions, which typically include obtaining supporting documentation from the applicant, are completed within 15 days of being informed of the improper payment. In addition, SBA provides quarterly training to loan approval staff on the causes of and prevention of improper payments.

Paycheck Protection Loan Program (PPP)

The CARES Act established the Paycheck Protection Loan Program to provide economic relief to small businesses and incentivize small businesses to keep their workers on the payroll because of the COVID-19 pandemic. The PPP loans can be forgiven if the funds are used for payroll costs, interest on mortgages, rent, utilities, or other eligible expenses.

Under the initial PPP, borrowers were eligible to receive loans through June 30, 2020, that included debt forgiveness to cover payroll and other business expenses. A second round of PPP funding was approved by Congress on April 24, 2020, for an additional $310 billion in assistance. The program was extended through August 8, 2020. On December 27, 2020, the President signed a new stimulus bill that added an additional $284 billion in PPP funding with a program expiration date of March 31, 2021. On March 30, 2021, the President signed an extension of PPP to May 31, 2021.

Statistical Sampling

For Paycheck Protection Program loan reviews, the sample loans were chosen using disproportionate stratified sampling without replacement from all loan approvals that have submitted for forgiveness as of March 31, 2022. There were a total of 8,694,916 PPP loans, with a total outlays of $685,179,357,116 in the population. The SBA determined the appropriate total sample size to be 120,979 loans from the population. The sample included net approvals of $43,797,555,729 and improper payments of $932,295,492 within the sample. The improper payment rate for the population was estimated as 1.83 percent, and the improper payment amount was estimated as $12,529,331,784. For instances in which the SBA was unable to determine whether a payment was proper or improper, the SBA categorized these payments as "Unknown". In FY 2022, 2,608 PPP loans approved in the amount of $1,624,260,562 were categorized as unknown payments, which translated to an Unknown Payment rate of 2.41 percent and an estimated unknown payment amount of $16,497,713,144.

The estimated rate of 1.83 percent improper payments and 2.41 percent in unknown payments totals 4.24 percent and represents total estimated improper payments plus unknown payments of $29,027,044,928.

The SBA reviewed the sample of PPP loans to determine whether the loan approval and disbursement were proper or improper. PPP loans were approved by SBA Lenders based on the borrowers' certifications of eligibility. Lenders provided the borrowers' certifications to the SBA along with the borrowers' loan applications and, were able to make loans to the borrowers. The CARES Act legislation provided that the full amount of a PPP loan, with proper documentation and eligible expenditures, could be forgiven, and a borrower released from liability for the portion of the loan that was forgiven.

In accordance with program regulations, when a PPP Lender received a forgiveness application from a borrower, the Lender reviewed the application and submitted a forgiveness decision to the SBA. If the lender determined that the borrower was entitled to forgiveness of some or all of the amount applied for, the lender requested payment from the SBA at the time the lender issued its decision to the SBA. The SBA, subject to any SBA review of the borrower's loan(s) or loan application(s), remitted the appropriate forgiveness amount to the lender, plus any interest accrued through the date of payment.

The SBA reviewed borrower eligibility (including whether the borrower had been debarred; whether the borrower had defaulted on federal debt within the last seven years; whether the borrower had been convicted of a felony involving fraud, bribery, or embezzlement; whether the borrower was incarcerated; and whether the borrower was a U.S. citizen) and reviewed documentation to determine whether the borrower's business was in operation. Borrowers that were not eligible based on these eligibility criteria were denied forgiveness.

The full amount of the loan disbursed was determined to be improper.

The SBA also reviewed documentation to determine whether borrowers had eligible expenses during the covered period, and, if so, in what amount. If a borrower had eligible expenses that did not equal the amount of the loan disbursed, that portion of the loan used for eligible expenses could be forgiven.

Improper payment rates for the Paycheck Protection Program loans were reported for the first time in FY 2022. The program ended on May 31, 2021. No loans were awarded after the program end date; therefore, the SBA did not establish a program target reduction rate for FY 2023.

Corrective Action

The root cause categories established by OMB are: (1) Statutory Requirements of Program Were Not Met; (2) Unable to Determine Whether Proper or Improper; (3) Data/Information Needed Does Not Exist; (4) Inability to Access Data/Information; and (5) Failure to Access Data/Information. The root cause for all PPP loan improper payments was Statutory Requirements of Program Were Not Met. The most prevalent causes were as follows:

- The loan amount to a borrower exceeded the borrower's eligibility;
- A lack of supporting documentation; and
- Ineligible business type.

Although the SBA identified the primary root cause to be Statutory Requirements of Program Were Not Met, in order to comply with the root causes identified in the OMB data-call, the SBA further identified a secondary root cause of Inability to Access Data/Information. However, it is the SBA's position that the root causes are derived from statutory requirements of the program not being met based on the aforementioned reasons.

When performing a loan review, the SBA reviews borrower eligibility, PPP loan amounts and use of proceeds, and loan forgiveness amounts. If the SBA determines that the borrower was not eligible or the loan amount was incorrect, the payment is considered to be improper, the PPP loan is no longer deferred, and the borrower must begin paying principal and interest.

Payment Recovery Effort

The SBA makes every effort to recover improper payments identified during their improper payment review process. This recovery effort is independent of the recapture audit process, which can be deemed costly and ineffective. The agency's efforts to recapture improper payments are discussed by program or activity below.

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 7(a) and 504 loan guaranty approvals are resolved through obtaining additional documentation, loan modification, or cancellation of the loan. Improper payments identified through 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 a borrower receiving both an SBA loan and insurance payments or other benefits as a result of a 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.

COVID Economic Injury Disaster Loan (EIDL) (COVID EIDL)

Improper payments are generally the result of loan documentation errors. Loan documentation legally obligates the recipient of a disaster loan to pay back the entire loan amount whether or not the loan contains any improper payments. Therefore, improper payments are not recovered upon discovery but realized as the borrower makes each payment on the loan.

Economic Injury Disaster Loan Emergency Assistance (Advance) (EIDL Advance)

The SBA is developing a plan to assess the Emergency EIDL Advances. The SBA will demand repayment for EIDL Advances identified as improper. The SBA will explore available options to remedy cases, including recovery of funds by offset, referral to the OIG's Division of Investigations, or providing supporting documentation where appropriate.

Paycheck Protection Program Loans

Overpayments result from borrowers receiving a PPP loan in an amount that (1) exceeds the borrower's eligibility, (2) that cannot be supported through documentation, or (3) that was not used for purposes permitted by statute or guidance. In its review of the loan, if the SBA determines that the loan is not eligible for forgiveness (in whole or in part), the borrower must begin paying principal and interest.

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 the 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.

In FY 2022, the SBA did not conduct any recovery audits. The SBA performed a cost-benefit analysis for programs with over $1 million in disbursements and not covered by the analysis completed in 2011, and concluded that it would not be cost-effective to perform a recovery audit. Some of the factors considered include the following: program was not identified as being susceptible to significant improper payments in the last risk assessment, there have been no recent audit findings or reports to suggest that the program is susceptible to improper payments, prior internal control assessments did not identify the program as being susceptible to significant improper payments, and the cost to perform a recovery audit exceeded the potential recovery amount.

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 by submitting all programmatic disbursements through the DNP portal. If anomalies are identified, the SBA takes corrective actions to remedy the anomalies. For disbursements that have not been disbursed to the recipient, the SBA requires the recipient to resolve the DNP finding prior to becoming eligible for SBA funding. For disbursements that have already be disbursed to the recipient, the SBA would place a hold code on the loan or grant and/or deny future loan or grant requests or loan relief requests until the recipient was able to successfully resolve the DNP finding.

SUMMARY OF FINANCIAL STATEMENT AUDIT AND MANAGEMENT ASSURANCES

As required by OMB Circular A-136, Section II.4.4, the following summarizes the SBA's Financial Statement Audit and Management Assurances:

Summary of Financial Statement Audit

AUDIT OPINION	Disclaimer				
RESTATEMENT	No				
MATERIAL WEAKNESSES	BEGINNING BALANCE	NEW	RESOLVED	CONSOLIDATED	ENDING BALANCE
Controls over PPP Loan Guarantees	1	0		N/A	1
Controls over COVID-19 EIDLs and Grants	1	0		N/A	1
Controls over Subsidy Re-estimates	1	0		N/A	1
Controls over the evaluation of Service Organizations	1	0		N/A	1
Entity Level Controls	1	0		N/A	1
Controls over Restaurant Revitalization and Shuttered Venues	1	0		N/A	1
Total Material Weaknesses	6	0		N/A	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	1	0	0	N/A	N/A	1
Controls over COVID-19 EIDLs and Grants	1	0	0	N/A	N/A	1
Controls over Subsidy Re-estimates	1	0	0	N/A	N/A	1
Controls over the evaluation of Service Organizations	1	0	0	N/A	N/A	1
Entity Level Controls	1	0	0	N/A	N/A	1
Controls over Restaurant Revitalization and Shuttered Venues	1	0	0	N/A	N/A	1
Total Material Weaknesses	6	0	0	N/A	N/A	6

EFFECTIVENESS OF INTERNAL CONTROL OVER OPERATIONS (FMFIA § 2)						
STATEMENT OF ASSURANCE	Modified					
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	1	0	N/A	N/A	N/A	1
Federal Accounting Standards	1	0	N/A	N/A	N/A	1
Total Non-conformances	2	0	N/A	N/A	N/A	2

COMPLIANCE WITH SECTION 803(A) OF THE FEDERAL FINANCIAL MANAGEMENT IMPROVEMENT ACT (FFMIA)		
NON-CONFORMANCES	AGENCY	AUDITOR
1. Federal Financial Management System Requirements	No lack of compliance noted	Lack of compliance noted
2. Applicable Federal Accounting Standards	No lack of compliance noted	Lack of compliance noted
3. USSGL at Transaction Level	No lack of compliance noted	No lack of compliance noted

GRANTS PROGRAMS

CATEGORY	2-3 YEARS	3-5 YEARS	MORE THAN 5 YEARS
Number of Grants/Cooperative Agreements with Zero Dollar Balances	109	3	0
Number of Grants/Cooperative Agreements with Undisbursed Balances	0	0	0
Total Amount of Undisbursed Balances	$0	$0	$0

The SBA works to continuously improve its grants management process and manage risk. The Agency 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; and
- 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 are accurately closed in its grants management information technology systems. The closeout team reviews the status of grants regularly, 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 USC 687g	Failing to File Report Timely for a Small Business Investment Company (SBIC)	1966	2022	$291	Office of Investment and Innovation	87 F.R. 28756 (5/11/22)
Small Business Act, 15 USC 650(j)(1)	Failing to File Report Timely for a Small Business Lending Company (SBLC)	2004	2022	$7,244	Office of Capital Access	87 F.R. 28756-28757 (5/11/22)
Small Business Act, 15 USC 657t(e)(2)(B)	Types of Formal Enforcement Actions	2020	2022	$268,694	Office of Credit Risk Management	87 F.R. 28757 (5/11/22)
Small Business Act, 15 USC 634(b)(6) and Program Fraud Civil Remedies Act 31 USC 3802(d)	Administrative Remedies for False Statements and Claims	1986	2022	$12,537	Multiple offices	87 F.R. 28757 (5/11/22)
Small Business Act, 15 USC 634(b)(6) and Program Fraud Civil Remedies Act 31 USC 1352	Penalty for Violation of Lobbying Restrictions	1990	2022	not less than $22,021 and not more than $220,213	Multiple offices	87 F.R. 28757 (5/11/22)

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Section 4

Appendices (Unaudited)

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	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	www.facebook.com/SBAgov
Twitter	www.twitter.com/sbagov
YouTube	www.youtube.com/sba
Blogs	www.sba.gov/blogs
Instagram	www.instagram.com/sbagov

APPENDIX 2 – GLOSSARY

504 Loan	**504 Certified Development 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 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** Provides specialized assistance to underserved small businesses.
7(m)	**7(m) Microloan Program** Provides small, short-term loans to small businesses and certain types of nonprofit childcare centers.
8(a)	**8(a) Business Development Program** Assists firm owned and controlled by socially and economically disadvantaged individuals to compete for federal contracts.
A-123	**Designation for OMB Circular on Internal Control Systems** 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** 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 member organization for government financial management professionals.
APG	**Agency Priority Goals** A set of 2-year goals required by GPRAMA that reflect the highest priorities of a federal agency's leadership.
APR	**Annual Performance Report** A report that 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)** A law that 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** Assists eligible small businesses through various loan programs.
CAP Goals	**Cross-Agency Priority Goals** 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** A federal agency's annual budget request to Congress.
CDC	**Certified Development Company** Nonprofit corporations, certified and regulated by the SBA, that work with participating lenders to provide financing to small businesses.

CFO **Chief Financial Officer**
The financial leader whose duties include overseeing all Agency disbursements, management and coordination of Agency planning, budgeting, analysis, and accountability processes.

CNPP **Community Navigator Pilot Program**
Engages in targeted outreach to underserved communities through states, local governments, resource partners, and non-profit organizations.

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**
A law that aims to make information on federal expenditures more easily accessible and transparent.

DCMS **Disaster Credit Management System**
Electronic system used to process loan applications for all new disaster declarations.

DLF **Disaster Loan Fund**
Assists eligible small businesses impacted by disasters.

DNP **Do Not Pay Initiative**
Established by IPERIA to support federal agencies with their efforts to prevent and detect improper payments.

DO **District Office**
SBA offices that are responsible for the delivery of the SBA's many programs and services throughout the country.

DOD **Department of Defense**
The federal agency charged with coordinating national security and the armed services.

EAA **Economic Aid to Hard-Hit Small Businesses, Non-Profits and Venues 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**
Provides loans guarantied by SBA for up to $150,000.

EDP **Entrepreneurial Development Program**
An account that 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

ERM **Enterprise Risk Management**
Provides a framework to manage risks and seize opportunities related to the achievement of their objectives.

FAST **Federal and State Technology (FAST) Grants**
One year funding opportunity to help increase the number of SBIR and STTR proposals.

FBO **FedBizOps**
The Federal Government's website that posts all federal procurement opportunities with a value over $25,000.

FCRA **Federal Credit Reform Act**
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**
Coordinates 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**
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**
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**
Legislation to improve the acquisition and management of federal information technology assets.

FMFIA **Federal Managers Financial Integrity Act**
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**
Record of the United States government's financial activities.

FRMB **Fraud Risk Management Board**
Anti-fraud entity responsible for the oversight and coordination of the SBA's fraud risk activities.

FTA **Fiscal Transfer Agent**
The central registry for all guaranteed individual loan and SBA pool certificate interests.

FTE **Full-Time Equivalent**
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**
The standard framework of guidelines for financial accounting generally known as accounting standards or standard accounting practice.

GAO **U.S. Government Accountability Office**
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**
A law that modernizes the federal government's performance management framework, retaining and amplifying some aspects of the Government Performance and Results Act (GPRA) of 1993 while addressing some of its weaknesses.

GSA **General Services Administration**
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**
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 federal agency that aims to protect the health of all Americans and provide essential human services.

HUBZone **Historically Underutilized Business Zone**
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**
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.

IPERA **Improper Payments Elimination and Recovery Act**
A law that 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**
An act to intensify efforts to identify, prevent, and recover payment error, waste, fraud, and abuse within federal spending.

IPIA **Improper Payment Information Act**
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**
Refers to matters concerned with the design, development, installation, and implementation of information systems and applications.

JAAMS **Joint Administrative Accounting Management System**
A financial management system, also known as the Oracle Administrative Accounting System, which is used to keep records of the SBA's administrative funding and expenditures.

LSP **Lender Service Provider**
Carries out functions in originating, dispersing, servicing, or liquidating a specific SBA business loan or loan portfolio for compensation from the lender.

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**
A reserve fund maintained by the SBA's fiscal and transfer agent that is used to facilitate the operation of the 7(a) secondary market program.

OBD **Office of Business Development**
Assists small, disadvantaged businesses to gain access to federal and private procurement markets.

OCA **Office of Capital Access**
Manages small business loans, lender oversight, and the Surety Bond Guaranty program.

OPPCFO **Office of Performance, Planning, and the Chief Financial Officer**
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**
Manages 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**
Manages program credit risk, monitors lender performance, and enforces lending program requirements.

OCORM **Office of Continuous Operations and Risk Management**
Ensures enterprise-wide disaster planning, readiness, and implementation of ERM best practices for the SBA.

ODA — **Office of Disaster Assistance**
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**
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**
Provides comprehensive legal services to the Administrator and all Agency offices.

OGCBD — **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**
Conducts and supervises audits, inspections, and investigations relating to SBA programs and operations.

OMB — **U.S. Office of Management and Budget**
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 Federal Government's human resources agency.

OPSM — **Office of Performance and Systems Management**
Manages the Capital Access Financial System, Lender Loan Management System, Central Servicing Agent system, and Fiscal Transfer Agent system.

OSDBU — **Office of Small Disadvantaged Business Utilization**
Offices located within each federal agency that enable small disadvantaged businesses to gain access to economic opportunity through federal contracts.

PIIA — **Payment Integrity Information Act of 2019**
Law established to improve efforts to identify and reduce government-wide improper payments; requires agencies to estimate improper payments and report on actions to reduce improper payments.

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**
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**
A review to identify any deficiencies, to include improper payments.

QSMO — **Quality Service Management Office**
Office designated by OMB to promote the use of shared services in specific functional areas.

RRF — **Restaurant Revitalization Fund**
A COVID-19 relief program authorized under the American Rescue Plan.

SBA — **U.S. Small Business Administration**
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** Provides guaranties and 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** A fund at the U.S. Department of the Treasury that collects the SBA's contractor and surety fees and is used to pay claims.
SBIC	**Small Business Investment Company** Provides long-term loans, debt-equity investments, and management assistance to small businesses, particularly during their growth stages.
SBIR	**Small Business Innovation Research** 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** Non-depository small business lending companies listed by the SBA Office of Capital Access.
SE	**Salaries and Expenses** Operating expenses of the Agency.
SMC	**Senior Management Council** Established by the Administrator to ensure the SBA has an effective system of internal controls.
SOC	**System and Organization Controls** A suite of reports produced during an audit that focuses on trust service principles.
SOP	**Standard Operating Procedure** The primary source of the Agency's internal control.
STEP	**State Trade Expansion Program** Makes matching fund awards to states to help small businesses enter and succeed in the internal marketplace.
SVOG	**Shuttered Venues Operator Grant** COVID-19 relief program authorized under the American Rescue Plan.
TAP	**Transition Assistance Program** 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** Centers located nationwide that 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** Provides a uniform chart of accounts and technical guidance for standardizing federal agency accounting.
VBOC	**Veterans Business Outreach Centers** 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 Centers** 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** A fund for IT modernization efforts.
WOSB	**Women-Owned Small Businesses Program** Allows federal agencies to set aside certain contracts for competition only among small businesses owned and controlled by women.
YTD	**Year-to-Date** The period of time beginning the first day of the fiscal year and going to the current date.

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 the SBA's financial and administrative operation, but are beneficial to SBA 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 SBA maintains a database to track the recommendations through to the conclusion, or Final Action. During FY 2022 there were 123 Final Actions, resulting from 4 monetary and 119 non-monetary recommendations.

The following tables depict the SBA's Final Action activity for FY 2022 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, 2021 – September 30, 2022

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.	12	$220,726,750
B. Recommendations on which management decisions were made during the period.	2	$4,500,683,000
C. Total recommendations pending final action during period.	14	$4,721,409,750
D. Recommendations on which final action was taken during the period.		
1. Recoveries:		
(a) Collections and Offsets		
(b) Property		
(c) Other		
2. Write-Offs	4	$151,469,571
3. Total	4	
E. Recommendations needing final action at the end of the period.	10	$4,569,940,179

TABLE II

Final Action on Audit Recommendations with Funds To Be Put To Better Use

October 1, 2021 – September 30, 2022

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, 2022

Report # 18-03, FY 2017 Financial Statement Audit

Program: OCA

Date Issued: 11/14/2017

Management Decision Date: 1/10/2018

Explanation: The one remaining recommendation requires the Office of Capital Access (OCA) to monitor and perform procedures over the service organization's attestation report regarding user control considerations. The fiscal transfer agent will deliver both a service organization controls and an independent verification and validation report at the beginning of FY 2023. At that time, the OCA will review the reports and submit their analysis and closure package for OIG review. The estimated completion date is 11/30/2022.

Report # 18-13, Evaluation of SBA 7(a) Loans Made to Poultry Farmers

Program: OCA

Date Issued: 3/6/2018

Management Decision Date: 3/1/2018

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 conduct a new rule making. The SBA drafted a proposed rule to address the affiliation issues, and while the proposed rule has been signed by the Administrator, it has not yet been published and is awaiting additional inter-agency review and comment coordinated by OMB. The estimated completion date is 03/15/2023.

Report # 19-15, 7(a) High Risk Loan

Program: OCA

Date Issued: 7/10/2019

Management Decision Date: 7/11/2019

Questioned Costs: 3,000,297.00

Explanation: OFPO submitted the final closure request in Integrity, the SBA's audit tracking system, on 08/12/2022.

Report # 19-16, 7(a) High Risk Loan

Program: OCA

Date Issued: 8/14/2019

Management Decision Date: 8/15/2019

Questioned Costs: 1,367,417.00

Explanation: The lender is in the process of submitting recovery for the balances indicated. Estimated completion date is 10/31/2022.

Report # 19-17, Evaluation of SBA's All Small Mentor Protégé Program

Program: GCBD

Date Issued: 7/1/2019

Management Decision Date: 8/16/2019

Explanation: Two recommendations. Recommendation 3 — on 06/17/2021, the OIG granted the GCBD's request for extension for this recommendation until 09/30/2022. In order to address the recommendation, the GCBD conducted a detailed assessment of the staff time needed to complete application reviews and annual evaluations given the temporary process and the updated process based on the advancement of the technology used for application reviews and annual evaluations. After the resource assessment was completed, the GCBD completed human resource actions to fill open positions. On 09/29/2022, the GCBD presented the staffing chart and justification of staff resources based on the updated technology to the OIG. The GCBD will provide the documentation to close the recommendation to OIG within 30 days. Recommendation 4 — on 06/17/2021, the OIG granted the GCBD's request for extension for this recommendation until 09/30/2022. The OCIO is the program responsible for the development of certify.SBA.gov, and the GCBD did not have direct authority to develop and implement functionality for certify.SBA.gov. The process to address this recommendation started at the beginning of FY 2022 and will continue until certify.SBA.gov has the full capacity to accept, manage, and track applications and annual evaluations. On 09/29/2022, the GCBD provided the OIG with a demonstration of the Power BI dashboard temporarily being used to address the functionality needed to track application reviews and annual evaluations. The GCBD will provide the documentation to close the recommendation to the OIG within 30 days.

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: Four recommendations. Recommendation 1 — The OCRM will include the recommended changes in the revised SOP 51 00 2, which is being finalized. Estimated completion date is 12/30/2022. Recommendation 2 — The OCRM is working with the OPSM to develop a database/workflow management tool to more effectively oversee high-risk lenders. It is currently in development, awaiting a source of funding, and is expected to be implemented by the end of FY 2023. Recommendation 5 — The communications protocol will be included in the revised SOP 51 00 2, which is being finalized. Estimated completion date is 12/30/2022. Recommendation 6 — The OCRM has the Loan File Review Team reviewing the loans to determine if deficiencies exist and were corrected. The OCRM requested an extension until 11/30/2022.

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: Five recommendations. Recommendation 1 – The OFA has reviewed options for expanding access to capital in underserved areas and the Administrator has made significant changes to the CA Pilot. On 04/01/2022, the CA Pilot was extended to 9/30/2024 and the moratorium on new lenders was lifted (see 87 FRN 19165). Additionally, on 04/29/2022, the SBA published a Final Rule effective 5/31/2022 , making several significant changes to the CA Pilot (see 87 FRN 25398), and the OFA has requested closure of this recommendation. Recommendation 2 — The OFA has determined that aligning the rates is feasible and has published a final rule (see 87 FRN 38900 – Section 120.213) that aligns the variable rates for CA loans with all 7(a) loans up to $350,000. The interest rates on fixed rate loans under $250,000 are already aligned at PRIME +6 percent per SOP 50.10.6. The OFA has requested closure of this recommendation. Recommendation 4 — 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 management and technical assistance (M&TA) and will consider the frequency in which a Lender provides M&TA as a factor to determination whether the CA Lender's expertise is adequate. The OFA has requested an extension of this recommendation to 12/31/2022. Recommendation 5 — The OFA has made the TA fields in ETRAN mandatory and has delivered its review of loan performance associated with the various type of M&TA to OIG. The OFA has requested closure of this recommendation. Recommendation 6 – The OFA has established a process of periodically evaluating the performance of CA loans with SBSS scores below 140>. The OFA has requested closure of this recommendation.

Report # 20-20, Compliance with the Debt Collection Act Program: OCA

Date Issued: 9/30/2020

Management Decision Date: 9/30/2020

Explanation: Ten recommendations. Recommendations 1, 2, 3, 6, 7, 9, and 10 — SOP 50 52: *Disaster Loan Servicing* and *Liquidation* is currently being revised within the OCA and will not be ready for agency clearance until all revisions are received. Extensions to 12/15/2022 granted. Recommendation 4 — The OFPO submitted final closure package in Integrity. Original closure documents submitted to the OIG on 8/23/2021. The OIG requested additional information 10/6/2022, and OFPO will submit the documentation by 10/31/2022. Recommendation 5 — The OFPO submitted to the OIG for final closure 5/11/2021. Received OIG extension to 11/19/2021. The OIG requested additional information 10/6/2022, and the OFPO will submit the documentation by 10/31/2022. Recommendation 8 — The OFPO submitted 1824 to the OIG for final closure 5/11/2021. The OIG requested additional information 10/6/2022, and the OFPO will submit the documentation by 10/31/2022.

Report # 21-02, Inspection of Small Business Administration's Initial Disaster Assistance Response to the Coronavirus Pandemic

Program: OCA

Date Issued: 10/28/2020

Management Decision Date: 10/14/2020

Explanation: Three recommendations. The SBA developed a plan to assess and remedy the EIDL Advances awarded by reviewing a sampling of recipient sole proprietors and independent contractors that self-certified having employees but did not provide an Employer Identification Number (EIN) on their COVID EIDL application after initial assessment of the population by the approved third-party contractor. The SBA has developed an appropriate plan to remedy cases identified where the applicant provided false information on their COVID EIDL application with regards to having employees. The SBA has developed an appropriate plan to remedy cases, including but not limited to, recovery of funds by offset, referral to OIG criminal investigative division, or the provision of supporting documentation, where appropriate. Extensions have been requested to allow the remedy of the final action to be completed. Extension requested in Integrity to 12/30/2022.

Report # 21-07, Inspection of SBA's Paycheck Protection Program

Program: OCA

Date Issued: 1/14/2021

Management Decision Date: 2/14/2022

Explanation: One recommendation. The OFPO is preparing final closure documents for submission in Integrity by 11/18/2022.

Report # 21-08, SBA's Use of Vendors Without a Contract

Program: OCA

Date Issued: 2/3/2021

Management Decision Date: 9/30/2020

Questioned Costs: 10,800.00

Explanation: Three recommendations. Recommendation 1 —The OFPO submitted a draft contract solicitation package to Acquisitions for assignment to a Contracting Officer. Received extension to 10/31/2022. Recommendation 2 — The OFPO submitted closure request in Integrity 9/27/2022. Recommendation 3 — The OFPO disagrees with the recommended ratification of $10.8 million and continues to work with the OIG and the OGC on a resolution.

Report # 21-09, Duplicate Loans Made Under the Paycheck Protection Program

Program: OCA

Date Issued: 1/27/2021

Management Decision Date: 2/26/2021

Explanation: Four recommendations. Recommendation 1 — The Master Plan document was finalized in FY 2022 by the Office of Financial Program Operations (OFPO). The level of effort developing and finalizing the Master Plan was quite large. This contributed to the delay with closing this finding. The final package to close this audit will be submitted to the OIG for review in early FY 2023. Recommendation 2 — The Master Plan document was finalized in FY 2022 by OFPO. The level of effort developing and finalizing the Master Plan was quite large. This contributed to the delay with closing this finding. The final package to close for this audit will be submitted to the OIG for review in early FY 2023. Recommendation 3 — Incorporating SBA Procedural PPP updates (5000-20092) took more time to develop and implement. Our original assessment on timeline for completion was understated, and more time was needed to complete these updates (communication to external/internal stakeholders, systematically, etc.). Lastly, more time was needed to document and create artifacts to portray the updates to the system. The final package to close this audit will be submitted to the OIG for review in early FY 2023. Recommendation 4 — Incorporating SBA Procedural PPP updates (5000-20092) took more time to develop and implement. Our original assessment on timeline for completion was understated, and more time was needed to complete these updates (communication to external/internal stakeholders, systematically, etc.). Lastly, more time was needed to document and create artifacts to portray the updates to the system. The final package to close this audit will be submitted to the OIG for review in early FY 2023.

Report # 21-11, SBA's Award Procedures for the CARES Act Entrepreneurial Development Cooperative Agreements

Program: OED

Date Issued: 3/30/2021

Management Decision Date: 3/5/2021

Explanation: Two recommendations. Recommendation 1 — The OED provided evidence to demonstrate that the OED enforced requirements for award recipients to set measurable performance goals, including performance targets. The OED submitted the CARES Act program Notice of Awards (NOAs) to the auditors. The OED is awaiting closure information from the OIG. Recommendation 2 — The OED provided evidence of an established system to collect and retain performance data and results and submitted a framework that was created to assist with goal setting for future disaster or pandemic related programs like the CARES Act. The OED is awaiting closure information from the OIG.

Report # 21-14, SBA's Oversight of Women's Business Center Cooperative Agreements

Program: OED

Date Issued: 5/12/2021

Management Decision Date: 05/04/2021

Explanation: Eight recommendations. Recommendations 1, 4, 5, 6, and 8 have been addressed through the development of operating procedures and revised policy. The OIG has requested documentation confirming the changes have been implemented, which will be provided by 10/31/2022. Extensions have been requested to 10/31/2022. Recommendations 2, 3, and 7 are due on 9/24/2024. The SBA conducted an additional analysis and identified documentation that reduced the recoupment and remedy amount to $237,392.50. For these recommendations the SBA has collected recoupment in the amount of $64,960.27 and is finalizing the collection of remaining funds from impacted awardees.

Report # 21-16, SBA's FY 2020 Compliance with PIIA

Program: OCA

Date Issued: 5/12/2021

Management Decision Date: 6/12/2021

Explanation: Two recommendations. Recommendations 10 and 11 — OFPO received extensions to 11/30/2022 for Recommendation 10 and 12/1/2022 for Recommendation 11 to allow collection of sampling methodology data.

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OFFICE OF PERFORMANCE, PLANNING, AND THE CHIEF FINANCIAL OFFICER

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