

**U.S. Small Business Administration  
Office of Inspector General**

**FY 2024 Budget Justification**



**March 2023**

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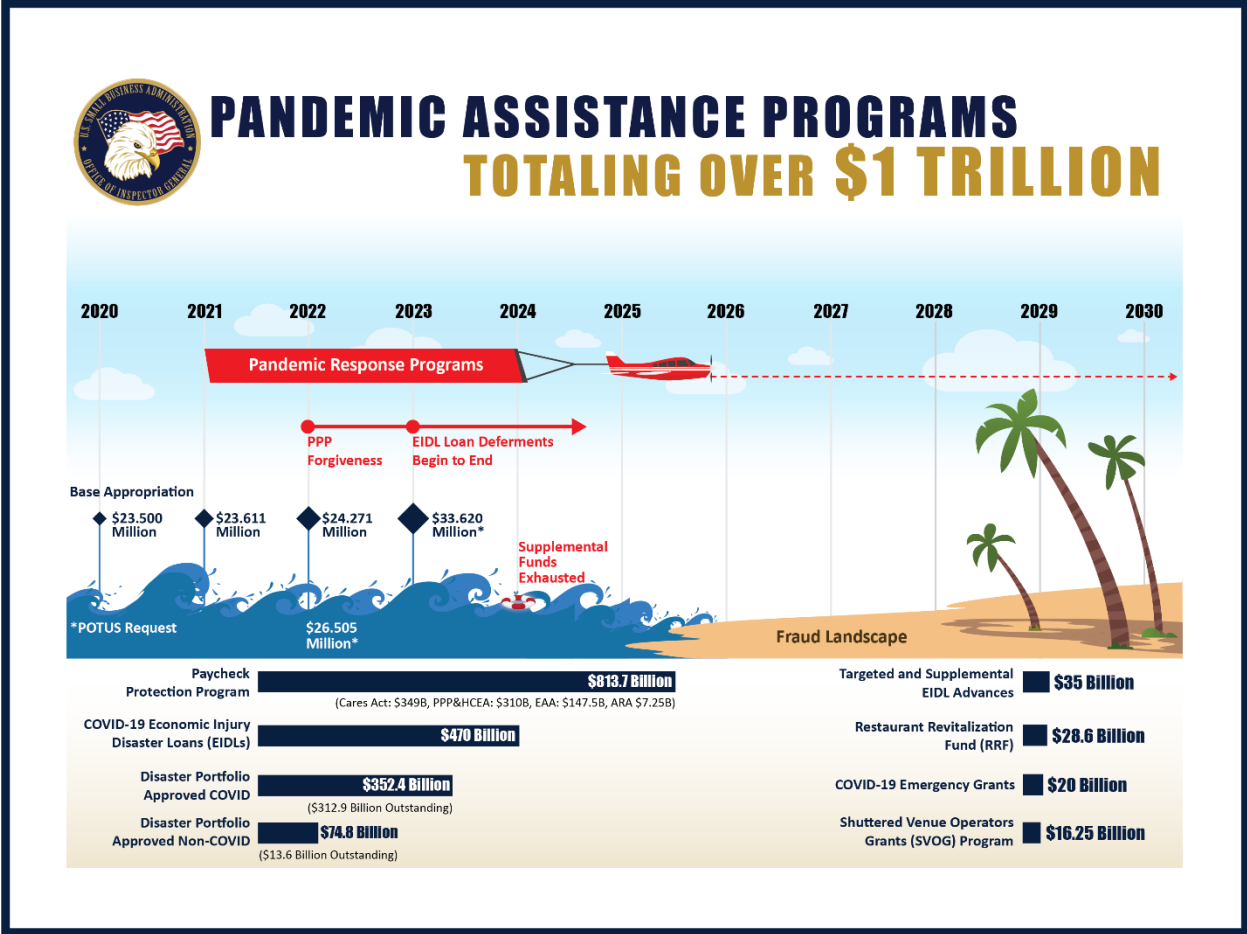
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## Overview

The U.S. Small Business Administration (SBA) Office of Inspector General (OIG) provides auditing, investigative, and other services to support and assist SBA in achieving its mission. The office is ranked as the top OIG in the Federal Government as a *Best Place to Work* by the Partnership for Public Service with an engagement and satisfaction employee score of 90.6, which far exceeds the private sector score of 79.1 and the overall Government score of 64.5. As a result of its oversight efforts, OIG provides dozens of recommendations each year to SBA leadership aimed at improving the integrity, accountability, and performance of SBA and its programs for the benefit of the American people. Similarly, OIG's investigative efforts result in hundreds of convictions and indictments as we pursue evidence of fraud in SBA programs. OIG's engaged workforce provides taxpayers with a significant return on investment, rooting out fraud, waste, and abuse in SBA programs.

During fiscal year (FY) 2021, OIG provided a historic and exponential return on investment to the taxpayer with \$4.2 billion in dollar accomplishments, which include investigative recoveries, fines, and forfeitures, as well as review findings of disallowed costs. OIG's oversight efforts in FY 2022 exceeded these unprecedented returns on investment to the taxpayer with dollar accomplishments exceeding \$4.8 billion. OIG's Paycheck Protection Program (PPP) and Economic Injury Disaster Loan (EIDL) oversight and investigative work has resulted in 776 indictments, 621 arrests, and 426 convictions as of December 2022. Also, over \$8 billion in EIDL funds have been returned to SBA by financial institutions and another \$20 billion by borrowers. OIG has played a key role in the return of these funds through working with our law enforcement partners, financial institutions, and educating the public about fraud in the pandemic relief programs, which has served as a deterrent to fraudsters.

Notwithstanding these accomplishments, OIG's oversight capacity is dependent upon the availability of sufficient budgetary resources to continue addressing the fraud landscape within SBA pandemic response programs. The \$50 million in supplemental funds appropriated to OIG in FY 2020/21 will be exhausted near the conclusion of FY 2024. As such, absent the total budgetary resources requested in the 2024 Budget, OIG would not have a sufficient operating budget to combat the fraud within SBA programs and to provide effective oversight over its flagship programs. Critically, OIG would not have a sufficient operating budget to capitalize on the new laws (P.L. 117-165 and P.L. 117-166), which extended the statute of limitations for fraud in the PPP and EIDL programs to 10 years.



SBA has a vital mission to maintain and strengthen the nation’s economy by helping small businesses and by assisting in the economic recovery of communities after disasters. OIG is critical to the success of SBA in meeting this mission. OIG provides independent, objective, and timely oversight to improve the integrity, accountability, and performance of SBA. OIG’s reviews and investigations have found that even before the pandemic, SBA faced major challenges in managing enormous financial lending programs, information technology, and other areas. That said, management of the Coronavirus Disease 2019 (COVID-19) pandemic stimulus lending programs is the greatest overall challenge facing SBA, and it will continue to be for many years as the agency grapples with fraud in the programs. Pandemic response has magnified the challenging systemic issues in SBA’s mission-related work. OIG’s resources are prioritized to align with these challenges, so the scope of fraud within the pandemic response programs and these systemic challenges similarly will strain OIG’s investigative and auditing capacity absent the total budgetary resources requested in the 2024 Budget.

## **Pandemic Response Fraud Landscape**

SBA's pandemic response programs are valued at more than \$1 trillion. Unfortunately, we have only seen the tip of the iceberg in the pandemic fraud fight as it pertains to SBA. With a data analytics triage, OIG anticipates over 81,516 of the 232,680 complaints we have received to date since the beginning of the pandemic response are associated with potential fraud, which doesn't include the millions of loan applications associated with identity theft. In addition to OIG's Hotline, we also receive allegations of fraud directly from lending partners, financial institutions, and Federal agencies involved with banking regulation. Law enforcement partners, such as the U.S. Secret Service, have independently estimated fraud within the program at hundreds of billions of dollars. OIG criminal investigators are valued team members with these Federal partners, providing the necessary expertise to unravel complicated fraud schemes.

Tens of billions of dollars already have been identified through OIG reviews as potentially fraudulent PPP and EIDL funds. We have concern and continue to monitor the multiple billions of PPP funds to borrowers who have not yet applied for forgiveness, which is highly suspicious. OIG's investigations have substantiated billions of dollars in fraud. Additionally, the 30-month deferment period for \$373 billion in EIDL funds means SBA has not yet realized the inevitable wave of defaulted loans. OIG's experience from decades of disaster oversight is that such defaults usually are strong indicators of fraud. We believe the fraud landscape will not be fully revealed until the loan terms progress to payments due.

OIG is requesting budget authority that is commensurate with this fraud landscape, which has been characterized as the biggest fraud in a generation. OIG's base resources, combined with the measured expenditure of available supplemental funds, currently only allow for an annual caseload of less than 600 in this fraud landscape. This roughly translates to over 100 years of a casework just for the 40,000 Hotline complaints that could potentially lead to a fraud case, and the fraud landscape is much more expansive than the Hotline.

## **Budget Request**

OIG requires \$63.304 million in total budget authority for FY 2024. These funds will allow OIG to maintain the current staffing level of 185 positions beyond the exhaustion of supplemental funds appropriated to the office. It also will provide vital investigative capacity and oversight to the hundreds of billions in potential fraud in SBA pandemic response programs. This capacity will also enable oversight of the burgeoning \$713.2 billion loan portfolio and \$154.2 billion in Federal contracting dollars to small businesses. P.L. 117-165 and P.L. 117-166 recently extended the statute of limitations to

10 years for PPP and EIDL fraud. The extension of the statute of limitations recognizes the importance of OIG's oversight and magnitude of PPP and EIDL loans approved during the pandemic.

OIG's FY 2024 budget request will provide the needed resources to continue to root out fraud, waste, and abuse in these programs. It will allow the office to bring wrongdoers to justice until at least 2030 as contemplated by the Congress' recent legislative steps, though the 10-year statute of limitations is chargeable to the last overt act, meaning wrongdoing is prosecutable to 2033 or beyond. These requested funds will be managed to provide investigative resources—criminal investigators, data scientists, investigative analysts, and attorneys—to ensure wrongdoers do not evade justice.

Consistent with President Biden's 2023 State of the Union address, which called on Congress to crack down on criminal syndicates stealing billions of COVID-19 relief dollars from the American people, the Budget includes additional funding for this office as part of the Pandemic Fraud Prevention and Enforcement proposal<sup>25</sup>.

As evidence of OIG's comprehensive approach to the fraud fight, in addition to its investigative personnel, OIG has hired three attorneys to serve on detail as Special Assistant U.S. Attorneys to the Criminal Division Fraud Section's Market Integrity and Major Frauds Unit. They are available in a dedicated manner to prosecute fraud against SBA programs.

Continued support of OIG will undoubtedly result in a robust return on investment to taxpayers. This budget will position the office to continue to spearhead the fraud fight in FY 2024 and beyond. In the past 2 years alone, OIG's accomplishments have resulted in nearly \$9 billion in dollar accomplishments, resulting in an exponential return on investment to the taxpayer.

OIG's FY 2022 base operating budget was \$22.671 million, with an additional \$1.6 million transferred to OIG from SBA's Disaster Loans Program Account for oversight of SBA's Disaster Assistance Program, which was \$2.23 million less than the President's budget request for FY 2022. The FY 2022 appropriations shortfall was compounded by the rescission of unobligated balances pertaining to supplemental funds available to OIG in the amount of \$20 million in the Consolidated Appropriations Act, 2021 for OIG's oversight of the EIDL program. These budgetary constraints increased the expenditure of supplemental funds provided to OIG through the Coronavirus Aid, Relief, and Economic Security (CARES) Act and the American Rescue Plan Act of 2021 (ARPA) to meet the expansive oversight needs of SBA. The President's FY 2023 budget request of \$32.02 million for OIG, with an additional \$1.6 million transferred to OIG

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<sup>25</sup> [FACT SHEET: President Biden's Sweeping Pandemic Anti-Fraud Proposal: Going After Systemic Fraud, Taking on Identity Theft, Helping Victims | The White House](#)



from SBA's Disaster Loans Program Account for oversight of SBA's Disaster Assistance Program, was met and provided an investment in the capacity to meet the emerging fraud landscape in 2023.

However, OIG is expected to exhaust supplemental funds just as the fraud landscape comes into full view at the close of FY 2024, which substantiates the increase for OIG's budget in FY 2024. Absent the increase to the total budgetary resources as requested in the 2024 Budget, OIG will have insufficient funds to effectively oversee SBA's programs and operations, in particular the \$1 trillion of pandemic response programs. Moreover, SBA's flagship programs within the framework of capital, contracting, counseling, and disaster assistance for the nation's small business are robust. For example, in FY 2021, SBA approved 51,853 7(a) loans totaling \$36.8 billion. At the end of FY 2021, SBA was the taxpayers' custodian of small business loan guaranties and direct loans with a portfolio of more than \$713.2 billion. SBA also recently announced that it exceeded its small business Federal contracting goal in FY 2021, awarding 27.2 percent, or \$154.2 billion, in Federal contracting dollars to small businesses. This is an \$8 billion increase from the previous fiscal year. These activities are extensive, and they are associated with significant risk--they require robust oversight by OIG.

Below is a summary of additional, reported performance by SBA in its FY 2021 Agency Financial Report.

**Capital:** In FY 2022, SBA approved nearly \$35 billion, or more than 57,000 loans, to small businesses. SBA invested more than \$7.9 billion in 1,200 small businesses through the Small Business Investment Company program.

**Contracting:** SBA continued to partner with agencies across the Federal Government to expand small business contracting opportunities. From FY 2016 through 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.

**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.

The fraud perpetuated against SBA's pandemic response programs has been characterized as the biggest fraud in a generation, as evident by the hundreds of billions in potential fraud estimated and identified by OIG and the oversight community. These estimates are turning into actual fraud cases daily, with investigative efforts across government bringing fraudsters to justice. In March 2022, the U.S. Department of Justice (DOJ) announced a summary of results accounting for more than 1,000 defendants with alleged losses in Federal funds exceeding \$1.1 billion. DOJ identified the seizure of over \$1 billion in EIDL proceeds, and over 240 civil investigations involving more than 1,800 defendants and entities for alleged misconduct in connection with pandemic relief loans totaling more than \$6 billion. OIG criminal investigators are at the tip of the spear in this fraud fight, and its data analytics program is fueling investigative leads and revealing fraud for its joint and cross-governmental investigative efforts.

Coupled with suspicious transactions reported by financial institutions, referrals of fraud from OIG's Audits Division, anomaly detection and link analysis-derived leads through data analytics, OIG's investigative staff requires significant additional resources as requested in the 2024 Budget. Though not every instance of fraud will be investigated or prosecuted within the PPP and EIDL programs, an investment of OIG's investigative capacity will promote cooperative partnerships across the Federal law enforcement community, facilitate prioritization of investigations, and provide desperately needed resources to investigate the most sinister and complex wrongdoers that disproportionately stole from taxpayers. Support of OIG's budget request also sends a strong message of deterrence to fraudsters taking aim at all U.S. Government programs. OIG has proven with adequate resources it is poised to promote public trust and instill integrity in SBA programs.

## **Budget Proposal and Resource Utilization**

OIG has judiciously and deliberately leveraged its FY 2022 base and supplemental resources to provide a framework for oversight excellence in FY 2023. With its FY 2024 total budgetary increase of \$29.684 million, OIG will cement this framework and instill resiliency to lead the Government's fight against fraud in SBA's programs for years to come. The President's FY 2023 budget for OIG provided an initial, incremental investment in making permanent OIG's increased oversight capacity to improve the integrity and efficiency of SBA's programs and operations and to bring wrongdoers to justice that took advantage of the nation's swift response to mitigate economic damage of the pandemic. OIG's FY 2024 total budgetary request is synchronous with the tenants of the President's Management Agenda, as well as his State of the Union address that

announced steps to prevent, deter, and punish identity theft and other forms of pandemic fraud. With hundreds of billions of dollars in estimated fraud, the nearly \$10 billion increase in the Government small business contracting programs, and the more than fourfold increase in SBA's loan portfolios since the pandemic response—from more than \$150 billion to more than \$700 billion, OIG's oversight capacity must measuredly increase to mitigate risk to the taxpayer and to promote integrity within SBA's programs.

## **FY 2024 BUDGET REQUEST**

For FY 2024, OIG is seeking a \$29.684 million increase in total budgetary resources to its base FY 2023 operating budget.

Of the \$29.684 million, \$15 million is necessary to permanently carry forward 56 positions that are currently providing oversight of SBA's pandemic response programs, which totals 185 positions. This oversight capacity is reflected in the \$15 million increase to OIG's direct discretionary budget. The FY 2023 enacted funding level provides funding for 129 positions. These base resource increases coincide with the exhaustion of supplemental funds; however, the fraud landscape and statute of limitations extend far beyond FYs 2023 and 2024. The 56 positions supported by this increase are a vital oversight capacity, comprised of criminal investigators, attorneys, auditors, OIG Hotline and investigative analysts.

OIG will hire three additional groups of criminal investigators, comprised of an Assistant Special Agent in Charge, eight criminal investigators, an investigative analyst, and support services such as vehicles. OIG's Investigation Division currently operates from 12 locations across the United States. These legacy locations align with saturation of SBA's programs prior to the pandemic. With the expansive pandemic response, OIG's operating needs are truly nationwide. OIG will leverage increased budget authority to increase its office locations to provide more investigative coverage of major markets, increasing its investigative capacity to address the tens of thousands of cases of fraud across the nation. It is anticipated that OIG will be able to increase its annual caseload from 435 to over 600. The expanded OIG investigative presence also will reduce travel costs and the amount of time existing investigative personnel are in a travel status.

OIG will hire three data scientists. Data analytics capability currently is provided to the office through a combination of government and contract personnel. The three data scientist positions will enable the office to realize substantial cost savings as the need for contract support will be diminished. OIG has integrated its data analytics initiative into its audit and investigative processes and this

investment will fulfill the commitment to instituting an infrastructure that will enable a robust data strategy for the future. Data analysis promotes the production of higher quality audit and investigative evidence and better correlation of audit and investigative approaches to risks and assertions. In addition, SBA's loan portfolios are comprised of millions of records, which are far too expansive for manual review. To date, OIG's initial data analytics efforts have identified billions of dollars of potential fraud in SBA's pandemic response lending programs. Data analytics has bolstered our investigative capacity with findings that have led to investigation and quick arrest of fraudsters across the nation.

OIG will hire three additional auditors to enhance the review capacity within its Credit Programs and Business Development and Contracting Programs groups. The pandemic response programs have strained the review capacity within these groups because resources have been reassigned to the Disaster Loan Programs Group within the Audits Division, which provides oversight over the EIDL and disaster loan programs that have evidenced systemic management and performance challenges.

OIG will hire five professional positions to support the enhanced oversight framework of the office. An administrative professional position will be allocated within the Management and Operations Division and the Audit Division to support administrative needs. The Management and Operations Division also will be allocated two professional positions to provide internal contracting support and to increase its external communications through social media platforms for enhanced transparency of OIG reporting. Finally, OIG will hire an additional human resources specialist position to provide needed capacity in staffing and employee relations functional areas.

OIG will utilize \$1 million to obtain equipment and services to implement the executive order to mandate the use of body-worn cameras for Federal law enforcement personnel. These funds are necessary to obtain not only body-worn cameras but also necessary cloud storage and data management services to facilitate expedited public release, when required, and to support Federal prosecutions.

OIG will utilize \$2.184 million for costs associated with the 2023 and 2024 pay increase for its personnel.

### **Base Resource Utilization**

OIG will work an active caseload of approximately 435 criminal and civil fraud investigations of potential loan and contracting fraud and other wrongdoing. Many of these investigations involve complex, multimillion-dollar fraudulent financial schemes perpetrated by multiple suspects. OIG's PPP and EIDL oversight and investigative

work has resulted in 776 indictments, 621 arrests, and 426 convictions as of December 2022. Also, over \$8 billion has been returned by financial institutions to SBA related to the EIDL programs. SBA has also received over \$20 billion dollars of EIDL funds that have been returned by borrowers.

OIG will conduct risk-based audits and reviews of SBA activities with a focus on systemic, programmatic, and operational vulnerabilities. During FY 2021, OIG issued 19 reports with 119 recommendations for improving the Agency's operations, identifying improper payments, and strengthening controls to reduce fraud and unnecessary losses in SBA programs. During this period, the Audits Division achieved \$785,961 in accomplishments relative to recommendations that costs were disallowed and agreed to by management or that funds be put to better use and agreed to by management. During FY 2022, OIG issued 25 reports with 129 recommendations for improving the Agency's operations, identifying improper payments, and strengthening controls to reduce fraud and unnecessary losses in SBA programs. During FY 2022, the Audits Division achieved \$4.5 billion in accomplishments relative to recommendations that costs were disallowed and agreed to by management or that funds be put to better use and agreed to by management.

OIG's Audits Division will staff four groups to oversee SBA's principal, high-risk programs in Business Development and Contracting Programs, Credit Programs, Financial Management and Information Technology, and Disaster Assistance. It will staff one Audit Operations group to focus on efficiency and effectiveness of internal operations and SBA management challenges. These resources will carry out the published Annual Oversight Plan.

Utilizing the \$1.6 million transfer of funds from SBA's Disaster Loans Program Account, OIG will staff a Disaster Loan Programs Audit Group. This group is comprised of an Audit Director and two audit teams, and is supported by writing, legal, and budget professionals to provide critical oversight of the Disaster Assistance Program. The transfer of funds from SBA's Disaster Loans Program Account has been fully supported for more than 20 years in the President's budget.

OIG contracts with an independent public accountant to ensure SBA's financial statements are prepared in accordance with *Government Auditing Standards* and to monitor the Agency's compliance with the Federal Information Security Management Act (FISMA), Federal Information Technology Acquisition Reform Act, the Digital Accountability and Transparency Act of 2014, and the Improper Payments Elimination and Recovery Act of 2010.

OIG will conduct mandated reviews to maintain integrity of SBA programs and to meet informational needs of stakeholders. OIG performs a review semiannually to determine the adequacy of SBA controls over the solicitation, acceptance, holding, and utilization

of cash contributions and gifts, and an annual review of Government purchase card transactions.

OIG will continue to provide oversight and monitoring of SBA's IT security and application development activities, including new systems under development and the Agency's compliance with FISMA. OIG has identified systemic problems with SBA's IT systems, and this remains a top management challenge facing the Agency.

OIG has integrated its data analytics initiative into its audit and investigative processes and is committed to creating an infrastructure that will enable a robust data strategy for the future. The Data Analysis Group is comprised of one Data Analytics Director, three Data Analysts/Scientists, and an IT Specialist for Data Management. Currently, OIG's data analytics function is augmented through contracted data scientist, data visualization, and data integration personnel. SBA uses numerous data systems to manage its loan processes and activities, and this data changes constantly and involves automated processes. OIG's data analytics function positions the office to provide evidence-based oversight to detect and investigate fraud. Through artificial intelligence, OIG will augment its oversight capacity. We endeavor to detect fraud in real-time to prevent losses to the taxpayer.

Pursuant to mandates set forth in the Inspector General Act of 1978, as amended, OIG manages a robust Hotline to receive and process allegations of fraud, waste, abuse, or serious mismanagement in SBA programs and operations. These complaints come in from employees, contractors, and the public. During FY 2019, the Hotline received 742 complaints. Since March 2020, the Hotline has received over 280,000 complaints, in addition to over two million referrals from SBA of loan applications that are believed to be associated with identity theft. Hotline staff are collaborating with data analytics to triage these complaints and identify those that contain actionable evidence of wrongdoing. Such complaints are reviewed and analyzed by Hotline staff to determine and coordinate appropriate action.

Pursuant to mandates set forth in the Inspector General Act of 1978, as amended, OIG's designated Whistleblower Coordinator educates SBA employees about prohibitions on retaliation for whistleblowing, as well as employees' rights and remedies if they are retaliated against for making a protected disclosure.

We will continue to review proposed revisions to SBA regulations, policies, procedures, and other directives with an emphasis on strengthening internal controls to prevent potential fraud and wasteful, confusing, or poorly planned initiatives. During FY 2021, OIG provided recommendations to improve 13 of the 148 proposed revisions it reviewed. During FY 2022, OIG provided recommendations to improve 24 of the 142 proposed revisions it reviewed.

We will continue to make present responsibility referrals that may result in debarments, suspensions, and other administrative enforcement actions to foster integrity in SBA programs. During FY 2021, OIG sent 19 present responsibility referrals to SBA, and during FY 2022, OIG sent 53 present responsibility referrals to SBA.

We will serve as an educational resource, ensuring that oversight and lending officials develop or maintain technical proficiency in small business issues, suspension and debarment, the Program Fraud Civil Remedies Act, and other topics related to deterring and detecting fraud in government lending and contracting programs. Notwithstanding constraints associated with mitigating risks of the pandemic, during FY 2021, OIG delivered 726 training and outreach sessions for approximately 7,464 attendees. During FY 2022, OIG offered 754 training and outreach sessions for approximately 7,700 attendees.

We will support the strategic use of awards and recognition throughout the performance year, address workforce challenges, recognize high-performing employees and those with talent critical to mission achievement.

We will pay for required OIG employee and contractor background investigations to achieve a high level of integrity in OIG's workforce.

Finally, we will adjudicate OIG employees and contractors for issuance of Personal Identity Verification cards pursuant to Homeland Security Presidential Directive 12 background investigations requirements.

## Budget Table

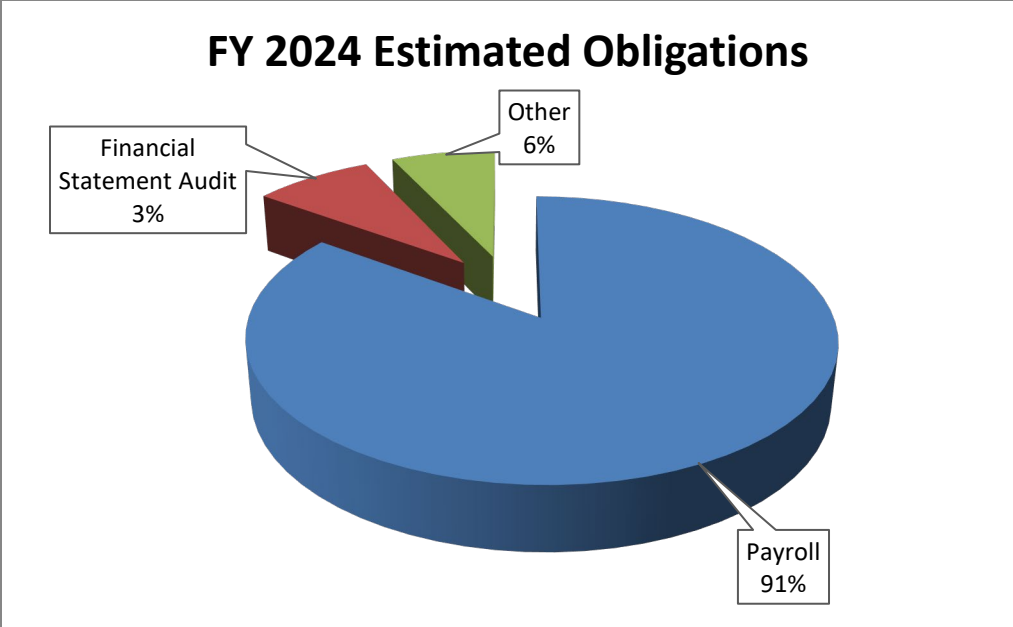
To address the challenges and risks discussed above and in the critical risks section below, OIG requests an appropriation of \$47.704 million for FY 2024 and a total transfer from SBA of \$15.6 million from the Disaster Loans Program Account, providing OIG total budget authority in the amount of \$63.304 million.

**Table 1: FY 2024 Budget Request**

<b>Budget Authorizations</b>	<b>FY 2022 Request (dollars in millions)</b>	<b>FY 2022 Actual (dollars in millions)</b>	<b>FY 2023 Actual (dollars in millions)</b>	<b>FY 2024 Request (dollars in millions)</b>	<b>FY 2024 Increase/Decrease (dollars in millions)</b>
New Direct Budget Authority	\$24.905	\$22.671	\$32.02	\$47.704	\$15.684
Transfer from Disaster Loans Program Account	\$1.6	\$1.6	\$1.6	\$1.6	\$0
Transfer from Disaster Loan Program Account (COVID Oversight)	-	-	-	\$14.0	\$14.0
<b>Total Amount</b>	<b>\$26.505</b>	<b>\$24.271</b>	<b>\$33.62</b>	<b>\$63.304</b>	<b>\$31.284</b>

Approximately 91 percent of the funds requested for FY 2024 will be used for salary and benefits for 226 positions, as well as the cost of the annual audit of SBA's financial statements by an independent public accountant.





## Critical Risks Facing SBA

With available resources, OIG must focus on the most significant risks to SBA and the taxpayer. Many of these risks are addressed in OIG’s Report *Top Management and Performance Challenges Facing the SBA*, which OIG issues annually in accordance with the Reports Consolidation Act of 2000. In this context, OIG is providing robust oversight in SBA’s program areas, which include more than \$1 trillion in pandemic response funds, \$154.2 billion in Federal contracting dollars to small businesses, and a portfolio of \$713.2 billion in small business loan guaranties and direct loans, which includes loans made pursuant to the pandemic programs.

The management challenges represent areas that OIG considers particularly vulnerable to fraud, waste, abuse, or mismanagement, or which otherwise pose significant risk to the agency, its operations, or its credibility.

Each management challenge generally has originated from one or more reports issued by OIG or the Government Accountability Office (GAO). We do not usually rank the top challenges in order of importance or magnitude, except for the COVID-19 challenge. We view all eight challenges as critically important to SBA operations in the upcoming year. However, we placed COVID-19 economic relief programs at the top of the list for the 2022 report in recognition that it is the agency’s most acute challenge.

## **SBA Top Management & Performance Challenges FY 2022**

### **Challenge 1**

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

### **Challenge 2**

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

### **Challenge 3**

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

### **Challenge 4**

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

### **Challenge 5**

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

### **Challenge 6**

Identification of Improper Payments in SBA's Loan Programs Remains a Challenge

### **Challenge 7**

SBA's Disaster Assistance Program Must Balance Competing Priorities to Deliver Prompt Assistance but Prevent Fraud

### **Challenge 8**

SBA Needs Robust Grants Management Oversight

## **Pandemic Response Programs**

SBA's significant role in the nation's pandemic response is without precedent. SBA has expended more than \$1 trillion in lending authority and entrepreneurial assistance following the pandemic. The speed in which the aid had to be disbursed led the Agency to lower internal controls, which increased the risk of fraud and misuse of taxpayer funds.

To support businesses affected by the COVID-19 pandemic, Congress tasked SBA with lending more than \$373 billion in COVID-19 EIDLs and \$20 billion in COVID-19 emergency advance grants. Congress also appropriated additional funds for new disaster assistance programs, \$35 billion for targeted EIDL advances, \$16.25 billion for the Shuttered Venue Operators Grant program, and \$28.6 billion for the Restaurant Revitalization Fund.

In addition, the CARES Act also provided \$349 billion for the creation of the Paycheck Protection Program under Section 7(a) of the Small Business Act. Congress added an

additional \$310 billion to the PPP on April 24, 2020 through the Paycheck Protection Program and Health Care Enhancement Act.

On December 27, 2020, through the Consolidated Appropriations Act, 2021, the Economic Aid to Hard-Hit Small Businesses, Nonprofits, and Venues Act extended the program through March 31, 2021. The Economic Aid Act provided an additional \$147.5 billion, and the American Rescue Plan Act of 2021 provided an additional \$7.2 billion in program funding, which increased the total program funding to \$813.7 billion. On March 30, 2021, the PPP Extension Act of 2021 continued the program through June 30, 2021, with May 31, 2021, being the last day for acceptance of applications.

SBA's need to quickly provide relief to small businesses led to reduced controls on pandemic-related loans, which substantially increasing the fraud risk. It was immediately clear that pandemic relief efforts had drawn the attention of unscrupulous business owners and greedy criminals.

Within weeks, complaints from lenders and allegations of widespread fraudulent activity overwhelmed OIG's Hotline. We launched hundreds of investigations and initiated audits to root out the fraud and abuse endangering these critical resources. We made recommendations for corrective action in the internal control environment, seeking to achieve efficiencies and program effectiveness.

## **Small Business Access to Capital**

SBA provides small businesses with capital and financial assistance through several key programs. It has a financial assistance portfolio of guaranteed and direct loans totaling \$713.2 billion in small business loan guaranties and direct loans—an over fourfold increase since 2019. Over the years, OIG has worked closely with the Agency to identify potential points of risk and to improve SBA's oversight and controls to ensure that eligible participants benefit from these programs.

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

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

## **Disaster Assistance Program**

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

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

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

## **Procurement Assistance**

Each year, the Federal government spends hundreds of billions of dollars in Federal contracts to procure goods and services. SBA has worked to maximize opportunities for small business firms to receive these contract awards. For FY 2023, the Federal Government aims for 23 percent of these award dollars to go to small businesses. SBA reported that the Federal Government exceeded the goal in FY 2021, awarding 27.2

percent, or \$154.2 billion, in Federal contract dollars to small businesses—an \$8 billion increase from FY 2020.

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

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

## **Entrepreneurial Development**

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

OIG has identified weaknesses in SBA's oversight of recipient use of Federal funds and performance outcomes. Notably, the SBDC program is the largest grant program in the Agency's portfolio. OIG has identified problems with comingling SBDC grant funds with private-enterprise contributions and accounting for required matching funds. Some SBDCs are combined with Women's Business Centers, which makes it difficult to

determine what services are associated with each grant program. In addition, having two grant programs delivering similar services increases the risk of duplicating services, which contributes to government waste. Our review of the SCORE program also identified similar weaknesses in SBA's oversight of Federal funds, including funds used for unallowable, unallocable, unreasonable expenses, and inaccurate performance results.

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

In 2020, SBA administered the \$240 million provided under the CARES Act for the resource partners to provide counseling, training, and related assistance to small businesses adversely affected by the COVID-19 pandemic. OIG reviewed the procedures SBA used to award the grants and found improvement was needed to ensure the Agency set meaningful performance goals to assess program achievements. SBA is also awarded a \$25 million cooperative agreement to resource partner associations to establish a single centralized hub for information related to COVID-19. This included a training program to educate resource partner counselors and mentors on the COVID-19 information available to assist affected small businesses. OIG reviewed the implementation of the training program and found that SBA did not establish expectations for performance goals. Because of this, SBA was unable to hold the grant recipient accountable when the training program was hardly used. Also, SBA did not ensure the grant recipient awarded contracts in accordance with Federal regulations.

In FY 2021, SBA established the Community Navigators Pilot Program as authorized by the American Rescue Plan Act of 2021. SBA awarded grants to private nonprofit organizations, resource partners, states, tribes, and units of local government to strengthen outreach to underserved businesses and improve access to pandemic relief programs and recovery services for small businesses. OIG plans to assess SBA's implementation of these programs to include the effectiveness of corrective actions identified in prior audits and reviews.

SBA also provides grants to states through its State Trade Expansion Program (STEP), previously piloted as the State Trade and Export Promotion grant program, as part of its strategic objective to help small business exporters succeed in global markets. At Congress's request, OIG reviewed both the pilot program and its replacement. OIG found that SBA's oversight of the program did not ensure that it achieved intended results. Further, SBA relied on unverified performance data and did not ensure that the

grant recipients performed the activities as planned, leaving Federal funds unexpended at the end of the grant. As international business and travel were adversely affected by the pandemic, the CARES Act provided extensions for the STEP program funding that will require additional oversight to ensure funds are used for their intended purposes.

## **Agency Management**

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

Congress supplemented SBA's appropriations by approximately \$4.6 billion to administer over \$1 trillion dollars of authorized economic stimulus for small businesses. SBA used most of these funds to procure goods and services to support SBA's prompt implementation of the CARES Act programs. This spending is a sixfold increase over typical annual procurements for the Agency.

SBA's IT systems play a vital role in managing the Agency's operations and programs, including nearly \$1 trillion dollars in its loan portfolios. However, OIG audits and other reviews have identified serious shortcomings in SBA's information systems and related security controls. OIG reviews have found that SBA has not fully implemented adequate oversight of its IT systems, has not established an effective process to remediate security vulnerabilities, and has not developed an effective process to upgrade IT capabilities. OIG has issued management challenges recommending corrective actions in SBA's IT security and acquisition processes.

## **OIG Oversight Activities**

Through audits and other reviews, OIG provides independent oversight of critical aspects of SBA's programs and operations to improve the Agency's efficiency and effectiveness. OIG also supports SBA's mission by conducting criminal, civil, and administrative investigations involving Agency programs and operations. The OIG Hotline is poised to receive complaints of fraud, waste, abuse, and mismanagement from the public, Agency employees, its contractors, grantees, and stakeholders. OIG serves as a government-wide training resource for small business fraud and enforcement issues. OIG also plays a vital role in raising awareness of fraud schemes and vulnerabilities for SBA lending partners and other entities involved in SBA programs. These activities help to ensure that SBA employees, loan applicants, and program participants possess a high level of integrity. This is critical to the proper

administration of SBA programs because it helps ensure that the Agency's resources are used only by those who deserve and need them the most.

During FYs 2022 and 2023, in addition to conducting audits and reviews that are required by statutes and other directives, OIG will continue to focus on the most critical risks facing SBA and conducting criminal, civil and administrative investigations to root out fraud, waste, and abuse. Several areas of emphasis are discussed below.

## **Pandemic Response Oversight**

With Congress authorizing SBA over \$1 trillion of PPP and EIDL lending authority to, there is no higher oversight priority within OIG than pandemic response oversight.

In February, OIG published its Audits Division 2023 Oversight Plan. Our comprehensive oversight plan uses all available OIG resources to provide timely, objective, and independent oversight of the PPP, the EIDL, Shuttered Venue Operators Grant (SVOG), Restaurant Revitalization Fund (RRF), and entrepreneurial development resources being implemented by SBA pursuant to Congressional mandate.

To support businesses affected by the COVID-19 pandemic, in FY 2021, Congress tasked SBA with lending more than \$373 billion in COVID-19 EIDLs and \$20 billion in FY 2021, Congress appropriated additional funds for new disaster assistance programs: \$35 billion for targeted and supplemental EIDL advances; \$16.25 billion for the SVOG program; and \$28.6 billion for the RRF. In addition, the CARES Act also provided \$349 billion for the creation of the PPP under Section 7(a) of the Small Business Act. Congress added an additional \$310 billion to the PPP on April 24, 2020 through the Paycheck Protection Program and Health Care Enhancement Act. On December 27, 2020, through the Consolidated Appropriations Act, 2021, the Economic Aid to Hard Hit Small Businesses, Nonprofits, and Venues Act extended the program through March 31, 2021. The Economic Aid Act provided an additional \$147.5 billion in program funding and the American Rescue Plan Act of 2021 provided an additional \$7.2 billion in program funding, which increased the total program funding to \$813.7 billion. On March 30, 2021, the PPP Extension Act of 2021 extended the program through June 30, 2021 with May 31, 2021 as the last day for acceptance of applications.

SBA response to the COVID-19 pandemic made FY 2020 a historic year in loan applications, approvals, and disbursements. To put SBA's effort in FY 2020 and going into FY 2021 in perspective, SBA had approved \$2.2 million in disaster loans, which is included in a total of \$66.7 billion in SBA's entire history since 1953. As of June 26, 2020, SBA had approved and distributed more disaster loans for COVID-19 than for all other disasters combined in the history of SBA. For Hurricanes Katrina, Rita, and Wilma, the Agency approved 160,845 loans for \$11 billion. For Superstorm Sandy, the Agency approved 38,094 loans for \$2.6 billion. For Hurricanes Harvey, Irma, and Maria, the



Agency approved 25,991 loans for \$1.16 billion. As of July 31, 2020, the Agency had approved over 3.5 million COVID-19 EIDLs for over \$187.2 billion. By April 12, 2020, SBA had received more than 15 million loan applications. Before the pandemic, the Agency averaged about 65,000 per year.

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

The disaster loan program is the only form of SBA assistance not limited to small businesses; the program's disaster loans are the primary form of Federal assistance for repairing and rebuilding nonfarm, private sector disaster losses. In addition, the CARES Act and Paycheck Protection Program and Health Care Enforcement Act expanded eligible entities for COVID-19 relief to include businesses, cooperatives, employee stock ownership plans, and tribal concerns with less than 500 employees; sole proprietorships with or without employees; independent contractors; and agricultural enterprises. The program included four categories of loans for disaster-related losses: home disaster loans, business disaster loans, EIDL, and military reservist economic injury loans.

OIG's resources are currently focused on providing oversight of PPP funds and combating fraud, waste, and abuse in PPP and other programs. We currently have 10 ongoing reviews involving PPP, EIDL, and entrepreneurial development programs. These reviews are focused on SBA's loan review and forgiveness processes, handling of potentially fraudulent PPP loans, initial disaster assistance response to COVID-19, implementation of subsidies for 7(a) loan payments, oversight of the resource partner associations' implementation of the CARES Act requirements, and another award procedures for cooperative agreements. Additionally, OIG identified several areas that will warrant future audits and reviews, including: eligibility and forgiveness, third-party processors (fintechs), 7(a) and 504 lending, and reviews of the SBDCs and Women's Business Centers compliance with CARES Act cooperative agreement requirements. OIG will also assess SBA's use of contractors and its contracting practices in implementing pandemic response responsibilities, as well as IT security and infrastructure. OIG's robust oversight of these programs will continue for the foreseeable future.

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

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

## **Small Business Access to Capital**

SBA provides small businesses with capital and financial assistance through several key programs. SBA has a financial assistance portfolio of guaranteed and direct loans that totaled about \$453 billion as of September 30, 2021. Over the years, OIG has worked closely with the agency to identify potential points of risk and improve SBA's oversight and controls to ensure eligible participants most in need of assistance benefit from these programs.

The Section 7(a) Loan Program is SBA's principal vehicle for providing small businesses with access to credit that cannot be obtained elsewhere. Proceeds from a 7(a) loan may be used to establish a new business or to assist in acquiring, operating, or expanding an existing business. This program relies on numerous outside parties (such as borrowers, loan agents, and lenders) to complete loan transactions.

SBA has centralized several loan approval and servicing functions and reduced the number of staff performing these functions, placing more responsibility on and giving greater independence to lenders. Past OIG reviews have reported on these trends, and OIG continues to identify weaknesses in SBA's lender and loan agent oversight processes.

Criminals use a wide array of techniques to fraudulently get—or induce others to obtain—SBA-guaranteed loans. The techniques include submitting fraudulent documents, making fictitious asset claims, manipulating listed property values, using loan proceeds contrary to the terms of the loans, and failing to disclose debts or previous criminal records.

Consequently, there is a greater chance of financial loss to the agency and its lenders. OIG dedicates a significant portion of its resources to identifying wrongdoers and, whenever possible, recovering taxpayer funds.

## **Disaster Assistance Program**

OIG audits of SBA's Disaster Loan program will continue to focus on applicant eligibility, loan origination, disbursements, repayment ability, loan servicing,

liquidation activities related to disaster loans, and SBA's initial response to major disasters. Our focus in recent years has been on providing oversight to SBA's disaster assistance to victims of Hurricanes Sandy, Harvey, Irma, Maria, Florence, and most recently, Ian and Fiona. As SBA responds to these disasters, to, our oversight plans take shape, and our work roots out fraud, waste, and abuse. Aided by vital, supplemental funding, our Audits Division initially focuses its reviews on timeliness, eligibility, technical assistance grants, and early defaults. Traditionally, our reviews are followed by a surge of investigative activity to root out fraud; however, with our burgeoning data analytics program, the potential to detect and combat fraud as the programs are being implemented is nearing.

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

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

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

For investigations, OIG will focus efforts on areas of known risk, such as unauthorized use of loan proceeds, overstatement of financial losses, materially false statements in the

application process, false or counterfeit supporting documentation, and false assertions regarding primary residency in affected areas at the times of the disasters. Since 2006, OIG has conducted dozens of criminal investigations involving disaster loans resulting in hundreds of arrests, indictments/informations, and convictions. As of September 30, 2022, OIG has 11 open cases involving disaster loans with potential dollar losses of nearly \$2.2 million. From FY 2006 through FY 2022, OIG, in conjunction with other law enforcement agencies, conducted 163 arrests, 177 indictments/informations, and 172 convictions related to wrongdoing in SBA's Disaster Assistance Program. These investigations have resulted in over \$27.2 million in court-ordered restitution and related recoveries. In addition, \$7.2 million in loans was denied to potentially fraudulent borrowers.

Specific to Hurricane Sandy, in response to the potential for fraud, OIG joined other law enforcement organizations in support of the New Jersey Attorney General's Office Sandy Fraud Task Force. Since 2014, OIG, in conjunction with other law enforcement agencies, has conducted criminal investigations resulting in 61 indictments/informations and 47 convictions related to wrongdoing in SBA's Disaster Assistance loan program for Hurricane Sandy. The first OIG Sandy investigation was opened in May 2013. Subsequently, OIG has had 88 Sandy cases, totaling nearly \$16 million in potential fraud.

In the aftermath of Hurricane Harvey, OIG collaborated with Federal and local agencies to coordinate responses to disaster assistance fraud. These partners included the National Center for Disaster Fraud in Baton Rouge, Louisiana, as well as the U.S. Attorney's Office. OIG also worked with SBA program offices to alert Hurricane Harvey victims about possible fraud schemes, particularly identity theft. From FY 2018 through FY 2022, 16 Hurricane Harvey cases had been opened, with potential dollar losses exceeding \$3.1 million. During that time, there were six indictments and four convictions.

In the case of the geographically widespread Hurricanes Irma and Maria, OIG coordinated its efforts with task forces consisting of other law enforcement agencies and United States Attorney's Offices, as well as following up on leads from National Center for Disaster Fraud. OIG made field visits to promote its investigative mission to stakeholders in the affected areas. From FY 2018 through FY 2022, 21 cases related to Hurricanes Irma and Maria had been opened, with potential dollar losses of nearly \$1.2 million. During that time, there were five indictments and five convictions. OIG anticipates its oversight of Hurricanes Ian and Fiona will parallel the geographically widespread nature of Hurricanes Irma and Maria.

## **Contracting and Counseling Programs**

The U.S. government is the largest single purchaser of goods and services in the world, awarding over \$550 billion in prime contracts annually. SBA works to maximize opportunities for small businesses to receive these contract awards. As mandated by the Small Business Act, the government-wide goal is to award at least 23 percent of contract dollars to small businesses.

SBA has specific programs that focus on strengthening particular types of small businesses, like those owned by service-disabled veterans and women, as well as small businesses that are disadvantaged or located in historically underutilized business zones (HUBZones).

The HUBZone program helps small businesses stimulate their economically challenged local economies. Similarly, to help small, disadvantaged businesses gain access to Federal and private procurement markets, SBA's 8(a) Business Development Program helps small businesses owned by socially and economically disadvantaged individuals gain business skills and access to Federal contracting opportunities so that they can better compete in the open marketplace. The program offers free business development education, training workshops, and match-making opportunities with Federal buyers.

SBA also aids existing and prospective small businesses through a variety of counseling and training services offered by partner organizations. Among these partners are Small Business Development Centers, the SCORE mentoring network, Women's Business Centers, and Veterans Business Outreach Centers. SBA also started the Community Navigators Pilot Program, an American Rescue Plan initiative. The program will provide funding to organizations that will work with local community groups to improve access to SBA and government resources.

Additionally, SBA designed the Boots to Business program, providing transitioning service members interested in exploring business ownership or other self-employment opportunities with technical assistance and access to resources. These programs require effective and efficient management, outreach, and service delivery.

## **Financial Management and Information Technology**

OIG will continue to oversee the audits of SBA's financial statements, as well as Federal Information Security Management Act (FISMA) and Federal Information Systems Controls Audit Manual reviews, which are conducted by an independent public accountant under a contract with OIG. The scope and complexity of the audit increased because of the volume and breadth of COVID-19 assistance programs. SBA received a disclaimer of opinion on its 2021 financial statement audit, and OIG is working with the Agency to improve its financial controls. OIG will provide oversight and monitoring of

SBA's cloud migration, IT security, and application development activities, including new systems under development and the Agency's compliance with FISMA. The scope of the FISMA evaluation is anticipated to expand as OIG evaluates Agency progress in implementing initiatives designed to strengthen and enhance Federal cybersecurity. OIG and an independent public accountant have previously identified systemic problems with security controls over SBA's IT systems. This area remains one of the most serious management challenges facing the Agency. OIG plans to continue monitoring systems development activities related to improvements to financial and program related systems as well as investments, cost management, and reporting in cloud computing. Specifically, OIG will perform evaluations to improve SBA's controls over cybersecurity threats and vulnerabilities. OIG will continue its mandated reviews of SBA's compliance with the Digital Accountability and Transparency Act (DATA) Act, the Improper Payments and Elimination Recovery Act, and purchase card and cash gifts acceptance and reporting guidelines.

## **Agency Management**

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

## **Acquisition Processes**

OIG audits will continue to focus on SBA's compliance with Federal contracting regulations and its policies and procedures over IT systems acquisition and project oversight. OIG efforts also will include monitoring system development activities related to SBA's beta.Certify.sba.gov platform. We will validate capital investment and data security controls as well as assess whether software functionality was delivered to end users in accordance with project requirements.

## **Verification Inspection Program**

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

work, particularly considering SBA's role in the COVID-19 response, it is imperative for us to have adequate funding and staffing to meet this organizational need.

## **OIG Hotline**

Hotline staff conduct a preliminary review and analysis of all complaints received to determine the appropriate course of action. The OIG Hotline is staffed by OIG employees who process and analyze allegations of fraud, waste, abuse, or serious mismanagement in SBA or its programs from employees, contractors, and the public.

As part of the Hotline process, staff may coordinate reviews of allegations within OIG, with SBA program offices, or with other governmental agencies. Most Hotline complaints are submitted through an online complaint submission system located on OIG's website. Those who report information can do so openly, anonymously, and confidentially, without fear of reprisal.

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

## **Security Operations**

OIG's Office of Security Operations will continue to perform required employee background investigations to achieve a high level of integrity in OIG's workforce. The office also adjudicates OIG employees and contractors for issuance of Personal Identity Verification cards pursuant to Homeland Security Presidential Directive 12 requirements.

## **Review of Proposed Regulations and Initiatives**

OIG reviews changes SBA proposes to make to its program directives, such as regulations, internal operating procedures, agency policy notices, and SBA forms completed by the public. OIG often identifies material weaknesses in the proposals and works with the agency to promote more effective controls to deter waste, fraud, and abuse.

## **Debarment and Administrative Enforcement Actions**

OIG promotes program integrity by making present responsibility referrals to SBA and other agencies. Present responsibility means the business ethics, integrity, honesty, and competence of persons who participate in SBA programs or otherwise do business with the government.

Present responsibility referrals can result in suspensions, debarments, and similar administrative enforcement actions. These actions protect taxpayer funds from program participants who are not a good risk for the government.

A typical OIG referral contains a summary of allegations and criminal, civil, administrative, or other evidence supporting the recommendation. Most OIG administrative referrals involve SBA's loan and contract programs. OIG ensures that a suspension and debarment official reviews all appropriate allegations arising in other contexts, such as the investigation of False Claims Act cases.

## **Training and Outreach**

OIG will continue to conduct training and outreach sessions on topics related to fraud in government lending and contracting programs. Providing such training will better equip the Federal oversight community with the knowledge and skills necessary to pursue small business contracting fraud cases.

## **Other OIG Activities**

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



## **OIG Performance and Statistical Accomplishments**

During FY 2021, OIG provided a historic and exponential return on investment to the taxpayer with \$4.2 billion in dollar accomplishments, which include investigative recoveries, fines, and forfeitures, as well as review findings of disallowed costs. OIG's oversight efforts in FY 2022 exceeded these unprecedented returns on investment to the taxpayer with dollar accomplishments exceeding \$4.8 billion. OIG's PPP and EIDL oversight and investigative work has resulted in 776 indictments, 621 arrests, and 426 convictions as of December 2022. Also, over \$8 billion has been returned by financial institutions to SBA related to the EIDL programs. SBA has also received over \$20 billion dollars of EIDL funds that have been returned by borrowers. OIG has played a key role in the return of these funds through working with our law enforcement partners, financial institutions, and educating the public about fraud in the pandemic relief programs, which has served as a deterrent to fraudsters.

## Statistical Highlights in FY 2021

**Table 2: 2021 Summary of OIG Dollar Accomplishments**

<b>Dollar Accomplishments as a Result of Investigations and Related Activities</b>	<b>Amount</b>
Potential Investigative Recoveries and Fines	\$137,039,230
Asset Forfeitures Attributed to OIG Investigations	23,514,962
Other Recoveries (e.g., administrative seizures with partner law enforcement agencies)	4,095,000,000
Loans/Contracts Not Approved or Canceled as a Result of Investigations	25,054,068
Investigations Subtotal	185,608,260
<b>Dollar Accomplishments as a Result of Audit Activities</b>	<b>Amount</b>
Disallowed Costs Agreed to by Management	\$785,961
Recommendations that Funds Be Put to Better Use Agreed to by Management	0
Audit Subtotal	785,9610
<b>Total OIG Dollar Accomplishments</b>	<b>\$4,281,394,221</b>

**Table 3: 2021 Efficiency and Effectiveness Activities Related to Audit, Other Reports, and Follow-up Activities**

<b>Activities</b>	<b>Amount</b>
Reports Issued	19
Recommendations Issued	119
Dollar Value of Costs Questioned	\$21,716,963
Dollar Value of Recommendations That Funds Be Put to Better Use	0
Recommendations for Which Management Decisions Were Made	108
Recommendations Without a Management Decision	15
Collections as a Result of Questioned Costs	\$855,116

**Table 4: 2021 Indictments, Convictions, and Case Actions**

<b>Actions</b>	<b>Amount</b>
Indictments From OIG Cases	272
Convictions From OIG Cases	137
Cases Opened	398
Cases Closed	206

**Table 5: 2021 SBA Personnel Actions Taken as a Result of Investigation**

<b>Actions</b>	<b>Amount</b>
Dismissals	0
Resignations/Retirements	0
Suspensions	0
Reprimands	0
Other	0

**Table 6: 2021 Program Actions Taken During the Reporting Period as  
Result of OIG Action**

<b>Actions</b>	<b>Amount</b>
Present Responsibility Referrals to the Agency	19
Pending at the Agency as of March 31, 2021	43
Suspensions Issued by the Agency	4
Proposed Debarments Issued by the Agency	8
Final Debarments Issued by the Agency	8
Proposed Debarments Declined by the Agency	0
Administrative Agreements Entered by the Agency in Lieu of Debarment	1
Present Responsibility Actions by Other Agencies	0

**Table 7: 2021 Agency Legislative and Regulatory Proposals Reviewed**

<b>Actions</b>	<b>Amount</b>
Legislation, Regulations, Standard Operating Procedures, and Other Issuances Reviewed	148
Comments Provided by OIG to Improve Legislation, Regulations, Standard Operating Procedures, and Other Issuances	13

## Reports Issued in FY 2021

**Table 8: Top Management Challenges**

<b>Title</b>	<b>Report Number</b>	<b>Issue Date</b>	<b>Questioned Costs (dollars)</b>	<b>Funds for Better Use (dollars)</b>
Top Management and Performance Challenges Facing SBA in FY 2021	21-01	10/16/2020	0	0
Program Subtotal	1	—	0	0

**Table 9: Agency Management**

<b>Title</b>	<b>Report Number</b>	<b>Issue Date</b>	<b>Questioned Costs (dollars)</b>	<b>Funds for Better Use (dollars)</b>
Independent Auditors' Report on SBA's FY 2020 Financial Statements	21-04	12/18/2020	0	0
SBA's Controls Over Cash Contribution and Gifts, Fiscal Years 2019-20	21-10	3/25/2021	0	0
SBA's FY 2020 Compliance with PIIA	21-16	5/12/2021	0	0
FY 2020 Federal Information Security Modernization Act Review	21-17	7/6/2021	0	0
Evaluation of SBA's Coronavirus Reconstitution Plan	21-18	7/12/2021	0	0
Program Subtotal	5	—	0	0

**Table 10: Credit/Capital Programs**

<b>Title</b>	<b>Report Number</b>	<b>Issue Date</b>	<b>Questioned Costs (dollars)</b>	<b>Funds for Better Use (dollars)</b>
Evaluation of the CARES Act Debt Relief to 7(a) Borrowers	21-03	12/1/2020	0	0
Management Alert Paycheck Protection Program Loan Recipients on the Department of Treasury's Do Not Pay List	21-06	1/11/2021	0	0
Inspection of the SBA's Implementation of the Paycheck Protection Program	21-07	1/14/2021	0	0
Duplicate Loans Made Under the Paycheck Protection Program	21-09	3/15/2021	0	0
The Small Business Administration's Implementation of Recommended Controls and the Economic Aid Act	21-19	8/12/2021	0	0
Program Subtotal	5	—	0	0

**Table 11: Contracting/Counseling Programs**

<b>Title</b>	<b>Report Number</b>	<b>Issue Date</b>	<b>Questioned Costs (dollars)</b>	<b>Funds for Better Use (dollars)</b>
Evaluation of SBA’s Award Procedures for the CARES Act Entrepreneurial Development Cooperative Agreements	21-11	3/30/2021	0	0
Evaluation of SBA’s Eligibility Verification of 8(a) Firms Owned by Members of Federally or State-Recognized Indian Tribes	21-12	3/31/2021	10,916,487	0
Audit of SBA’s Oversight of Women’s Business Centers’ Compliance with Cooperative Agreement Financial Requirements	21-14	5/4/2021	785,961	0
Program Subtotal	3	—	\$11,702,448	0

**Table 12: Disaster Assistance**

<b>Title</b>	<b>Report Number</b>	<b>Issue Date</b>	<b>Questioned Costs (dollars)</b>	<b>Funds for Better Use (dollars)</b>
Inspection of Small Business Administration's Initial Disaster Assistance Response to the Coronavirus Pandemic	21-02	10/28/2020	0	0
Consolidated Results of SBA's Initial Disaster Assistance Response to Hurricanes Harvey, Irma, and Maria	21-05	12/23/20	0	0
SBA's Use of Vendors Without a Contract	21-08	2/3/2021	10,800,476	0
Serious Concerns About SBA's Control Environment and the Tracking of Performance Results in the Shuttered Venue Operators Grant Program	21-13	4/7/2021	0	0
SBA's Handling of Identity Theft in the COVID-19 Economic Injury Disaster Loan Program	21-15	5/6/2021	0	0
Program Subtotal	5	—	\$10,800,476	0



## Statistical Highlights in FY 2022

**Table 13: FY 2022 Summary of OIG Dollar Accomplishments**

<b>Dollar Accomplishments as a Result of Investigations and Related Activities</b>	<b>Amount</b>
Potential Investigative Recoveries and Fines	\$184,925,326
Other Recoveries (e.g., administrative seizures with partner law enforcement agencies)	89,564,199
Asset Forfeitures Attributed to OIG Investigations	33,468,574
Loans/Contracts Not Approved or Canceled as a Result of Investigations	8,865,853
Investigations Subtotal	\$316,823,952
<b>Dollar Accomplishments as a Result of Audit Activities</b>	<b>Amount</b>
Disallowed Costs Agreed to by Management	\$4,500,000,000
Recommendations that Funds Be Put to Better Use Agreed to by Management	0
Audit Subtotal	4,500,000,000
<b>Total OIG Dollar Accomplishments</b>	<b>\$4,816,823,952</b>

**Table 12: FY 2022 Efficiency and Effectiveness Activities Related to Audit, Other Reports, and Follow-up Activities**

<b>Activities</b>	<b>Amount</b>
Reports Issued	25
Recommendations Issued	129
Dollar Value of Costs Questioned	\$4,662,253,423
Dollar Value of Recommendations that Funds Be Put to Better Use	0
Recommendations for Which Management Decisions Were Made	105
Recommendations Without a Management Decision	40
Collections as a Result of Questioned Costs	0

**Table 13: FY 2022 Indictments, Convictions, and Case Actions**

<b>Actions</b>	<b>Amount</b>
Indictments from OIG Cases	294
Convictions from OIG Cases	194
Cases Opened	559
Cases Closed	289

**Table 14: FY 2022 SBA Personnel Actions Taken as a Result of Investigation**

<b>Actions</b>	<b>Amount</b>
Dismissals	0
Resignations/Retirements	0
Suspensions	0
Reprimands	0
Other	0

**Table 15: FY 2022 Program Actions Taken During the Reporting Period  
as Result of OIG Action**

<b>Actions</b>	<b>Amount</b>
Present Responsibility Referrals to the Agency	53
Pending at the Agency as of March 31, 2021	49
Suspensions Issued by the Agency	7
Proposed Debarments Issued by the Agency	23
Final Debarments Issued by the Agency	15
Proposed Debarments Declined by the Agency	0
Administrative Agreements Entered by the Agency in Lieu of Debarment	0
Present Responsibility Actions by Other Agencies	0

**Table 16: FY 2022 Agency Legislative and Regulatory Proposals  
Reviewed**

<b>Actions</b>	<b>Amount</b>
Legislation, Regulations, Standard Operating Procedures, and Other Issuances Reviewed	142
Comments Provided by OIG to Improve Legislation, Regulations, Standard Operating Procedures, and Other Issuances	24

## Reports Issued in FY 2022

**Table 17: Top Management Challenges**

<b>Title</b>	<b>Report Number</b>	<b>Issue Date</b>	<b>Questioned Costs (dollars)</b>	<b>Funds for Better Use (dollars)</b>
Top Management and Performance Challenges Facing SBA in FY 2022	22-02	10/15/2021	0	0
Program Subtotal	1	—	0	0

**Table 8: Agency Management**

<b>Title</b>	<b>Report Number</b>	<b>Issue Date</b>	<b>Questioned Costs (dollars)</b>	<b>Funds for Better Use (dollars)</b>
SBA's Controls Over Cash Contribution and Gifts FY 2021 and 2022	22-03	10/28/2021	0	0
Independent Auditors' Report on SBA's Compliance with DATA Act Reporting	22-04	11/8/2021	0	0
Independent Auditors' Report on SBA's FY 2021 Financial Statements	22-05	11/15/2021	0	0
COVID-19 EIDL Program Recipients on the Department of Treasury's Do Not Pay List	22-06	11/30/2021	0	0
FY2021 FISMA Review	22-11	4/28/2022	0	0
Independent Auditors' Report on SBA's Fiscal Year 2021 Compliance with the PIIA of 2019	22-12	5/17/2022	0	0
SBA's Controls Over Cash Contributions and Gifts Fiscal Years 2022 and 2021	22-14	6/15/2022	0	0
COVID-19 and Disaster Assistance Information Systems Security Controls	22-19-	9/27/2022	0	0
SBA's Corrective Actions to Improve Monitoring District Offices' Customer Service Activities	22-23	9/30/2022	0	0
Program Subtotal	9	—	0	0

**Table 9: Credit/Capital Programs**

<b>Title</b>	<b>Report Number</b>	<b>Issue Date</b>	<b>Questioned Costs (dollars)</b>	<b>Funds for Better Use (dollars)</b>
SBA's Paycheck Protection Program Loan Review Processes	22-09	2/28/2022	0	0
SBA's Handling of Potentially Fraudulent PPP Loans	22-13	5/26/2022	0	0
The 7(a) Loan Guaranty Approval Process	22-18	9/20/2022	0	0
Paycheck Protection Program Eligibility for Nonprofit Organizations	22-21	9/26/2022	3,544,216	0
SBA's Guaranty Purchases for PPP Loans	22-25	9/30/2022	0	0
Program Subtotal	5	—	\$3,544,216	0

**Table 10: Contracting/Counseling Programs**

<b>Title</b>	<b>Report Number</b>	<b>Issue Date</b>	<b>Questioned Costs (dollars)</b>	<b>Funds for Better Use (dollars)</b>
SBA's Oversight of the Grant Recipient's Implementation of the CARES Act Resource Partners Training Portal	22-07	1/18/2022	\$14,762,774	0
SBA's Business Development Assistance to 8(a) Program Participants	22-08	2/14/2022	93,146,292	0
Evaluation Of SBA's Contract for Disaster Assistance Loan Recommendation Services	22-10	4/14/2022	13,046,125	0
Inspection of SBA's Award and Payment Practices in the Shuttered Venue Operators Grant Program	22-15	7/5/2022	35,784,816	0
SBA's Implementation of the Women-Owned Small Business Certification Program	22-20	9/29/2022	0	0
SBA's Protest Process	22-24	9/30/2022	0	0
Program Subtotal	6	—	\$156,740,007	0

**Table 11: Disaster Assistance**

<b>Title</b>	<b>Report Number</b>	<b>Issue Date</b>	<b>Questioned Costs (dollars)</b>	<b>Funds for Better Use (dollars)</b>
SBA Emergency EIDL Grants to Sole Proprietors and Independent Contractors	22-01	10/7/2021	\$4,500,000,000	0
SBA's COVID-19 EIDL Program Data Migration Challenges	22-16	7/19/2022	0	0
Evaluation of COVID-19 EIDL Applications Submitted from Foreign IP Addresses	22-17	9/12/2022	0	0
Follow-up Inspection of SBA's Internal Controls to Prevent COVID-19 EIDLs to Ineligible Applicants	22-22	9/29/2022	1,969,200	
Program Subtotal	4	—	\$4,501,969,200	0

# Reporting Requirements Under the Inspector General Reform Act of 2008

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

**Table 24: FY 2024 Budget Request**

<b>Budget Authorizations</b>	<b>FY 2022 Actual (dollars in millions)</b>	<b>FY 2023 Actual (dollars in millions)</b>	<b>FY 2024 Request (dollars in millions)</b>	<b>FY 2024 Increase/ Decrease (dollars in millions)</b>
Base Budget	\$22.671	\$32.02	\$47.704	\$15.684
Transfer from Disaster Loans Program Account	\$1.6	\$1.6	\$1.6	\$0.0
Transfer from Disaster Loan Program Account (COVID Oversight)	-	-	\$14.0	\$14.0
<b>Total</b>	<b>\$24.271</b>	<b>\$33.62</b>	<b>\$63.304</b>	<b>\$31.284</b>

OIG’s FY 2024 budget request includes \$1 million for training, which is sufficient to satisfy all training needs for the FY. With enhanced telework and remote work options, OIG is committing to providing an annual all-hands training conference to provide strategic direction and training to its workforce. This training conference was previously held on a biennial basis.

Within this request, \$255,000 will cover the OIG’s funding support for the Council of the Inspectors General on Integrity and Efficiency (CIGIE), in accordance with § 6(g) of the Inspector General Act of 1978, as amended, 5 U.S.C. This contribution is .4 percent of the OIG’s FY 2024 designated funding level based on a total budget request of \$63.304 million, including the CIGIE amount.



## OIG Organizational Structure

In addition to the Office of Counsel to the Inspector General, three divisions assist in carrying out the statutory responsibilities of the OIG: the Audits Division, Investigations Division, and the Management and Operations Division.

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

The **Audits Division** performs and oversees audits and reviews to promote the economical, efficient, and effective administration of SBA programs and operations. Key areas of emphasis are SBA's loan, disaster assistance, business development, and government contracting programs, as well as mandatory and other statutory audit requirements involving information technology security, financial reporting, and other SBA program areas. The balance of the engagements is discretionary and focuses on high-risk activities and identified management issues.

The **Investigations Division** manages a program to detect and deter illegal and improper activities involving SBA's programs, operations, and personnel. The criminal investigations staff carries out a full range of traditional law enforcement functions. Within the Division, the Hotline reviews allegations of waste, fraud, abuse, and severe mismanagement within SBA or its programs made by employees, contractors, and the public. A preliminary review of all complaints is conducted to determine the appropriate course of action. As part of the review process, hotline staff may coordinate reviews of allegations within OIG, SBA program offices, or other government agencies. The Security Operations Staff within the Division conducts required employee and contractor background investigations to achieve a high level of integrity in the Agency's workforce. It makes adjudications on OIG employees and contractors for issuance of PIV cards pursuant to HSPD-12 background investigations requirements.

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

The **Technology and Solutions Division** provides data analytics and information technology support across OIG, such as artificial intelligence and machine learning solutions. It provides efficiencies and expands the impact of OIG's oversight activities.

OIG's headquarters is in Washington, D.C. Our field offices are in Atlanta, Georgia; Chicago, Illinois; Dallas-Fort Worth, Texas; Detroit, Michigan; Denver, Colorado;

Herndon, Virginia; Houston, Texas; Los Angeles, California; Miami, Florida; New York, New York; Philadelphia, Pennsylvania; Federal Way, Washington; and Washington, D.C. An organizational chart for OIG is provided on the next page.

U.S. Small Business Administration  
Office of Inspector General

