

Agency Financial Report

FISCAL YEAR 2023



U.S. Small Business
Administration

About this Report

The U.S. Small Business Administration's Agency Financial Report (AFR) for FY 2023 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 2023 Annual Performance Report* (APR) is the other report and is part of the *FY 2025 Congressional Justification* (CJ). The CJ/APR is scheduled for publication in February 2024. The reports can be found at: www.sba.gov/performance.

FY 2023 HIGHLIGHTS

(Dollars in Thousands)


	FY 2020 (unaudited)	FY 2021 (unaudited)	FY 2022 (unaudited)	FY 2023 (unaudited)
Principal Program Portfolio ¹	\$ 835,987,031	\$ 713,196,138	\$ 559,170,974	\$ 412,215,125
Total Assets	\$ 897,533,990	\$ 562,417,681	\$ 378,012,365	\$ 316,328,584
Total Liabilities	\$ 718,056,018	\$ 503,539,063	\$ 395,123,603	\$ 346,035,882
Total Net Position	\$ 179,477,972	\$ 58,878,618	\$ (17,111,238)	\$ (29,707,298)
Total Net Cost of Operations	\$ 554,231,547	\$ 346,283,553	\$ 47,096,949	\$ 35,322,586
Total Budgetary Resources	\$ 1,518,667,904	\$ 1,347,118,849	\$ 420,033,718	\$ 107,153,718

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


FOR MORE INFORMATION

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

Or, you may write to:

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SBA's Mission

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

How this Report is Organized

The U.S. Small Business Administration's *FY 2023 Agency Financial Report* (AFR) provides financial and performance information for the fiscal year beginning October 1, 2022, and ending September 30, 2023. 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, 2023

The U.S. Small Business Administration and its mission-driven team has scaled to historic levels to help America's small businesses, innovative startups and disaster-impacted communities access the tools and resources they need to start, recover, build and grow. The SBA's FY 2023 Agency Financial Report highlights our substantial impact and continuous management improvements to ensure that small businesses are supported to deliver the jobs, innovation, products and services our economy depends on for its global competitiveness.

Throughout Fiscal Year 2023, America's small business economy continued to experience significant growth, reflecting historic support and program improvements across the SBA. During this period, our nation has enjoyed strong job creation, historically high rates of new business application filings, historically low unemployment, generational investments in American manufacturing, and much more.

The SBA has significantly modernized its programs and services – including small business lending, investments, federal contracting, technical and skills training, innovation, and disaster response. The SBA achieved significant regulatory and programmatic reforms during FY 2023, including the creation of a new Community Advantage Small Business Lending Company (CA SBLC) License and Small Business Investment Company accrual license, the expansion of access to capital for small businesses by modernizing SBA's signature 7(a) and 504 loan programs, and the continued implementation of the Community Navigators Pilot Program. Based on preliminary reported impacts, it is reasonable to expect these regulatory and programmatic reforms to continue providing strong economic returns for America's small businesses.

Access to capital is a vital aspect of economic development. At the SBA, we work with approved lenders and community development organizations to guarantee loans to small businesses that are unable to obtain credit in the conventional lending marketplace. In FY 2023, the SBA approved 63,000 loans in the 7(a) and 504 loan programs, providing more than \$33 billion to small businesses.

In FY 2023, minority business owners received \$11 billion in combined 7(a) and 504 lending, nearly one-third of the SBA's loan portfolio; 7(a) and 504 lending to Native American business owners was the highest ever at \$278 million. The SBA's 7(a) and 504 lending to women-owned businesses was \$5.1 billion in FY 2023. Loans to veterans reached \$1.1 billion for the 7(a) and 504 programs. Additionally, the SBA's microloan program, which offers loans up to \$50,000, approved \$87 million in new loans in FY 2023, underscoring our commitment to helping the small businesses and start-ups that need assistance.

The Small Business Investment Company program, in which the SBA partners with private investors to finance small businesses through professionally managed investment funds, supported over 1,200 small businesses with over \$8 billion in financing. SBIC financing to women-owned, minority-owned, and veteran-owned small businesses increased over 25 percent from FY 2022.

The SBA ensures that America'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 (SBDC), Women's Business Centers (WBC), Veterans Business Outreach Centers (VBOC), SCORE chapters, Regional Innovation Cluster, Growth Accelerators and Community Navigators. In FY 2023, hundreds of thousands of American small businesses took advantage of counseling, mentoring, and training assistance through the SBA network.



Thanks to the SBA's efforts, in FY 2022, federal agencies collectively awarded an all-time high of 26.5% of federal contract dollars totaling \$163 billion went to small businesses. That is an over \$8 billion increase from the previous fiscal year and exceeded the federal small business contracting goal of 23 percent for FY 2022. This marks the tenth consecutive year in a row that the Federal Government has exceeded this goal. The SBA continues to promote equity in federal contracting, and for the second year in a row, Small Disadvantaged Business (SDB) spending exceeded its 11 percent goal.

When disaster strikes, the SBA joins with our federal partners to respond by helping businesses, nonprofits, homeowners, and renters recover from declared disaster events. Direct low-interest loans from the SBA have enabled borrowers to replace or repair uninsured losses, whether through physical damage or economic injury. The SBA also assists borrowers in financing improvements to their homes or businesses to mitigate future disaster damages. The SBA has continued to work with federal, state, and local partners to improve disaster response and ensure we are assisting economic recovery as expediently as possible. In FY 2023, the SBA approved more than 43,100 direct disaster loans for natural disasters such as wildfires, floods, hurricanes, and tornadoes, totaling \$2.98 billion.

The SBA continues to drive strong financial management of all its programs, including COVID programs, to ensure it can effectively serve America's small businesses, innovative startups and disaster-impacted communities into the future. 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. As the SBA continues to implement the historic, over-\$1.2 Trillion in pandemic relief, the Agency recognizes it has received a disclaimed opinion from its auditor on its FY 2023 Consolidated Balance Sheet. However, under my leadership, the SBA has taken action to correct course and implement internal controls to ensure that all programs are carried out at the highest standards with the utmost integrity. The SBA believes that its efforts to develop and implement controls for its COVID-related programs in FY 2023 would have remediated material weaknesses identified from the FY 2022 audit. Nonetheless, my team and I remain committed to ensuring proper management of Agency resources by addressing the issues our auditor identified and continuing to strengthen management controls.

We have worked across the whole of SBA to ensure that we are functioning as efficiently, effectively, and equitably as possible for America's entrepreneurs while leveraging modernization, technology, and expanded networks and partnerships to streamline operations and deliver strong customer experience. As we look toward FY 2024 and a future of possibilities, the SBA remains committed to achieving equity and meeting all of America's small businesses where they are – and everywhere they are.

Sincerely,



Isabella Casillas Guzman
27th Administrator





Management's Discussion and Analysis (Unaudited)

SECTION 1

The SBA’s History, Goals, and Organization

In 1953, Congress created the SBA to aid, counsel, assist, and protect the interests of small businesses. 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., whereas 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	GOAL 2	GOAL 3
Ensure equitable and customer-centric design and delivery of programs to support small businesses and innovative startups	Build resilient businesses and a sustainable economy	Implement strong stewardship of resources for greater impact
<ul style="list-style-type: none"> 1.1 Ensure all entrepreneurs have access to capital to start and grow their businesses 1.2 Build a thriving national innovation ecosystem that promotes investments in all small business communities 1.3 Increase exporting opportunities to help small businesses across the country expand into new markets 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 	<ul style="list-style-type: none"> 2.1 Help small businesses recover from the pandemic and become more resilient 2.2 Prepare small businesses and rebuild communities affected by natural disasters 	<ul style="list-style-type: none"> 3.1 Strategically manage resources by integrating quality data, evidence, and risk in decision-making processes 3.2 Build an inclusive and high-performing workforce 3.3 Develop and deploy technology-driven solutions to enhance mission delivery

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 via 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 military personnel, 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* administers disaster loans through 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-19 EIDL loans in support of pandemic relief.

The *Office of Disaster Recovery and Resilience* 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; enterprise and fraud risk management; 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.

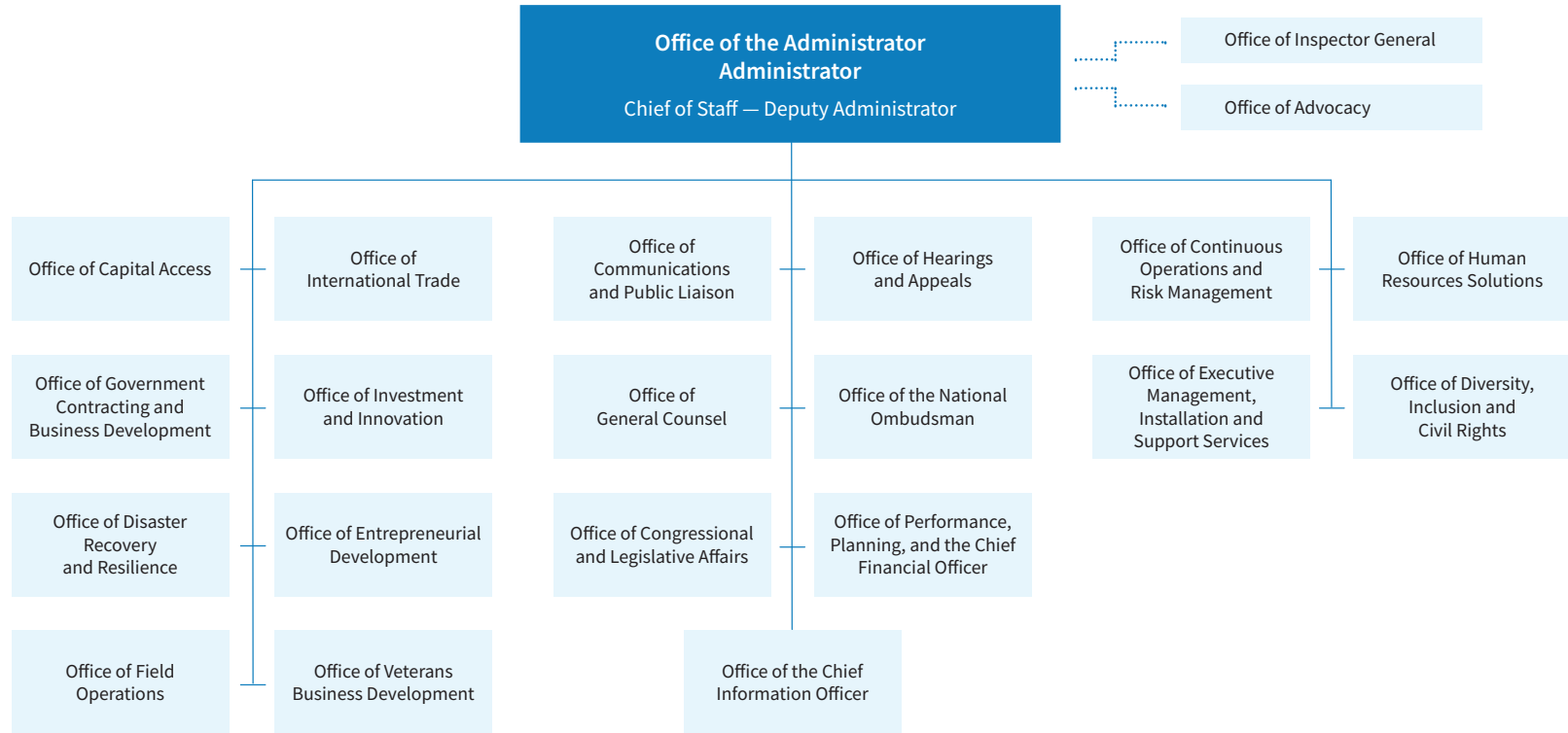
The *Office of Human Resources Solutions* provides strategic human capital solutions to workforce issues and strives to create a work environment that attracts and retains a talented and high-performing workforce.

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.

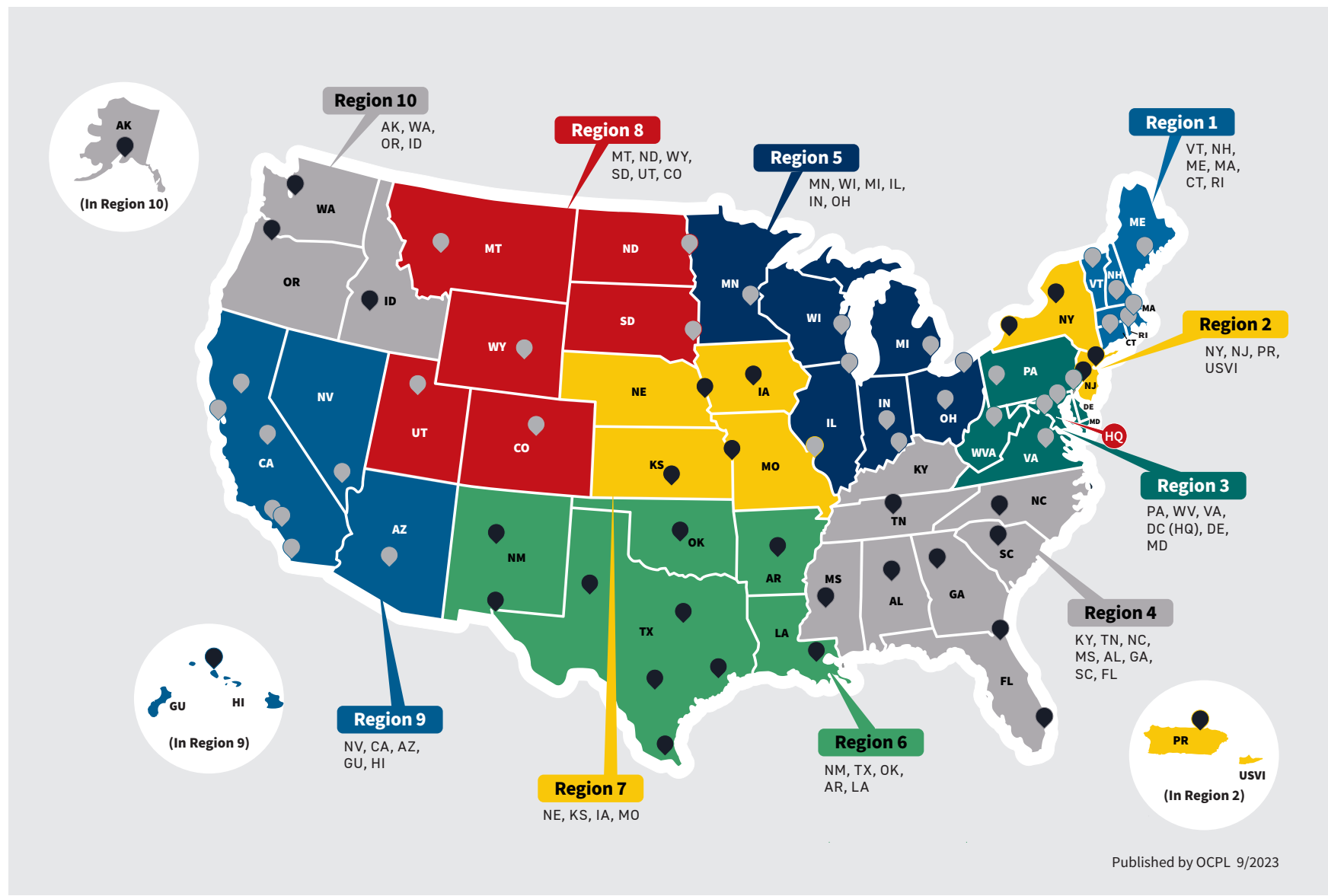
Other offices that support the strategic goals and objectives include the *Office of the National Ombudsman*; *Office of Continuous Operations and Risk Management*; *Office of Diversity, Inclusion, and Civil Rights*; *Office of Communications and Public Liaison*; *Office of Congressional and Legislative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



SBA Organization Chart



SBA Field Office Locations



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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.

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 2024.

FINANCIAL RESULTS

For FY 2023, the SBA's total budgetary resources used for staffing, operations, and loan subsidy costs were \$32.3 billion. Total nonbudgetary resources for loan financing used to make direct loans and purchase guaranteed loans in default were \$32.3 billion. The SBA's guaranteed portion of the outstanding loan principal decreased \$23.5 billion in FY 2023 to \$140.2 billion. During FY 2023, new guarantees disbursed by SBA participating banks were \$27.0 billion, a \$5.6 billion decrease from last year. In FY 2023, purchases of defaulted guaranteed loans increased from \$6.0 billion last year to \$12.2 billion. The loans receivable portion of the SBA credit program portfolio decreased in FY 2023 to \$272.0 billion from \$321.5 billion in FY 2022. The decrease in loans receivable was related to a spike in disaster loan-making in 2022.

PERFORMANCE RESULTS

Capital: In FY 2023, the SBA approved nearly \$34 billion, or more than 63,000 7(a) and 504 loans to small businesses; 7(a) loans, 504 loans, microloans, and surety bonds helped to support more than 705,000 American jobs. The SBA invested more than \$8 billion in over 1,200 small businesses through the Small Business Investment Company program, which supported over 130,000 jobs.

Contracting: The SBA continued to partner with agencies across the Federal Government to expand small business contracting opportunities. From FY 2017 through FY 2022, small businesses were awarded over \$820 billion in federal contracts (FY 2023 contracting numbers continue to be collected and certified). The Federal Government continued to exceed its small disadvantaged and service-disabled, veteran-owned small business contracting goals but will continue to face challenges meeting its HUBZone and women-owned small business contracting goals.

Counseling: The SBA helped entrepreneurs start more than 28,900 new businesses in FY 2023 and served over 737,000 unique clients. Additionally, the SBA's Community Navigators Pilot Program helped small businesses access over \$115 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 2023, the SBA approved more than 43,000 direct disaster loans for events such as floods, hurricanes, and tornadoes, totaling nearly \$3 billion. The Agency managed 425 disaster assistance declarations during FY 2023. 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 guaranteed 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.

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.

INVESTMENT AND INNOVATION

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

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.

Federal and State Technology Partnership Program — The FAST Partnership Program provides direct assistance to underserved innovation-based entrepreneurs to help increase their success in obtaining SBIR and STTR funding.

Growth Accelerator Fund Competition Program — GAFC provides up to \$50,000 in funding to accelerators, incubators, co-working communities, makerspaces, and other organizations that provide entrepreneurial support, mentorship, and assistance to STEM/R&D entrepreneurs.

Regional Innovation Clusters — RICs promote innovation in regional ecosystems through on-the-ground collaborations between businesses, research, education, financing, and government institutions that work to develop and grow a particular industry or related set of industries in a geographic region.

EXPORTING

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

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

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



CONTRACTING AND BUSINESS DEVELOPMENT

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 9 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.
- **Veteran-Owned Small Businesses and Service-Disabled Veteran-Owned Small Businesses** — The SDVOSB program allows federal agencies to set aside contracts for competition only among service-disabled veteran-owned small businesses. Certified VOSBs have additional opportunities to pursue sole-source and set-aside contracts at the Veterans Administration.
- **Women-Owned Small Businesses** — This program allows federal agencies to set aside certain contracts for competition only among small businesses owned by women.

7(j) Management and Technical Assistance — This program provides training to small businesses owned and controlled by economically and socially disadvantaged individuals and those small businesses located in areas of high unemployment, low income, 8(a) and HUBZone small businesses, and economically disadvantaged WOSBs.

Mentor-Protégé Program — This program helps small businesses gain experience in and access to federal acquisition marketplace through formal partnerships with experienced firms.

COUNSELING AND TRAINING

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

Women's Business Centers — WBCs provide advising and training through more than 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 cosponsorship agreements with entities and other federal agencies.

Veterans Business Outreach Centers — The SBA's 28 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 nonprofit 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 Coronavirus Aid, Relief, and Economic Security (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. The SBA continues to provide loan servicing and oversight for this program.

COVID-19 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. The SBA continues to provide loan servicing and oversight for this program.

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

Restaurant Revitalization Fund — The American Rescue Plan Act established the RRF to provide funding to help restaurants and other eligible businesses keep their doors open. This program provided 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 were spent for eligible uses. The SBA continues to provide servicing and oversight for this program.

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 were not required to repay the grants if funds were spent for eligible uses within established timeframes. The SBA continues to provide servicing and oversight for this program.

Summary of COVID-19 Financial Impacts

In FY 2023, the SBA serviced and provided oversight functions for Coronavirus Aid, Relief, and Economic Security (CARES) Act, Economic Aid Act, and American Rescue Plan Act programs that saved millions of jobs and kept small businesses in operation. 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, recoveries, 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 and request PPP loan forgiveness. As of September 2023, over 10.6 million applications have been submitted requesting PPP loan forgiveness, with nearly \$760 billion total forgiveness paid.² Approximately 96 percent of total PPP loan value has been forgiven, in full or in part.

For the COVID-19 Economic Injury Disaster Loan (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-19 EIDL funds were exhausted, and the SBA was no longer accepting COVID-19 EIDL loan increase requests or requests for reconsideration, with the application portal closing on May 16, 2022. The SBA continues to service the more than 2.4 million COVID-19 EIDL loans, the vast majority of which have entered active repayment. There are approximately 452,000 COVID-19 EIDL loans which are 30 days or more delinquent.

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. The Agency completed all grant processing for the SVOG program in FY 2022, awarding more than \$14.6 billion in grants. The SBA continues to monitor and deliver required compliance activities for these grants. Approximately 4,500 grants have been closed for proper expenditure of funds, and the SBA will continue to work with grantees to close grants in a timely manner.

In addition, the Agency awarded more than \$28.6 billion in Restaurant Revitalization Fund (RRF) direct payments to more than 100,000 restaurants, bars, and other businesses. Established in March 2021, the SBA stopped accepting applications in July 2021. In FY 2023, the SBA redistributed returned funds in the RRF, awarding approximately \$83 million in coordination with the Department of Justice. The funds were required to be used for eligible uses by March 11, 2023. The Agency continues to manage the annual reporting requirement for venues to report on fund use.

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 \(sba.gov\)](https://www.sba.gov/document/report-ppp-2021).

2 SBA, "Forgiveness Platform Lender Submission Metrics | September 11, 2022" at [Forgiveness Platform Lender Submission Metrics, September 11 \(sba.gov\)](https://www.sba.gov/document/report-forgiveness-platform-lender-submission-metrics-september-11-2022).

3 SBA, "Disaster Assistance Update Nationwide COVID-19 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 2023 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 2023 Annual Performance Report to be published in February 2024.

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 2020 Actual	FY 2021 Actual	FY 2022 Actual	FY 2023 Goal	FY 2023 Actual
1.1	Number of Jobs Supported by 7(a) Loans, 504 Loans, Microloans, and Surety Bonds	552,497	729,034	621,856	723,000	705,569
1.2	Number of Jobs Supported by SBIC Financings	91,557	126,431	129,098	130,000	130,281 ⁴
1.3	Number of Jobs Supported by Businesses Receiving Export Grants and Loans	N/A	25,159	23,869	26,000	22,427 ⁵
1.4	Number of Jobs Supported by Federal Contract Set-Asides	699,000	691,700	727,800	700,000	Data Lag ⁶
1.5	Number of New Business Starts through SBA Counseling and Training Programs	19,660	28,771	27,757	27,000	28,900 ⁷

Strategic Goal 2: Build Resilient Businesses and a Sustainable Economy

S.O.	Performance Measure	FY 2020 Actual	FY 2021 Actual	FY 2022 Actual	FY 2023 Goal	FY 2023 Actual
2.1	Small Business Employment in the United States (Millions)	64.7	62.1	65.2	65.5	Data Lag ⁸
2.2	Number of Loans that Include Mitigation Measures	N/A	N/A	522	626	1,358

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

S.O.	Performance Measure	FY 2020 Actual	FY 2021 Actual	FY 2022 Actual	FY 2023 Goal	FY 2023 Actual
3.1	Customer Satisfaction Rate of Financial Management Services for SBA Employees	4.6	4.7	4.3	4.0	4.5
3.2	Federal Employee Viewpoint Survey Global Satisfaction Rate	72%	70%	76%	72%	Data Lag ⁹
3.3	Inspector General Maturity Rating	2.8	3	2.58	3.4	2.8

⁴ SBIC data are not complete. Full year complete data will be published in the FY 2023 Annual Performance Report.

⁵ State Trade Expansion Program (STEP) FY 2023 data are not complete and only include partial year data. Full year complete data will be published in the FY 2023 Annual Performance Report.

⁶ Federal Contracting data continues to be certified by the SBA and will be available by summer 2024.

⁷ Preliminary data. Full year complete data will be published in the FY 2023 Annual Performance Report.

⁸ Full year data for FY 2023 have 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

⁹ At the time of publication, the FEVS Global Satisfaction Rate was not yet available. FY 2023 data will be published in the FY 2023 Annual Performance Report.



VERIFICATION AND VALIDATION OF PERFORMANCE DATA

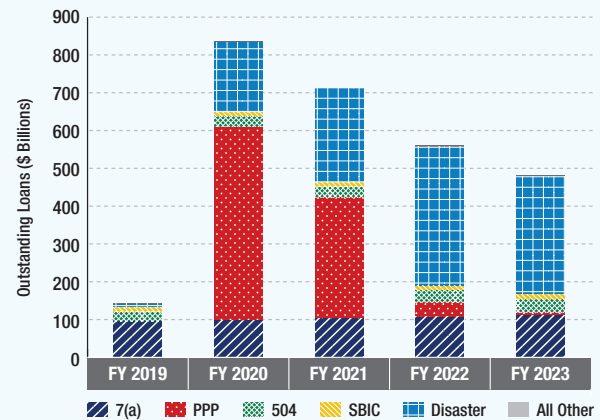
Managing for results and integrating performance, financial, and budgetary information requires valid, reliable, and high-quality performance measures and data. Improving data quality continues to be a priority for the SBA. The SBA’s performance analysts work with program office leads across the Agency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

The SBA 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 \$481.5 billion.¹⁰ During FY 2023, the portfolio decreased year over year by \$77.7 billion, or 13.9 percent. The largest decrease was the Agency’s disaster loan portfolio of \$55.6 billion (15.2 percent), because the COVID Economic Injury Disaster Loans (EIDL) program stopped accepting applications during FY 2022, the disaster portfolio is now trending downwards. There was also a 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 \$30 billion (-77.5 percent), whereas the SBA’s 7(a) and 504 loan portfolios expanded by \$3.3 billion (3.1 percent) and \$3 billion (9.7 percent), respectively. The SBIC portfolio increased by \$1.4 billion (11.2 percent) and all other portfolios increased by \$221 million (8.2 percent). (see **Chart I**).

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

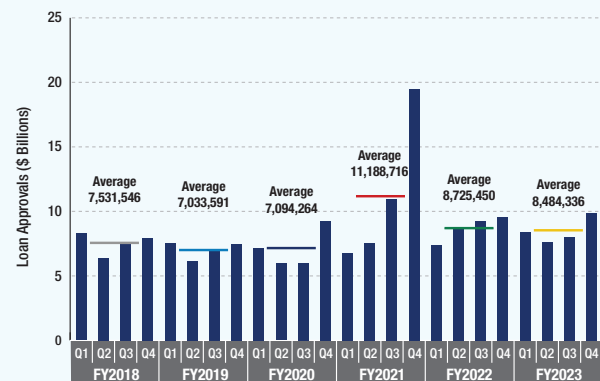


FY = fiscal year. PPP = Payment Protection Program. SBIC = Small Business Investment Company.

New Guarantied Loans

The quarterly average loan volume decreased slightly in FY 2023 with an average of \$8.5 billion. **Chart II** demonstrates the trend in loan approvals since FY 2018.

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



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

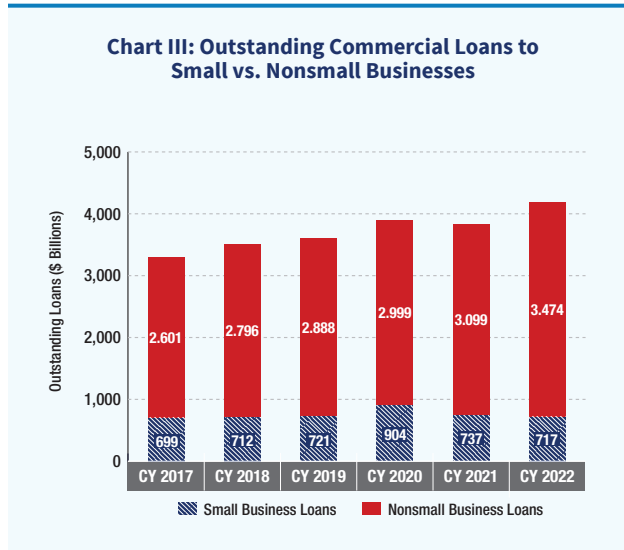
¹⁰ The total portfolio consists of guarantied business loans outstanding, guarantied debentures, direct business loans, and direct disaster loans. The data include all performing loans and defaulted loans that have not been charged-off.

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 decreased during the first half of 2022 but has started to trend back upwards in the latter half of 2022 and beginning of 2023, with a rate of 2.1 percent in the second quarter of 2023. The increase in the second quarter of 2023 primarily reflected increases in business investment, consumer spending, and state and local government spending that were partly offset by a decrease in exports. Imports, which are a subtraction in the calculation of GDP, decreased.¹¹

Changes in Market Volatility — Inflation remained low throughout 2020 (monthly average, 1.7 percent),¹² but picked up sharply in April 2021 and continued to increase, leading to an average monthly increase of 3.6 percent for the following year. In 2022, the monthly inflation rate continued to climb, peaking at 6.6 percent in September 2022 to end the year with a 6.2 percent monthly average. Finally, in 2023 inflation has begun to ease slightly with a monthly average of 5.4 through the first six months of the year. Inflationary pressures have significantly increased interest rates across the commercial and consumer loan market. Conversely, while the unemployment rate surged to a peak of 14.8 in April 2020, it has decreased significantly throughout 2021-2023 to 3.8 percent in September 2023.¹³

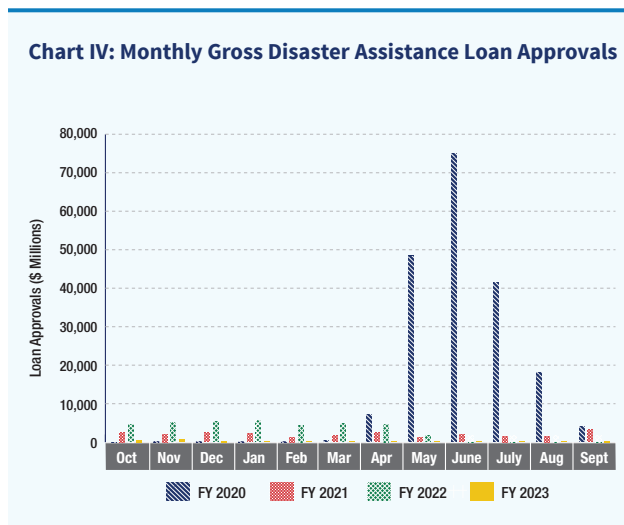
Market for Small Business Lending — Data from the Federal Deposit Insurance Corporation (FDIC) showed that the total market for business loans increased between 2017-2022 by 27 percent (\$889 billion). However, 98 percent (\$872 billion) of this increase comes from loans to nonsmall businesses,¹⁴ whereas total small business loans increased by \$18 billion. Thus, the ratio of small business loans compared with the total bank market has decreased between 2017-2022, with a marked decrease during the pandemic years of 2020-2022 (see **Chart III**). Furthermore, the banking industry’s trend toward consolidation, reflected in the reduction of commercial banks by 16 percent¹⁵ between 2017-2022, makes the SBA’s guaranty products more critical for growing small businesses that may be denied credit in the private loan market.



CY = calendar year.

New Direct Loans

In FY 2022, the SBA’s gross approvals for the Disaster Assistance loan program decreased by 92 percent to \$3 billion against an FY 2022 total of 36.7 billion. In FY 2023, the EIDL program is no longer approving loans for COVID-19, so disaster loan approvals are returning to a comparable level with to the pre-pandemic period. **Chart IV** illustrates the relative sum of disaster loans in FY 2023 by month, compared with the prior three fiscal years.



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 Non-small 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 2020-2022 COVID-19 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 saw more variability in their delinquency rates during FY 2021-2022.

As of July 2023, the average FY 2023 YTD 7(a) delinquency rate of 0.56 percent is slightly higher than the FY 2021 average delinquency rate of 0.54 percent. The 7(a) rate remained low throughout FY 2023 though, staying below one percent every month and despite generally trending slightly upwards.

Monthly 504 delinquency rates decreased during 2023 following a period of greater variability in FY 2021-2022, peaking at 3.4 percent in September, 2021. During FY 2022, the delinquency rate trended downward, but experienced high variability throughout that fiscal year. The average FY 2023 YTD 504 delinquency rate of 0.74 percent is significantly below the FY 2022 average delinquency rate of 1.5 percent. The SBA will continue to monitor the variability and level of 504 delinquency rates closely post-CARES Act.

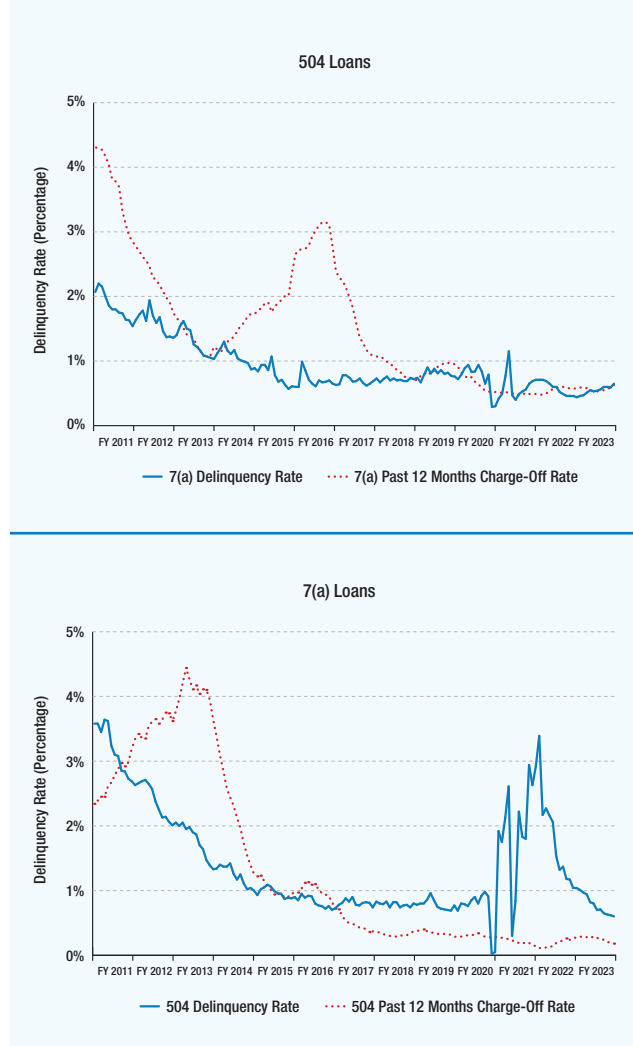
Portfolio Performance – Charge-Offs

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 by July 2023 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 2023.

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 by July 2023. 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 continued downward trend in the 504 delinquency rate during FY 2023 indicates that the volatility during FY 2021-2022 period had little impact on the trajectory of 504 charge-off rates and as of July 2023, does not appear to have been a significant 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 equips America's small business owners with the tools, resources, and support they need to start, manage, and grow their small businesses and innovative start-ups. The SBA continues to administer and provide oversight for programs implemented to reduce the COVID-19 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.

RISK MANAGEMENT AND AUDIT REMEDIATION

Although the emergency declaration of the pandemic is behind us, the SBA continues to fulfill requirements across long-term oversight, servicing, litigation, audit remediation, and fraud risk management to provide support in what has been a historic response by the Agency to the COVID-19 pandemic. The heightened response to the pandemic exposed gaps in the SBA's financial management internal control protocols. OIG Audits, GAO Audits, and Financial Advisors cited the need to have an elevated and well-established ERM program, a Fraud Risk Management (FRM) Program, and a Chief Risk Officer function. To address this need, the SBA is establishing an Agency-wide risk management program, which consolidates and elevates its risk management functions. This program is championed by senior SBA leadership and enhances decision-making processes for agency planning, including strategic and tactical planning, human capital planning, capital investment planning, program management, and budget formulation.

The SBA will continue to prioritize audit remediation and identify and assess risks at all levels of the organization and develop risk response strategies to build an agency-wide portfolio of internal and external risks facing the Agency. This comprehensive view of risks to the organization will position the SBA to better prioritize resources and efforts to manage risk. The SBA will also increase risk management training, with an emphasis on fraud risks, and build on the progress made in FY 2023. Additionally, the SBA

will continue to mobilize resources across programs to remediate audit findings and to maximize the recovery of pandemic funds that were not used in accordance with program requirements and from recipients that were deemed ineligible.

PANDEMIC RECOVERY, BUSINESS ADAPTATION, AND ECONOMIC RECOVERY

The Agency has helped small businesses recover through timely economic relief, supported millions of jobs, and helped small businesses avert bankruptcies. As the nation's economy continues its post-pandemic recovery, small businesses and entrepreneurs 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 are key factors in job creation and healthy 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. 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 economy, 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 2022, the U.S. experienced 18 separate weather and climate disasters costing at least 1 billion dollars each, tied with 2011 and 2017 for the third-highest number of billion-dollar disasters in a calendar year, behind the 22 events in 2020 and the 20 events in 2021.¹⁶ Although the SBA has programs that can respond

¹⁶ <https://www.climate.gov/news-features/blogs/beyond-data/2022-us-billion-dollar-weather-and-climate-disasters-historical>

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 and FY 2023, 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, increasing participation in the mitigation loan option by over 100 percent in FY 2023 over the FY 2022 baseline. 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. The SBA will continue its multi-year initiative that will unite the customer experience of SBA programs and harmonize processes while retaining critical functions unique to each program area. Under MySBA—the whole-of-agency approach working toward improving SBA programs and services—the agency will streamline access to programs by small business owners and disaster survivors, empower SBA personnel to better understand and serve small business owners, and leverage shared services to improve operational efficiency. 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 WORK ENVIRONMENT

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. As the nation continues to recover from the COVID-19 pandemic, the SBA will evaluate the agency's work environment plan in alignment with OMB M-23-15, *Measuring, Monitoring, and Improving Organizational Health and Performance in the Context of Evolving Agency Work Environments*, requirements. The Agency will assess its organizational health and performance to inform human capital policies and workplace space requirements that enable an effective mission-based hybrid workforce. The Agency has also conducted a survey of space considerations for Headquarters, which will inform how the SBA could configure its space in the future.

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.

¹⁷ Source: National Institutes for Building Sciences, 2018.

Analysis and Highlights of Financial Statements and Results

HIGHLIGHTS OF FINANCIAL RESULTS

(Dollars in Thousands)

At End of Fiscal Year	2023	2022	\$ Change
CONDENSED BALANCE SHEET DATA			
Fund Balance with Treasury	\$ 44,081,291	\$ 56,225,809	\$ (12,144,518)
Credit Program Receivables and Related Foreclosed Property, Net	271,944,994	321,528,158	\$ (49,583,164)
All Other Assets	302,299	258,398	\$ 43,901
Total Assets	\$ 316,328,584	\$ 378,012,365	\$ (61,683,781)
Debt	334,320,210	362,801,468	\$ (28,481,258)
Downward Reestimate Payable to Treasury	2,724,486	5,591,451	\$ (2,866,965)
Liability for Loan Guaranties	7,895,498	25,708,234	\$ (17,812,736)
All Other Liabilities	1,095,688	1,022,450	\$ 73,238
Total Liabilities	346,035,882	395,123,603	(49,087,721)
Unexpended Appropriations	3,723,550	10,558,338	\$ (6,834,788)
Cumulative Results of Operations	(33,430,848)	(27,669,576)	\$ (5,761,272)
Total Net Position	(29,707,298)	(17,111,238)	(12,596,060)
Total Liabilities and Net Position	\$ 316,328,584	\$ 378,012,365	\$ (61,683,781)

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			
Net Cost	\$ 799,140	\$ (1,052,501)	\$ 1,851,641
Goal 2: Build Resilient Businesses and a Sustainable Economy			
Net Cost	34,120,775	47,877,837	\$ (13,757,062)
Goal 3: Implement Strong Stewardship of Resources for Greater Impact			
Net Cost	169,534	150,014	\$ 19,520
Costs Not Assigned	233,137	121,599	\$ 111,538
Net Cost of Operations	\$ 35,322,586	\$ 47,096,949	\$ (11,774,363)

CONDENSED STATEMENT OF NET POSITION

Beginning Unexpended Appropriations	10,558,338	69,132,143	\$ (58,573,805)
Total Budgetary Financing Sources	(6,834,788)	(58,573,805)	\$ 51,739,017
Ending Unexpended Appropriations	\$ 3,723,550	\$ 10,558,338	\$ (6,834,788)
Beginning Cumulative Results of Operations	\$ (27,669,576)	\$ (10,253,525)	\$ (17,416,051)
Total Financing Sources	29,561,314	29,680,898	\$ (119,584)
Less: Net Cost of Operations	35,322,586	47,096,949	\$ (11,774,363)
Ending Cumulative Results of Operations	\$ (33,430,848)	\$ (27,669,576)	\$ (5,761,272)
Ending Net Position	\$ (29,707,298)	\$ (17,111,238)	\$ (12,596,060)

CONDENSED STATEMENT OF BUDGETARY RESOURCES

Unobligated Balance Brought Forward	\$ 54,834,396	\$ 295,788,920	\$ (240,954,524)
Other Budgetary Resources, Net	-	-	\$ 0
Appropriations (discretionary and mandatory)	24,899,206	(22,774,310)	\$ 47,673,516
Borrowing Authority (discretionary and mandatory)	5,903,912	113,703,268	\$ (107,799,356)
Spending Authority from Offsetting Collections	21,516,204	33,315,840	\$ (11,799,636)
Total Budgetary Resources	\$ 107,153,718	\$ 420,033,718	\$ (312,880,000)
Obligations Incurred, Budgetary	\$ 32,264,241	\$ 35,455,067	\$ (3,190,826)
Obligations Incurred, Nonbudgetary	32,336,647	340,161,321	\$ (307,824,674)
Unobligated Balances, Available and Unavailable	42,552,830	44,417,330	\$ (1,864,500)
Total Status of Budgetary Resources	\$ 107,153,718	\$ 420,033,718	\$ (312,880,000)

ANALYSIS OF FINANCIAL RESULTS

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

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

During FY 2023, 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 provided 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 by March 11, 2023.

The SBA continues to support other COVID-related programs whose authority expired prior to the beginning of FY 2023.

Background

The SBA is a major federal credit reform agency of the U.S. Government, and the vast majority of the Agency's \$107 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 guaranteed loans. The direct loan allowance and liability for loan guaranties for each loan program cohort is adjusted annually under FCRA through the subsidy model reestimation process. The SBA's FCRA accounting is discussed further in this section and in Notes 1 and 6.A of the financial statements.

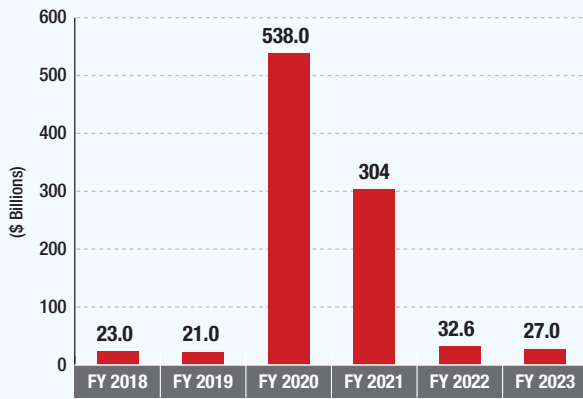
The credit subsidy cost is the net present value of expected cash inflows and outflows over the life of a guaranteed loan or the difference between the net present value of expected cash flows and the face value of a direct loan. The SBA receives budget authority annually to fund its credit programs. When loans are disbursed, the SBA records subsidy expenses 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 future expected cash flows results in liabilities exceeding assets. A downward reestimate occurs when the present value of future expected cash flows results in assets exceeding liabilities.

Increased reestimated costs are funded in the following year by permanent indefinite budget authority, whereas decreased costs are returned by the SBA to a Treasury general fund. The portion of the outstanding principal guaranteed by the SBA was \$140.3 billion as of September 30, 2023, a decrease of \$23.5 billion from the \$163.8 billion guaranteed as of September 30, 2022 (see Note 6.C in the financial statements). As shown in **Chart VI**, new guaranties disbursed by the SBA participating banks during FY 2023 were \$27 billion, a \$5.6 billion decrease compared to the FY 2022 figure of \$32.6 billion.



Chart VI: Guarantied Loans Disbursed

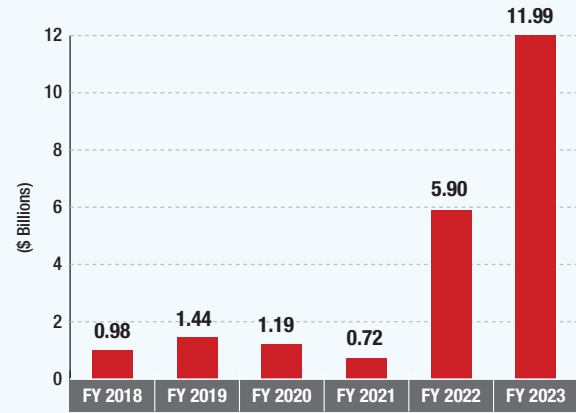


FY = fiscal year.

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 loan receivable is recorded as a contra asset, and the net asset is reported on the Balance Sheet. The subsidy allowance is determined by modeling the projected future cash inflows and outflows of SBA credit programs using discounted cash-flow methodology. The subsidy allowance for each loan program cohort is reestimated annually. Increases are funded by Treasury, whereas decreases are returned to Treasury by the Agency. Loan losses, the costs of loan servicing, and loan interest rates are factors that affect the subsidy allowance.

The SBA credit program receivables were valued at \$271.9 billion in FY 2023, a decrease of \$49.6 billion from FY 2022. The change in the credit program receivables resulted from a decrease in direct disaster loans as a result of disaster lending activity, recoupment of loans previously disbursed, and current year write-offs. As reflected in **Chart VII**, guarantied loan purchases increased \$6.09 billion in FY 2023 to \$11.99 billion as the SBA honors its guarantees.

Chart VII: Purchases of Guarantied Loans



FY = fiscal year.

Financial Position

Assets

The SBA had total assets of \$316.3 billion at the end of FY 2023, down \$61.7 billion from FY 2022. Total assets decreased because of a \$12.1 billion decrease in Fund Balance with Treasury combined with a \$49.6 billion decrease in Credit Program Receivables and Related Foreclosed Property.

Liabilities

The SBA had total liabilities of \$346 billion at the end of FY 2023, down \$49.1 billion from FY 2022. Liabilities consist primarily of the Principal Payable to the Bureau of the Fiscal Service, Liability for Loan Guaranties, and Downward Reestimate Payable to Treasury.

The Principal Payable to the Bureau of the Fiscal Service decreased \$28.5 billion in FY 2023 because of repayment of debt as the SBA collected disaster loans receivable. 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 Treasury, whereas the Agency returns the decreases to Treasury.

The Loan Guarantee Liabilities decreased \$17.8 billion primarily because of claim payments to lenders and miscellaneous recoveries and costs in FY 2023, which are mostly attributable to Paycheck Protection Program purchase guarantee and forgiveness payments. Note 6.E in the financial statements provides additional detail.

The Downward Reestimate Payable to Treasury decreased to \$2.7 billion in FY 2023. The decrease was a direct result of overall changes within guaranteed Loan program reestimates. The Paycheck Protection Program is the largest single program contributor to the downward reestimate and had a downward reestimate of \$1.19 billion in FY 2023. The reestimate is mostly due to lower net outflows, aggregate of forgiveness payments and guarantee purchases, processed in FY 2023 than anticipated for both the 2020 and 2021 cohorts. The reestimate is also partly due to higher net recoveries in FY 2023 than anticipated. The gap in actual and expected cash flows in FY 2023 was partially offset by a higher lifetime expected default rate for the 2021 cohort. Note 6.I in the financial statements provides additional detail.

Net Position

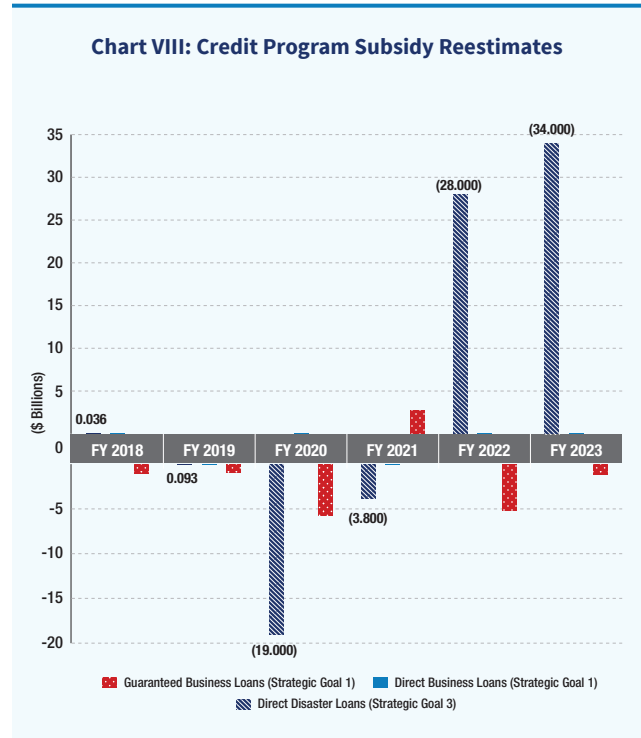
Cumulative Results of Operations is the accumulative difference between expenditures and financing sources since the inception of the Agency. This negative balance increased \$5.8 billion primarily because unfunded upward subsidy reestimates at year-end for the 7(a) loan and disaster loan programs were higher for FY 2023 compared with FY 2022. Upward subsidy reestimates determined at year-end are funded in the following year when they are received.

Unexpended Appropriations decreased \$6.8 billion this year primarily because the total amount of beginning balance, appropriations received and expended was less than the beginning balance, appropriations received and expended in FY 2023 for business, disaster, and administrative activities combined with a rescission of \$5.9 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 upward in FY 2023 compared FY2022, which affected Strategic Goal 1 costs. Disaster reestimates were upward but offset by a reduction in subsidy cost due a lower level of loan activity.

Chart VIII reflects the change in the net subsidy reestimates for the guaranteed business and direct disaster loan programs in FY 2023. The PPP program had a net downward reestimate of \$1.19 billion for FY 2023 and is attributable to fewer purchase and forgiveness payments processed in FY 2023 than anticipated for both the 2020 and 2021 cohorts. Further detail on subsidy reestimates can be found in Note 6.I of the financial statements in the Financial Reporting section of this report.



FY = fiscal year.

The Disaster Assistance program had a net upward reestimate of \$34.0 billion in FY 2023 compared to a \$28.0 billion downward reestimate in FY 2022. The upward reestimate is primarily due to higher than projected charge offs of COVID-19 EIDL loans in FY 2023, the first year of required repayment for many COVID-19 EIDL borrowers. The higher than projected charge offs also contributed to updated performance assumptions, which resulted in downward revisions to future cash collections from outstanding COVID-19 EIDL loans. 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 2023, Total Budgetary Resources decreased from \$420.0 billion in FY 2022 to \$107.1 billion in FY2023. This decrease was primarily due to a decrease in beginning balance, borrowing authority, and spending authority from offsetting collections as well as other factors shown in the Highlights table and following discussion.

Unobligated Balance from Prior Year Budget Authority (discretionary and mandatory) decreased \$241 billion in FY 2023. Borrowing Authority decreased \$107.8 billion in FY 2023 because of a decrease in borrowing needed to cover disaster loan making. Spending Authority from Offsetting Collections decreased \$11.8 billion in FY 2023. 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 to \$107.1 billion in FY 2023 from \$420.0 billion in FY 2022. Nonbudgetary obligations decreased by \$307.8 billion, mainly resulting from the PPP forgiveness payments, PPP fees, and increased downward reestimates for both disaster and business programs.

Budgetary obligations decreased \$3.2 billion because of decreased subsidy obligations for the business subsidy associated with the PPP program.

Unobligated balances as of September 30, 2023, and September 30, 2022, were \$42.5 billion and \$44.4 billion, respectively, which included \$23.8 billion and \$28.2 billion of unavailable unobligated balances. These balances were unavailable because they were unapportioned by the OMB. The SBA accumulates the majority of unobligated balances in its nonbudgetary financing accounts (\$38.2 billion in FY 2023 and \$35.6 billion in FY 2022) 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 consistently responsible stewardship over assets and resources and is a sign of responsible leadership. The SBA's commitment to integrity, ethical values, and an effective system of internal controls helps to ensure that every employee remains dedicated to the efficient delivery of services to customers and maximizes desired program outcomes. Accordingly, the SBA has developed and implemented management, administrative, and financial system controls to reasonably ensure that:

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

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

The Office of Performance, Planning, and the Chief Financial Officer's (OPPCFO) Internal Controls Division (ICD) provides training and tools, 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, chaired by the Deputy Chief Financial Officer, is composed of SBA managers from the major program and support offices. The SMC plans and executes the Agency's internal control activities that include 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 2023 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 2023, the SBA continued its oversight and monitoring efforts related to the pandemic programs created by 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). Although most of the pandemic programs have ceased making disbursements, they are still included in our oversight and monitoring efforts. 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 2024 for programs that exceed the materiality threshold.

Furthermore, the SBA continued with the development and execution of the FY 2023 Annual Assessment Plan. Internal control assessments were conducted for the Small Business Investment Company (SBIC), PPP Loan Forgiveness Limited Scope, Shuttered Venue Operator Grant (SVOG) Limited Scope, Restaurant Revitalization Fund Limited Scope, Entity Level Controls (ELC) and 504/7a – Citrus Heights. The FY 2022 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 Agency continues to collaborate with program offices to support the remediation of corrective actions and implement new controls related to PPP, COVID-19 EIDL, SVOG, RRF, and Service Organization. Efforts will continue beyond FY 2023 until remediation is complete.

The SBA's Enterprise Risk Management (ERM) Board, which is chaired by the Deputy Administrator and composed of senior leaders (Senior Executive Service members) from the SBA's major program and support offices, generally meets monthly 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 has been responsible for implementing ERM agency wide. The SBA took several steps to strengthen risk and fraud efforts this fiscal year: (1) established the FY 2023-2026 ERM Strategic Plan to mature the ERM program; (2) continued to integrate the ERM process into existing management processes; (3) updated the SBA Risk Appetite Statement and ERM Framework Guide; (4) as directed by OMB, approved the agency-wide risk profile that identified cross-cutting risks related to fraud, technology, and operations; and; (5) hired the Fraud Risk Manager who is responsible to facilitate the Fraud Risk Management Board meetings, coordinate SBA's fraud risk activities, and implement an agency-wide fraud risk assessment tool to assess agency programs 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. In FY 2023, the Agency saw an increase in its overall FISMA maturity rating to 2.80 from 2.58 last year within the Core questions. Also, the Agency scored a 2.68 in the new FY 2023 Supplemental questions which will be tested again in FY 2025 per OIG.

The Information Security Division has requested FY 2024 funds through the Technology Modernization Fund which will allow SBA to mature its Security Program, thereby enhancing its security posture.

The SBA will continue to incorporate the changes derived from the 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 2023 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

The SBA has continued to build on incremental improvement projects designed to modernize the financial management system environment, improve financial system controls, reduce sustainment costs, provide additional functionality for external lending partners, and improve system reliability. Projects included the migration of the

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.

hosting platform from legacy systems to more current technology platforms as well as utilization and integration with SBA enterprise IT services. The SBA has also been working with the Quality Service Management Office (QSMO) at the U.S. Department of Health and Human Services (HHS) for the improvement of grants management systems and integration. An Interagency Agreement (IAA) was established to begin integrating SBA's financial system with the HHS GrantSolutions systems. In addition, the SBA has been working closely with the QSMO for Financial Management at the U.S. Treasury as they continue their efforts in establishing a marketplace for financial systems that can be used for modernization efforts for SBA's core financial system.

SBA financial systems continued to process a high volume of transactions this fiscal year. A large part of the focus for FY 2023 was on improved collections processes for repayments and other recoveries. For FY 2023, the systems processed over 28 million general ledger transactions in support of collections primarily relating to the various pandemic emergency relief programs.

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

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



MANAGEMENT ASSURANCES: FMFIA AND FFMIA ASSURANCE STATEMENT FOR FY 2023

The Small Business Administration (SBA or Agency) continued to strengthen its internal controls over core and COVID-related programs and operations during FY 2023. Creating and sustaining a culture of responsibility and accountability while eliminating and preventing waste, fraud, and abuse is critical to meeting our mission at the SBA. While the SBA continued to strengthen internal controls, the SBA's independent auditor has issued a disclaimed opinion on the Agency's FY 2023 Consolidated Balance Sheet and is reporting material weaknesses in internal controls. Although the SBA believes that its efforts to develop and implement controls for its COVID-related programs in FY 2023 would have remediated material weaknesses identified from the FY 2022 audit, the SBA will continue to resolve findings next year. The SBA has provided responses outlining proposed corrective actions for identified deficiencies to the auditor in an effort to remediate.

The SBA management is responsible for managing risks and maintaining effective internal controls and financial management systems to meet the objectives of Sections 2 and 4 of the Federal Managers Financial Integrity Act (FMFIA). The SBA conducted its assessment of risk and internal controls in accordance with OMB Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*. Agency managers have issued assertions to me as to the status of the FY 2023 internal controls in their areas of responsibility. These assertions are supported by internal testing, checklists, and other management reviews.

FMFIA section 2 requires that the head of each executive agency annually submit to the President and Congress:

- (i) A statement on whether there is reasonable assurance that the Agency's controls are achieving their intended objectives, and
- (ii) A report on material weaknesses in the Agency's controls.

Based on the results of the SBA 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, 2023. The internal controls over operations, reporting, and compliance with applicable laws and regulations were operating effectively except for certain controls noted below. The SBA has developed and implemented controls to remedy the material weaknesses identified in the FY 2022 audit but notes that the material weaknesses identified through the prior year audit remain because of the timing of corrective action plan implementation. During FY 2023, material weaknesses in the following areas were identified:

- Controls over Paycheck Protection Program (PPP) Loan Guarantees Need Improvement
- Controls over COVID-19 Economic Injury Disaster Loans (EIDLs) Need Improvement
- Controls over Monitoring of Restaurant Revitalization Fund (RRF) and Shuttered Venues Operators Grant (SVOG) Programs Need Improvement
- Controls over Financial Reporting for Programs Funded by CARES Act and Related Legislation Need Improvement
- Controls over the Evaluation of Service Organizations Need Improvement
- Entity Level Controls Need Improvement

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



The Federal Financial Management Improvement Act (FFMIA) requires federal agencies to implement and maintain financial management systems that are in substantial compliance with federal financial management systems requirements, federal accounting standards, and the United States Standard General Ledger. The SBA evaluated its financial management systems to determine conformance; however, the auditor identified that it does not comply with Federal Financial Systems Requirements and Federal Accounting Standards. Based on the FFMIA criteria and audit report, the SBA provides a modified assurance that its financial management systems substantially comply with FFMIA for FY 2023. The Agency is committed to continuing to evaluate identified material weaknesses and non-conformances to make any adjustments necessary to bring its programs into compliance.

Isabella Casillas Guzman



Administrator

November 15, 2023

SUMMARY OF MATERIAL WEAKNESSES

1. Controls over Paycheck Protection Program (PPP) Loan Guarantees Need Improvement

The auditor identified deficiencies in controls related to the review of the status of PPP loan guarantees, forgiveness review process, and the loan purchase review process. Specifically, the auditor identified deficiencies in: (a) the SBA's process for lender accountability related to the 1502 reporting errors and inaccurate reporting of PPP outstanding principal loan balance and liability for loan guarantee, (b) the SBA's oversight process related to the screening, review, monitoring, and fund recovery related to PPP loan forgiveness, and (c) the SBA's oversight activities related to the review and monitoring of PPP loan 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 and a monitoring plan to address the loan forgiveness population.

2. Controls over COVID-19 Economic Injury Disaster Loans (EIDLs) Need Improvement

The auditor identified deficiencies in the design and implementation of controls related to COVID-19 EIDL. Specifically, the auditor identified deficiencies in: (a) the design of reviews used to identify a complete and accurate COVID-19 EIDL population of outstanding loans disbursed, (b) the design of SBA's review over loans with existing eligibility concerns, and (c) the design and implementation of effective controls over the charge off process for non-performing COVID-19 EIDL loans. The SBA will ensure procedures for the COVID-19 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 Accounting and Monitoring, of Shuttered Venue Operators Grant (SVOG) and Restaurant Revitalization Fund (RRF) Need Improvement

The auditor identified deficiencies in the design and implementation of monitoring controls to ensure that recipients' use of funds were in accordance with related legislation and program terms. Specifically, the auditor noted: (a) the SBA is required to monitor and manage the status of SVOG awards and funds recovery process, and (b) the SBA is required to follow-up, review, and recover any outstanding funds from ineligible RRF recipients. The SBA will continue its eligibility and cost compliance reviews and determine the appropriate plan for fund recovery for ineligible fund recipients.

4. Controls over Financial Reporting for Programs Funded by CARES Act and Related Legislation Need Improvement

The auditor identified deficiencies in design and implement controls to account for the recovery of funds and subsidy reestimates. Specifically, the auditor identified deficiencies in: (a) the SBA's accounting policy and procedures for the recovery of funds related to the RRF program, SVOG program, COVID-19 EIDLs, and the PPP loan programs, and (b) the controls to ensure the data inputs used within the reestimate models for PPP and COVID-19 EIDLs were complete and accurate and the appropriateness of projected collections on receivables charged-off were not considered against relevant accounting standards. The SBA will develop and implement a funds recovery policy that considers the allowance for estimates of uncollectable amounts and communicate the new policy throughout SBA and explore options to update the financial system to ensure preparer information is retained in the accounting entries. In addition, the SBA will continue to implement a Corrective Action Plans (CAP) that will improve controls around business processes that generate data inputs used to inform critical assumptions used in the reestimate models. SBA will review the treatment of expected post-charge-off collections against relevant accounting standards and based on this review will implement any revisions to year-end reporting processes as needed to conform with those standards.

5. Controls over the Evaluation of Service Organizations Need Improvement

The auditor identified deficiencies in internal controls for service organizations. Specifically, the auditor noted: (a) the SBA is required to obtain and monitor the SOC 1 reports for service organizations, and (b) the SBA is required to review the adequacy of the service organization's user entity controls. The SBA will continue to implement the System and Organization Controls (SOC) policy that was issued in FY2023 to address SOC complementary design controls, exception reporting, and impact analysis. The implementation will ensure required organizations provide SOC reports for evaluation and monitoring of identified controls.

6. Entity Level Controls Need Improvement

The auditor identified deficiencies in the entity level controls system to produce reliable and accurate financial reporting. Specifically, the auditor identified deficiencies in: (a) the SBA's establishment of an effective control environment and performance of an effective risk assessment, and (b) the SBA's design and implementation of an effective monitoring process. In FY2024, 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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Financial Reporting (Unaudited)

SECTION 2

Message from the Chief Financial Officer



November 15, 2023

I am pleased to issue the SBA's FY 2023 Agency Financial Report as of September 30, 2023. 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 2023, the SBA continued the management and oversight of the COVID-19 pandemic programs that funded \$1.2 trillion in programs that were implemented to mitigate its impact on small businesses. The execution of CARES Act programs, the Economic Aid Act, and the American Rescue Plan Act were essential to saving millions of jobs and helping small businesses stay open, preserving the vitality of small businesses, and strengthening the economic recovery of communities after disasters.

The SBA continues to focus on serving small businesses and entrepreneurs while strengthening controls to prevent fraud, waste, and abuse. In FY 2022, the Agency implemented the Fraud Risk Management Board (FRMB), a governing body that serves as the SBA's anti-fraud entity. In FY 2023, the FRMB made significant progress through the performance of fraud risk assessments of key programs and the development of a fraud risk management strategy to guide the maturity of the Agency's fraud risk management program. In addition, the Agency has documented processes 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 2023 Agency Financial Report.

Sincerely,

A handwritten signature in black ink, appearing to read "Kate Aaby".

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

DATE: November 15, 2023

TO: Isabella Casillas Guzman
Administrator

FROM: Hannibal "Mike" Ware 
Inspector General

SUBJECT: Independent Auditors' Report on SBA's Fiscal Year 2023 Financial Statements
(Report 24-03)

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) 2023, 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, 2023 and 2022 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. 24-01, 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, 2023 and 2022 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, 2023. Accordingly, KPMG issued a disclaimer of opinion on the consolidated balance sheets as of September 30, 2023 and 2022.

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 the 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 line items and related notes:

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

For the period ended September 30, 2023, KPMG identified material weaknesses over six areas and significant deficiencies over three areas in internal control over financial reporting.

Appendices 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. 24-01.

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 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 auditing standards. KPMG is responsible for the attached auditors' report dated November 15, 2023 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 generally concurred with its findings and recommendations and agreed to implement the recommendations. The Chief Financial Officer stated that 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: Dilawar Syed, Deputy Administrator, Office of the Administrator
Arthur Plews, Chief of Staff, Office of the Administrator
Isabelle James, Deputy Chief of Staff, Office of the Administrator
Peggy Delinois Hamilton, Special Counsel for Enterprise Risk, Office of the Administrator
Katherine Aaby, Associate Administrator, Office of Performance, Planning, and the Chief
Financial Officer
Kathryn Frost, Acting Associate Administrator, Office of Capital Access
Francisco Sanchez Jr., Associate Administrator, Office of Disaster Assistance
John Miller, Deputy Associate Administrator, Office of Capital Access
Therese Meers, General Counsel, Office of General Counsel
Michael Simmons, Attorney Advisor, Office of General Counsel
Anna M. Calcagno, Director, Office of Program Performance, Analysis, and Evaluation
Tonia Butler, Director, Office of Internal Controls

Attachment



Independent Auditors' Report on FY 2023 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, 2023 and 2022, 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 these consolidated financial statements.

Basis for Disclaimer of Opinion

The SBA's pandemic relief programs include the Paycheck Protection Program, Economic Injury Disaster Loan program, Restaurant Revitalization Fund program, and Shuttered Venues Operators Grant program, which were authorized by the Coronavirus Aid, Relief, and Economic Security Act of 2020 and related legislations. These programs affect a substantial proportion of SBA's consolidated financial statements. The 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 the Credit Program Receivables and Related Foreclosed Property, Net; Other than Intragovernmental Accounts Receivable, Net; Downward Reestimate Payable to Treasury; Loan Guarantee Liabilities; and the related notes.

Other Matter – Report on Certain Fiscal Year 2023 and 2022 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, 2023 and 2022, 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.



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*, issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Bulletin No. 24-01, *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 financial statement as of September 30, 2023, 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 statement, 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.



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 financial statement as of September 30, 2023, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the consolidated financial statement. 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. 24-01, 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, described in Appendix III, 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, 2023

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 Coronavirus Disease 2019 (COVID-19) Economic Injury Disaster Loans (EIDLs) Need Improvement**
3. **Controls over Monitoring of Restaurant Revitalization Fund (RRF) and Shuttered Venues Operators Grant (SVOG) Programs Need Improvement**
4. **Controls over Financial Reporting for Programs Funded by CARES Act and Related Legislation Need Improvement**
5. **Controls over the Evaluation of Service Organizations Need Improvement**
6. **Entity Level Controls Need Improvement**

Background

The PPP, COVID-19 EIDLs, RRF, and SVOG 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 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 COVID-19 pandemic. The PPP, COVID-19 EIDLs, RRF, and SVOG programs affect a substantial proportion of the consolidated financial statements.

1. Controls over PPP Loan Guarantees Need Improvement*A. Reporting of PPP Loan Guarantees*

As part of the PPP, lenders must report on the status of PPP loans using the lender loan status reports on a monthly basis. The SBA updates the outstanding principal balances and ultimately the Loan Guarantee Liabilities and related accounting entries based on the submitted lender reports.

Management did not have adequate processes and controls in place to determine the status of PPP loan guarantees based on the lender loan status reports that were not submitted, submitted incorrectly, or submitted but not processed and evaluated by SBA for the majority of the fiscal year 2023. Also, management did not design and implement effective controls to ensure that the population of active PPP loan guarantees reviewed by management for status determination was complete and accurate.

Management did not implement controls to identify and resolve variances between SBA's and the lenders' records for 6 of 28 PPP loan guarantees samples tested. In addition, management flagged PPP loan guarantees that had eligibility concerns as part of their review process and did not have controls to support the existence and accuracy for 11 of 28 samples tested due to unresolved eligibility concerns as of September 30, 2023.

These deficiencies were caused by insufficient risk assessment and monitoring controls over the follow-up process for lender loan status reports. Also, management did not design and implement an effective process of accountability over the lenders that were not submitting loan status reports timely or accurately. Further, the automated system control used to reduce the outstanding principal balance for loan guarantees that received partial forgiveness payments is not designed and implemented effectively to prevent errors.

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 7, Identify, Analyze, and Respond to Risks; Principle 10, Design Control Activities;
- Office of Management and Budget (OMB) Circular No. A-123, Management's Responsibility for Enterprise Risk Management and Internal Control

The deficiencies described above may result in material misstatements to the Loan Guarantee Liabilities, Downward Reestimate Payable to Treasury line items and related elements in the consolidated financial statements.

Recommendations – Reporting of PPP Loan Guarantees

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

1. Design and implement controls to ensure the population used in the review and follow-up of nonreporting loan status reports or loan status reports with errors is complete and accurate.
2. Determine enforceable actions and controls to hold lenders accountable for submitting loan status reports timely and correctly.
3. Assess the sufficiency of implemented controls to monitor incomplete or inaccurate PPP lender loan status reports on an ongoing basis, including the identification and resolution of the root causes of reporting noncompliance.
4. Design and implement an automated system control to accurately reduce the outstanding principal balance after the processing of all forgiveness payments.

B. Forgiveness Review of PPP Loan Guarantees

The PPP program terms, authorized by the CARES Act and related legislation, permitted for the forgiveness of PPP loan guarantees if the borrower met the forgiveness criteria. To request forgiveness, borrowers submit the forgiveness application to the lenders for approval. The lenders will subsequently notify SBA of their forgiveness decision and submit the request to SBA.

Management did not design and implement adequate monitoring controls over the work performed by a contractor and the use of its case management system to ensure that the population of PPP loan guarantees identified with eligibility flags was complete and accurate and ultimately determine their eligibility for forgiveness. Moreover, management did not provide sufficient evidence to demonstrate that an effective control environment existed when the case management system was used to perform the automated screening of the PPP loan guarantees. Management did not effectively perform independent review controls to determine whether the results of the contractor's screening process of certain loan guarantees were effective and accurate. These loan guarantees included those with no flags identified for eligibility concerns, or those that had flags identified for eligibility concerns but were not reviewed further based on management's policy decision.

Management did not design and implement an effective review and monitoring process for the 2021 cohort of PPP loan guarantees, which comprises the majority of the outstanding principal balance of PPP loan guarantees as of September 30, 2023. While the case management system contains a comprehensive series of validation checks to identify potential noncompliance with PPP loan guarantee program eligibility requirements, management communicated that the case management system performed only a limited number of validation checks against program eligibility requirements for the 2021 cohort of PPP loan guarantees. Further, management did not implement a sufficient monitoring process to ensure that lenders followed established procedures and adequately resolved the eligibility concerns identified by the case management system's limited automated screening.

Management did not design and implement effective controls to determine the accuracy and completeness for their sample of PPP loan guarantee forgiveness transactions. Management's review of the sample from the largest subset of PPP loan forgiveness transactions did not address the eligibility for forgiveness and the accuracy of the approved loan guarantee and forgiveness amounts. In addition, management's review process did not consider a follow-up requirement when a difference exists for each sample's loan approval amount and the loan forgiveness amount within an acceptable variance threshold. Instead, management's review process allowed for a variance threshold between the calculated loan guarantee approval amount as compared to the actual approved loan guarantee amount. Similarly, management's review process allowed for a variance threshold between the calculated loan forgiveness amount and requested loan forgiveness amount. As a result, management's sample review process was not properly designed to sufficiently evaluate and quantify the magnitude of the actual error amounts for the loan guarantee approval and loan guarantee forgiveness variances.

Management did not adequately design and implement the post payment review control to determine the appropriate status and financial reporting impacts of PPP loan guarantees forgiven as of the end of the fiscal year. Also, management's process and related control activities for funds recovery of PPP loan guarantees that were erroneously forgiven was not documented.

These deficiencies were caused by management's reliance on the contractor's automated and manual loan review processes without adequate monitoring controls to evaluate and assess the work product. Further, there was reliance placed on the lenders' self-certifications prior to the approval of the 2021 cohort of PPP loan guarantees without adequate monitoring controls. In addition, management did not perform an adequate risk assessment process to identify and mitigate relevant risks and design appropriate controls to ensure a complete and accurate portfolio of PPP loan guarantees that were disbursed to eligible recipients.

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 described above may result in a material misstatement to the Loan Guarantee Liabilities and Downward Reestimate Payable to Treasury line items, and the related elements in the consolidated financial statements.

Recommendations – Forgiveness Review of PPP Loan Guarantees

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

5. Perform a thorough review of the outstanding PPP loan guarantees and determine the impact on the outstanding guarantee and eligibility for forgiveness of loans determined to not be in conformance with the related legislation and program's terms.
6. Design, implement, and document an effective PPP forgiveness review process for loan guarantees that were forgiven that addresses both the eligibility and the accuracy of the loan approval and forgiveness amounts.
7. Design and implement an effective funds recovery plan to ensure PPP funds disbursed on behalf of ineligible recipients are recovered and reported accurately in a timely manner. The plan should include an effective process to provide the information necessary to the Office of Performance, Planning, and the Chief Financial Officer to record any required accounting adjustments.

C. Purchases of PPP Loan Guarantees

The PPP program terms, authorized by the CARES Act and related legislation, fully guaranteed the PPP loans disbursed by lenders on behalf of the SBA. Lenders are required to service the PPP loans and continue to report on their status on a monthly basis until the loan is fully forgiven, repaid, or the borrower defaults. In the event of default, the lender may request that SBA honor its full guarantee and purchase the loan.

Management did not adequately design and implement controls to ensure that purchase requests of PPP loan guarantees were appropriately reviewed to verify that requesting lenders met the program requirements prior to approving and disbursing the original loan.

The PPP loan guarantee purchases review process relied on the identification of flags by the case management system indicating that the lender may not have fulfilled the program requirements. Management did not design and implement adequate controls to ensure the completeness and accuracy of flags identified and resolved. In addition, management added additional flags that would require a manual purchase review at various stages of the program. However, management did not retroactively review PPP loan guarantee purchase requests that were previously automatically approved that subsequently required a manual review.

The PPP loan guarantee purchases review process documentation did not consider all guidance issued to lenders as part of the origination process when determining the subset of flags that would require a manual purchase review. Specifically, SBA did not include adequate evaluation of flags communicated to lenders in the procedural notices related to the cohort 2021 loan approval requirements.

These 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.

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 described 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 Acting Associate Administrator for the Office of Capital Access to:

8. 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.
9. Develop and implement an effective process to review purchase requests for outstanding PPP loan guarantees and for loans that have already been purchased that addresses whether the lender met their requirements in accordance with the program requirements.
10. Develop and implement an effective funds recovery plan to ensure funds related to PPP purchases disbursed to ineligible recipients are recovered and reported accurately in a timely manner. The plan should include an effective process to provide the information necessary to the Office of Performance, Planning, and the Chief Financial Officer to record any required accounting adjustments.

2. Controls over COVID-19 EIDLs Need Improvement

COVID-19 EIDLs were approved in fiscal years 2020 through 2022 and have a 30-year term. Payments on COVID-19 EIDLs were deferred by the SBA for up to 30 months after loan disbursement. The payment deferral period ended for a significant number of COVID-19 EIDLs during fiscal year 2023.

Management did not design and implement adequate monitoring controls over the COVID-19 EIDLs portfolio to ensure reliable financial reporting as of the end of the fiscal year. Management's review was not appropriately designed to identify a complete and accurate COVID-19 EIDLs population of outstanding loans disbursed to eligible recipients. The review process relied on hold codes in the SBA's loan repository system to identify the COVID-19 EIDLs with eligibility concerns. However, management was not able to provide evidence of the completeness and accuracy of the population of loans with hold codes as of the end of the fiscal year.

Management's review controls over loans with existing hold codes were not properly designed. The review did not contain sufficient evidence about the identification, research, and resolution of hold codes to support management's reliance for financial reporting purposes as of the end of the fiscal year. Management did not identify and research COVID-19 EIDLs with unresolved hold codes for loans charged-off, in deferment, repayment, and delinquent stages as of the end of the fiscal year.

Management did not fully design and implement effective controls over their charge-off process for non-performing COVID-19 EIDLs. The non-performing loans are those that are 90 days or more past due. Management implemented a process to automatically charge-off non-performing COVID-19 EIDLs that have an original loan balance of \$200,000 or less without any unresolved hold codes. These loans subject to automated charge-off are significant to the COVID-19 EIDLs portfolio, were not reviewed, did not have justification to support the charge-off decision, and were not assessed for recoverability. In addition, management's charge-off process was primarily based on the number of days past due without sufficient regard to the recoverability of the loan. Thus, management's controls were not appropriately designed to identify the root cause of the delinquency of the charged-off COVID-19 EIDLs.

These deficiencies were caused by an inadequate risk assessment process to identify and mitigate relevant risks and design appropriate controls to ensure a complete and accurate population of COVID-19 EIDLs that were disbursed to eligible recipients. In addition, management implemented a policy that was not adequately supported because the review of the COVID-19 EIDLs portfolio was incomplete. Therefore, the information used by management to make an informed charge-off policy decision was not relevant and reliable. In addition, management's risk assessment process did not adequately consider the accounting and financial reporting implications of charging off a loan without assessing the impact of the likelihood of recovery.

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

- GAO's Green Book, Principle 3, Establish Structure, Responsibility, and Authority; Principle 6, Define Objectives and Risk Tolerances; Principle 7, Identify, Analyze, and Respond to Risks; Principle 9, Identify, Analyze, and Respond to Change; and Principle 10, Design Control Activities
- OMB Circular No. A-123, Management's Responsibility for Enterprise Risk Management and Internal Control

The deficiencies described 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 Acting Associate Administrator for the Office of Capital Access to:

11. Perform and update the program's internal control risk assessment to identify changes to risks that may require the design and implementation of effective monitoring controls over the review of the COVID-19 EIDLs portfolio.
12. Design and implement an effective funds recovery plan to ensure COVID-19 EIDLs funds disbursed to ineligible recipients are recovered and reported accurately and in a timely manner. The plan should include an effective process to provide the information necessary to the Office of Planning, Performance, and the Chief Financial Officer to record any required accounting adjustments.
13. Reevaluate the appropriateness and update SBA's existing policies and procedures to ensure they are supported by quality information stemming from effective control activities. This includes assessing the recoverability of COVID-19 EIDLs prior to charge-off. Perform a regular review of implemented policies to ensure they are responding to relevant risks.

3. Controls over Monitoring of RRF and SVOG Programs Need Improvement

A. Monitoring of RRF Awards

The period to use RRF awards for eligible purposes expired on March 11, 2023. Management's process relies on award recipients to submit Post Award Reports by April 30, 2023, to disclose the amount of the award used on eligible purposes prior to expiration. If any amount of the award was not used for eligible purposes before expiration, the unused funds must be returned to SBA.

Management did not design and implement the appropriate monitoring controls over RRF awards to ensure that the funds were used in accordance with the CARES Act and related legislation and accurate financial reporting as of the end of the fiscal year. Specifically, a Post Award Report was not submitted for a significant number of awards as of September 30, 2023. While management performed follow-up procedures to ensure the outstanding Post Award Reports were submitted by the remaining recipients, the procedures were not substantial enough to support the completeness and accuracy of financial reporting as of the end of the fiscal year. Management selected a sample of RRF awards for review to determine the accuracy of submitted Post

Award Reports. However, management did not initiate or fully complete reviews for a significant number of samples to ensure accurate financial reporting as of the end of the fiscal year. Further, management's process for funds recovery was not fully implemented for RRF awards that had eligibility concerns.

These deficiencies were caused by an inadequate risk assessment process to identify and mitigate relevant risks and design appropriate controls to ensure funds were spent on eligible expenses to be relied upon for financial reporting.

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

- GAO's Green Book, Principle 10, Design Control Activities; Principle 12, Implement 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 described above may result in a material misstatement to the Other than Intragovernmental Accounts Receivable, Net, line item and the related elements in the consolidated financial statements.

Recommendations – Monitoring of RRF Awards

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

14. Perform and update the program's internal control assessment to identify changes to risks that may require the design and implementation of effective monitoring controls and review processes of RRF awards to identify recipients that may not have been eligible to receive awards or that may have spent awards on ineligible expenses in accordance with the program's terms.
15. Design and implement effective follow-up procedures for RRF award recipients that are not complying with the program's terms and to ensure complete, accurate, and timely reporting for the use of the award.
16. Design and implement an effective funds recovery plan and controls to ensure RRF awards disbursed to ineligible recipients or spent on ineligible expenses are recovered and reported accurately and in a timely manner. In conjunction with the Office of Planning, Performance, and the Chief Financial Officer, design and implement an effective process to provide the information necessary to record any required accounting adjustments.

B. Monitoring of SVOG Awards

The period to use SVOG funds for eligible purposes expired for a majority of SVOG awards as of September 30, 2023. Management's process relies on award recipients to submit an Expense Report and Standard Form (SF) 425, Federal Financial Report, to disclose the amount of the award used for eligible purposes prior to expiration. If any amount of the award was not used for eligible purposes before expiration, the unused funds must be returned to SBA.

Management did not design and implement appropriate monitoring controls over SVOG awards to ensure that the funds were used in accordance with the CARES Act and related legislation and accurate financial reporting as of the end of the fiscal year. Specifically, as of September 30, 2023, an Expense Report or SF-425 was not submitted for a significant number of awards. In addition, management selected samples of SVOG awards to review the accuracy of report submissions and eligibility of award recipients. However, management did not initiate or fully complete the sample reviews for a significant number of samples. Thus, management's sample review process is not adequately designed and implemented to ensure accurate financial reporting as of the end of the fiscal year.

Management's process for funds recovery was not fully implemented for SVOG awards that had identified eligibility concerns. Additionally, management's process to review the recipients' single audit reports was not fully implemented by the end of the fiscal year. Therefore, management could not determine the impact of potential control and compliance deficiencies noted in the single audit reports over the use of SVOG awards.

These deficiencies were caused by an inadequate risk assessment process to identify and mitigate relevant risks and design appropriate controls to ensure funds were spent on eligible expenses to be relied upon for financial reporting.

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

- GAO's Green Book, Principle 10, Design Control Activities; Principle 12, Implement 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 described above may result in a material misstatement to the Other than Intragovernmental Accounts Receivable, Net, line item and the related elements in the consolidated financial statements.

Recommendations – Monitoring of SVOG Awards

We recommend the Administrator coordinate with the Associate Administrator for the Office of Disaster Recovery and Resilience to:

17. Perform and update the program's internal control assessment to identify changes to risks that may require the design and implementation of effective monitoring controls and review processes of SVOG awards to identify recipients that may not have been eligible to receive awards or that may have spent awards on ineligible expenses in accordance with the program's terms.
18. Design and implement effective follow-up procedures for SVOG award recipients that are not complying with the program's terms and to ensure complete, accurate, and timely reporting for the use of the award.
19. Design and implement an effective funds recovery plan and controls to ensure SVOG awards disbursed to ineligible recipients or spent on ineligible expenses are recovered and reported accurately and in a timely manner. In conjunction with the Office of Planning, Performance, and the Chief Financial Officer, design and implement an effective process to provide the information necessary to record any required accounting adjustments.

4. Controls over Financial Reporting for Programs Funded by CARES Act and Related Legislation Need Improvement

A. Accounting for Funds Recovery

The PPP, COVID-19 EIDLs, RRF, and SVOG programs affect a significant portion of SBA's consolidated financial statements. As these programs are either in the servicing or post payment review phases, SBA began the process to recover funds or identify funds that need to be recovered.

Management did not adequately design and implement controls to account for the recovery of funds related to these programs. Management did not provide evidence of documented policies and procedures for the recovery of funds related to the RRF and SVOG programs and the recording of activities associated with the related accounts receivable, and the allowance for estimated uncollectible amounts. For example, management was not able to demonstrate the application of the accounts receivable recognition criteria for the determination of a claim to cash or other assets due to recovery of funds for each program. Also, management did not have adequate documentation about the estimation methodology used to determine the accounts receivables and the related allowance for estimated uncollectible amounts. Finally, management did not have adequate documentation about the financial reporting considerations related to the recovery of funds for the RRF and SVOG programs including the respective accounting entries.

Management did not provide sufficient evidence of documented accounting policies for the recovery of funds related to the COVID-19 EIDLs and PPP loan programs. Further, management did not have adequate documentation about the appropriate accounting treatment and the respective accounting entries throughout each step of the recovery life cycle in accordance with generally accepted accounting principles.

These deficiencies were caused by an inadequate risk assessment to identify and mitigate relevant financial reporting risks. Also, management did not develop the appropriate policies and procedures for considerations related to the recovery of funds through the applicable programs' lifecycle including the servicing and post payment review phases.

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

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

The deficiencies identified above may result in a material misstatement to the Other than Intragovernmental Accounts Receivable, Net, 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 – Accounting for Funds Recovery

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

20. Develop and document the policies and procedures for the recovery of funds, the accounts receivable, and the allowance for estimated uncollectible amounts related to the programs created or expanded by the CARES Act and related legislation.
21. Document the current state of accounting policies and procedures for the recovery of funds, including the respective accounting entries for all applicable scenarios (e.g., fraud related, ineligibility) for COVID-19 EIDLs and PPP loans that have been charged-off or forgiven.
22. Inquire with standard setting bodies to confirm the appropriate accounting treatment throughout each step of the recovery lifecycle for COVID-19 EIDLs and the PPP loans that have been charged-off or forgiven. Memorialize the response by updating management's documented policies and procedures including the respective accounting entries under generally accepted accounting principles for all applicable scenarios.
23. Design and implement effective controls and communication processes to timely obtain the information necessary from program offices to record any required accounting adjustments for programs created or expanded by the CARES Act and related legislation.

B. Subsidy Reestimate

Statement of Federal Financial Accounting Standards Number 2, Accounting for Direct Loans and Loan Guarantees, requires that direct loans and loan guarantees committed after September 30, 1991, be recorded on a present value basis consistent with the intent of the Federal Credit Reform Act of 1990. As such, SBA developed an estimation methodology to reestimate the future net cash inflows and outflows for the COVID-19 EIDLs and PPP loan portfolios as of the end of the fiscal year.

Management did not design and implement adequate controls over the review of the data inputs used in the PPP subsidy reestimate. Specifically, management did not adequately design and implement controls to ensure the data inputs used in the PPP subsidy reestimate methodology that are derived from the lender loan status reporting, and the forgiveness and purchases processes, are complete and accurate. Therefore, management did not have sufficient controls in place to ensure the development of significant assumptions in the methodology were appropriate.

Management did not adequately design and implement controls to ensure the assumptions used in the subsidy reestimate for the COVID-19 EIDLs were appropriate with their risks. Management's review was not appropriately designed to identify a complete and accurate COVID-19 EIDLs population of outstanding loans disbursed to eligible recipients. Management's review was still in process as of the end of the fiscal year and management did not sufficiently document an assessment to demonstrate that the assumptions applied are appropriate for the COVID-19 EIDLs in the portfolio based on their specific risk characteristics.

Further, the loan-level projection datasets included projected cash flows for COVID-19 EIDLs that were charged-off without an outstanding loan receivable balance as of September 30, 2023. The projected cash flows for these charged-off loans inappropriately affected the allowance for subsidy balances without the related recognition of the gross loans receivable.

These 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 implementation and development of subsidy reestimate models for new programs that do not have a significant volume of historical data or precedence and inadequately designed and implemented controls to ensure the reestimate output complied with the applicable accounting standards related to charged-off loans.

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 described above may result in a material misstatement to the Credit Program Receivables and Related Foreclosed Property (Net), Downward Reestimate Payable to Treasury, and Loan Guarantee Liabilities line items, and the related elements in the consolidated financial statements.

Recommendations – Subsidy Reestimate

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

24. Continue implementing controls in collaboration with relevant program offices for the PPP and COVID-19 EIDLs portfolios to accumulate relevant, complete, and accurate data on which to base the subsidy reestimate.
25. Design and implement adequate review and approval controls over the reestimate 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.

26. Refine existing review and approval controls to ensure the reestimate output is in accordance with accounting standards for charged-off loans.

5. Controls over the Evaluation of Service Organizations Need Improvement

A. 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 did not have adequate evidence that complementary user entity controls identified in the service organization control (SOC) 1 Type 2 reports obtained for the 504 loan guarantee program central servicing agent and the financial service provider were designed, implemented, and operating effectively. Specifically, management's review of complementary user entity controls indicated that controls were in process of being identified as of the end of the fiscal year. 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.

These deficiencies identified above were caused by inadequate monitoring controls over the relevant service organizations for their assigned internal control responsibilities to obtain reasonable assurance on the operating effectiveness of internal controls in the service organizations' control environments.

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 described above prevent SBA from obtaining an understanding of relevant service organization controls and their operating effectiveness to identify all relevant control gaps and deficiencies that require a complementary user control to mitigate the risk of error to 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 Acting Associate Administrator for the Office of Capital Access to:

27. Continually evaluate the established policy for SOC 1 reports that requires 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, management should design, implement, and operate controls within SBA's control environment.
28. 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 programs transactions processed on behalf of and recorded by SBA. To achieve this, consider obtaining a SOC 1 report for the relevant control environments at the service organizations, and perform and document the following:
 - SOC 1 report is sufficiently scoped to cover transaction processing and related control activities performed by the service organizations on behalf of SBA.
 - 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 on a frequency determined by SBA and found operating effectively and, if they are not, assess 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 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 monitoring the status of awards.

Management did not obtain and review the SOC 1 report for the service provider in a timely manner as of fiscal year-end. Additionally, management did not provide evidence of adequate monitoring activities performed over the relevant internal control environment at the respective subservice organizations identified in the SOC 1 report for an earlier period in the fiscal year. Further, management did not provide evidence of adequate evaluation of the control exceptions identified in the SOC 1 report and the impact to SBA's internal controls over financial reporting. Management's assessment of internal controls over financial reporting is not complete

because it did not fully consider the existing and non-existing controls at relevant service and subservice organizations and the effectiveness of those controls.

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

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 described above prevented SBA from obtaining an understanding of relevant service organization controls and their operating effectiveness to identify all relevant control gaps and deficiencies that require a complementary user control to mitigate the risk of error to the Other than Intragovernmental Accounts Receivable, Net line item and related elements in the consolidated financial statements.

Recommendations – Service Organizations Used for the SVOG Program

We recommend the Administrator coordinate with the Associate Administrator for the Office of Disaster Recovery and Resilience to:

29. Continually evaluate the established policy for SOC 1 reports that requires 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 the SVOG program. If a SOC 1 report cannot be obtained, management should design, implement, and operate controls within SBA's control environment.
30. 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. To achieve this, consider obtaining a SOC 1 report for the relevant control environments at the service organizations, and perform and document the following:
 - SOC 1 report is sufficiently scoped to cover transaction processing and related control activities performed by the service organizations on behalf of SBA.
 - 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 on a frequency determined by SBA and found operating effectively and, if they are not, assess the impact of such deficiencies on SBA's internal controls over financial reporting.
 - All complementary subservice organization controls described in SOC 1 reports are evaluated to determine whether they provided services and performed controls considered relevant to SBA's internal controls over financial reporting and, if relevant subservice organizations were identified,

an evaluation is performed to obtain an understanding of the subservice organization(s) and their controls.

- SOC 1 reports cover the appropriate period or corresponding gap letters provide sufficient coverage to assess impacts on SBA's internal controls over financial reporting.

6. Entity Level Controls Need Improvement

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. The following conditions were identified.

A. Control Environment and Risk Assessment

Management did not establish an effective control environment and did not perform effective risk assessment processes. The following deficiencies were identified across the SBA:

- 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 COVID-19 EIDLs and PPP loan review processes were not designed to ensure the reviews performed were to a sufficient level of precision to ensure the related balances were free of material misstatement. Management implemented a policy in fiscal year 2022 to automatically charge-off non-performing COVID-19 EIDLs with an original loan balance of \$200,000 or less that do not have eligibility concerns without further review. However, management did not reassess this policy in fiscal year 2023 given relevant risks and materiality thresholds to ensure the review controls over COVID-19 EIDL charge-offs were operating effectively to a sufficient precision level.
- Management did not complete the planned risk assessments for material programs, including COVID-19 EIDLs, PPP, COVID-19 EIDL grants, and Debt Relief Program payments in fiscal year 2023.
- Management did not implement adequate risk assessment processes to identify, analyze, and respond to relevant risks. For example, management did not adequately respond to the increased risk of noncompliance due to the significant volume of COVID-19 EIDLs going into servicing phase beginning in fiscal year 2023.

B. Monitoring

Management did not design and implement effective monitoring processes. SBA did not have adequate or effective monitoring controls related to:

- PPP lenders.
- Internal control over processes performed by service organizations.
- RRF and SVOG program award recipients.
- The COVID-19 EIDLs portfolio to identify a complete and accurate population of loans disbursed to eligible recipients for financial reporting purposes as of fiscal year-end.

These deficiencies were caused by the prioritization of the continued execution and servicing of the CARES Act and related legislation programs over internal control processes and related remediation of prior year control deficiencies. In addition, these deficiencies were caused by the lack of dedicated staff to perform an adequate

risk assessment, appropriately remediate prior year control deficiencies, implement, and monitor the operating effectiveness of controls, and operationally service large-scale programs effectively.

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; Principle 16, Perform Monitoring Activities; Principle 17, Evaluate Issues and Remediate Deficiencies
- OMB Circular No. A-123, Management's Responsibility for Enterprise Risk Management and Internal Control

As a result of the deficiencies described above, we noted that without the proper level of entity level controls in place and operating effectively, there is an increased risk that a material misstatement in the consolidated financial statements, and noncompliance with the relevant laws and regulations would neither be prevented or detected and corrected in a timely manner.

Recommendations – Entity Level Controls Need Improvement

We recommend that the Administrator coordinate with the Acting Associate Administrator of the Office of Capital Access and the Associate Administrator of the Office of Disaster Recovery and Resilience to:

31. 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 including the consideration of whether controls are designed, implemented, and are operating at a sufficient precision level in accordance with management's materiality threshold and will be sufficient for financial reporting purposes.
32. Design, implement, and monitor the operating effectiveness of key controls that respond to significant risks of material misstatements and compliance with relevant laws and regulations.

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

33. 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. Also, assess the effectiveness of the key process level controls to respond to the identified risks in conjunction with relevant program offices.

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**
- 3. Controls over Subsequent Events Need Improvement**

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

The CARES Act and related legislation authorized the Debt Relief Program that allowed SBA to make payments on behalf of certain loans in the 7(a) and 504 loan guarantee programs and the Microloan program.

Management did not design and implement effective controls over the Debt Relief Program post payment review process. Management used a contractor to develop and perform a risk-based methodology to identify the payments for covered loans that may have a higher risk for overpayments and would require further review. However, management did not provide documentation evidencing adequate monitoring controls over the methodology produced by the contractor. Specifically, management did not provide evidence of an effective review over the accuracy of the inputs, appropriateness of significant assumptions, and the application of the methodology.

Further, management did not provide evidence of an effective review of the other alternative methodologies considered and a documented approved basis for the selected risk-based methodology. In addition, management did not provide documentation evidencing a risk assessment for the impact of the payments that were not considered, determined to be of lower risk, and the application of variance thresholds. Despite the high rate of false positive loan payments that were identified for review by the methodology, management did not provide documentation considering whether the applied methodology was still appropriate.

These deficiencies were caused by management's reliance on the contractor's work product without adequate monitoring controls. Also, management's lack of an adequate risk assessment process to identify and mitigate relevant risks and design appropriate controls to ensure an effective post payment review of payments for covered loans under the Debt Relief Program caused the deficiency identified above.

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

Recommendations – Payments for Covered Loans under the Debt Relief Program

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

34. Design and implement controls that demonstrate oversight over the contractor, including documentation that provides evidence over the adequate review and validation of the contractor's work product.
35. Perform and document a thorough risk assessment of the payments for covered loans under the Debt Relief Program, including the impact of payments not considered, determined to be of lower risk, for which a variance threshold was applied, and the appropriateness and sufficiency of the applied methodology given the results of the review.
36. Based on the results of the risk assessment performed, design and implement appropriate controls to ensure an effective post payment review of payments for covered loans under the Debt Relief Program.

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 7, Identify, Analyze, and Respond to Risks; Principle 10, Design Control Activities; Principle 11, Design Activities for the Information System; and Principle 12, Implement Control Activities
- 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 have adequate controls designed, implemented, and operating effectively for the timely removal of access to SBA systems for separated employees and contractors. In addition, management did not consistently implement recertification and authentication controls to the network and applications.

These deficiencies were caused by the lack of a policy defining an overall timeframe for the removal of access following separation, an improper reliance of separated personnel reports, lack of effective monitoring of job processing failures, lack of enforcement of authentication controls, and an inadequate risk assessment process to identify and mitigate the risk of inappropriate access.

The deficiencies described 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 Acting Chief Information Officer to:

37. Review and update current processes and procedures for defining a time period by which system access must be disabled or removed for separated individuals.
38. Develop procedures to validate that access for separated employees is removed in accordance with required timeframes.
39. Develop procedures to validate that access for separated contractors is removed in accordance with required timeframes.
40. Design, implement, and document controls for monitoring job failures to ensure complete and accurate reports are generated.
41. Design and implement multi-factor authentication controls for non-privileged users.
42. Implement monitoring controls to track compliance with the multi-factor authentication controls.

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

43. Design and implement controls to validate that access for separated employees is removed in accordance with required timeframes.
44. Develop, design, and implement controls for access recertification for accounts with administrative or privileged roles annually.
45. Perform a risk assessment and obtain an approved waiver in accordance with established policy of not updating authentication controls due to system limitations. Design and implement relevant compensatory controls if necessary.

System Configuration Management

The general ledger system was not properly configured to retain the actual preparer of a manually uploaded journal entry. Once the manually uploaded journal entry transaction is approved and posted, the transaction history is modified, and the preparer's name is replaced with a generic system name.

The deficiency was caused by an information system not designed to obtain and process information to meet each operational process' information requirements and respond to the entity's objectives and risks.

Without capturing auditable application system events, the risk increases that unauthorized or inappropriate access and actions could occur. Such actions could negatively affect the completeness, accuracy, and availability of the system and its data.

Recommendations – System Configuration Management

46. We recommend the Administrator coordinate with the Chief Financial Officer to make the necessary adjustments to system configurations to ensure a complete record of the journal entry process is maintained, including the actual user identification of the preparer, for all journal entry transactions.

3. Controls over Subsequent Events Need Improvement

Statement of Federal Financial Accounting Standards Number 39, Subsequent Events, establishes the accounting and financial reporting requirements for subsequent events. Subsequent events are events or transactions that affect the consolidated financial statements that occur after the end of the reporting period, but before the financial report is issued. Certain subsequent events require adjustments to amounts recognized in the consolidated financial statements and others may require disclosure.

Management did not have adequate controls designed and implemented to identify and determine whether significant subsequent events required disclosure in the consolidated financial statements in accordance with generally accepted accounting principles.

The deficiency was caused by the lack of an effective communication process between the Office of Performance, Planning, and the Chief Financial Officer and the Office of General Counsel. Also, management did not adequately consider the requirements of generally accepted accounting principles for the treatment of subsequent events.

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

- GAO's Green Book, Principle 4, Demonstrate Commitment to Competence; Principle 10, Design Control Activities; and Principle 14, Communicate Internally
- OMB Circular No. A-123, Management's Responsibility for Enterprise Risk Management and Internal Control

The deficiency described above may result in misstatements or omissions to the subsequent events disclosure in the consolidated financial statements.

Recommendations – Subsequent Events

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

47. Design and implement effective communication processes with other relevant offices, including the Office of General Counsel, to ensure subsequent events are timely identified and reported completely and accurately.
48. Improve training plans to ensure individuals responsible for financial reporting functions are adequately prepared to respond to the occurrence of events or transactions that may require financial reporting considerations, including subsequent events, under generally accepted accounting principles.

Appendix III**U.S. Small Business Administration****Compliance and Other Matters****A. Debt Collection Improvement Act of 1996, as amended (DCIA)**

Certain provisions of the DCIA require agencies to notify and refer debts that are delinquent by 120 days or more, for purposes of administrative offset and centralized collection, to the U.S. Department of Treasury (Treasury).

The SBA did not refer delinquent loans to the Treasury for collection within the required timeframe. Management identified and communicated that over one million COVID-EIDLs and 16,814 PPP loans were noncompliant with DCIA requirements for the fiscal year ended September 30, 2023.

In addition, management implemented a policy to end collection efforts on certain delinquent PPP loans and COVID-19 EIDLs and cease the referral of these loans to Treasury. However, management did not provide evidence that the policy was reassessed in fiscal year 2023 given the updated status of outstanding loans and relevant risks.

The conditions identified were caused by inadequate design and implementation of risk assessment and monitoring processes that enable management to identify, analyze, and respond to the relevant risks of noncompliance and to ensure delinquent loans were referred to Treasury within the required timeframe. Also, the SBA's operational infrastructure could not accommodate the volume of delinquent loans.

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

- DCIA
- GAO's Green Book, Principle 10, Design Control Activities; and Principle 13, Use Quality Information

As a result of delays and absence of referrals of delinquent borrowers and guarantors to Treasury, SBA did not comply with DCIA requirements. The absence of referrals of delinquent borrowers and guarantors to Treasury, based on the policy to end collections and cease referral to Treasury, increases the risk of additional instances of noncompliance with DCIA.

Recommendations – DCIA

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

49. Reassess existing policies to ensure they are supported by quality information stemming from an effective control environment that reviews the root causes of borrower delinquency prior to charge-off and referral to Treasury. Perform a regular review of the implemented policies to ensure they are responding to relevant risks of noncompliance for the current fiscal year.
50. Design, implement, and document appropriate monitoring controls to address compliance with DCIA.
51. Reevaluate the operational infrastructure to address relevant risks of noncompliance and ensure that borrowers are notified timely of delinquency, and if applicable, subsequently referred to Treasury timely.

B. 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:

- Perform, document, and demonstrate that they completed an internal control over financial reporting evaluation regarding significant programs while giving consideration to relevant risks during the fiscal year.
- 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.
- 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:

52. 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.
53. In conjunction with relevant program offices, perform and document the internal control evaluation for significant programs or processes affecting the financial statements. This should include entity level controls, manual controls, general information technology controls, and system application controls covering key financial statement line items and risks.
54. 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.

C. 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:

- 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, do not ensure compliance objectives are met, and do not ensure budgetary resources are safeguarded against waste, loss, and misuse.
- Federal Accounting Standards. The deficiencies identified and reported in Appendix I – Material Weaknesses, provide an indication that SBA’s financial management systems were substantially noncompliant with applicable federal accounting standards. Specifically, management was unable to provide evidence that the accounting treatment and financial reporting of the recovery of funds related to the RRF, SVOG, COVID-19 EIDLs, and PPP programs were in accordance with U.S. generally accepted accounting principles.

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.

Recommendations – FFMIA

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

55. 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 Recovery and Resilience to implement the recommendations in Appendix I – Material Weaknesses.

CFO Response to Draft Audit Report on FY 2023 Financial Statements


Appendix IV



CFO Response to Audit Report on FY 2023 Financial Statements

DATE: November 15, 2023

TO: Hannibal M. Ware, Inspector General

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


SUBJECT: FY 2023 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 2023 and FY 2022 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 2023 Agency Financial Report includes pandemic relief programs: the Paycheck Protection Program, COVID-19 Economic Injury Disaster Loan program, Restaurant Revitalization Fund program, and Shuttered Venues Operators Grant program, which were authorized by the Coronavirus Aid, Relief, and Economic Security Act of 2020, the Economic Aid Act, the American Rescue Plan Act and related legislations. As in FY 2022, the management 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's Fraud Risk Management Board (FRMB) mitigates, manages, and monitors fraud risks aligned with GAO's Fraud Risk Management Framework. The FRMB is chaired by the CFO and members include Deputy Associate Administrators of key Program Offices, who are supported by an Advisory Team of SBA leaders with subject matter expertise across cyber security, data, systems, learning and development, and more. 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 2022, the auditors identified material weaknesses related to the internal controls over six areas; PPP Loan Guarantees, COVID-19 EIDL Loans, Restaurant Revitalization Fund and Shuttered Venues Operators Grant Program, Financial Reporting for Programs Funded by CARES Act and Related Legislation, 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 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 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

As of September 30, 2023 and 2022

(Dollars in Thousands)

	2023	2022
ASSETS		
Intragovernmental		
Fund Balance with Treasury (Note 2)	\$ 44,081,291	\$ 56,225,809
Advances and Prepayments	6,303	1,458
Total Intragovernmental	44,087,594	56,227,267
Other than Intragovernmental		
Cash and Other Monetary Assets (Note 3)	10,460	2,270
Accounts Receivable, Net (Note 5)	165,487	135,629
Loans Receivables, Net:		
Credit Program Receivables and Related Foreclosed Property, Net (Note 6)	271,944,994	321,528,158
General Property, Plant and Equipment, Net (Note 7)	103,995	100,717
Advances and Prepayments	16,054	18,324
Total Other than Intragovernmental	272,240,990	321,785,098
Total Assets	\$ 316,328,584	\$ 378,012,365
LIABILITIES		
Intragovernmental		
Accounts Payable:		
Accounts Payable, Capital Transfers:		
Net Assets of Liquidating Funds Due to Treasury (Note 10)	\$ 10,960	\$ 7,056
Accounts Payable	3,938	5,725
Debt:		
Interest Payable – Loans and Other Funds (Note 9)	69	251
Loans Payable:		
Principal Payable to the Bureau of the Fiscal Service (Note 9)	334,320,210	362,801,468
Advances from Others and Deferred Revenue	2,427	2,271
Other Liabilities:		
Benefit Program Contributions Payable	15,068	18,485
Liability to the General Fund of the U.S. Government for Other Non-Entity Assets:		
Downward Reestimate Payable to Treasury (Note 13)	2,724,486	5,591,451
Other (Note 11)	2,955	2,123
Total Intragovernmental	337,080,113	368,428,830
Other than Intragovernmental		
Accounts Payable	539,791	556,306
Federal Employee Benefits Payable	74,276	69,963
Loan Guarantee Liabilities (Note 6)	7,895,498	25,708,234
Other Liabilities:		
Accrued Grant Liability	248,158	197,716
Surety Bond Guarantee Program Future Claims (Note 8)	68,655	62,635
Other (Note 11)	129,391	99,919
Total Other than Intragovernmental	8,955,769	26,694,773
Total Liabilities	346,035,882	395,123,603
NET POSITION		
Unexpended Appropriations – Funds from Other Than Dedicated Collections	3,723,550	10,558,338
Cumulative Results of Operations – Funds from Other Than Dedicated Collections	(33,430,848)	(27,669,576)
Total Net Position	(29,707,298)	(17,111,238)
Total Liabilities and Net Position	\$ 316,328,584	\$ 378,012,365

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, 2023 and 2022

(Dollars in Thousands)

	2023	2022
STRATEGIC GOAL 1:		
Ensure Equitable and Customer-Centric Design and Delivery of Programs to Support Small Businesses and Innovative Startups		
Gross Cost	\$ 1,033,792	\$ (663,444)
Less: Earned Revenue	234,652	389,057
Net Cost of Strategic Goal 1	799,140	(1,052,501)
STRATEGIC GOAL 2:		
Build Resilient Businesses and a Sustainable Economy		
Gross Cost	40,040,060	53,026,265
Less: Earned Revenue	5,919,285	5,148,428
Net Cost of Strategic Goal 2	34,120,775	47,877,837
STRATEGIC GOAL 3:		
Implement Strong Stewardship of Resources for Greater Impact		
Gross Cost	169,534	150,014
Net Cost of Strategic Goal 3	169,534	150,014
COST NOT ASSIGNED TO STRATEGIC GOALS		
Gross Cost	233,137	121,599
Net Cost Not Assigned to Strategic Goals	233,137	121,599
Net Cost of Operations	\$ 35,322,586	\$ 47,096,949

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, 2023 and 2022

(Dollars in Thousands)

	2023	2022
Funds from other than Dedicated Collections		
Unexpended Appropriations:		
Beginning Balance	\$ 10,558,338	\$ 69,132,143
Appropriations Received	30,739,480	12,693,825
Other Adjustments:		
Rescissions	(5,867,516)	(35,467,645)
Adjustment – Cancelled Authority	(15,088)	(17,235)
Return of Unrequired Liquidating Fund Appropriation	(597)	(490)
Other Adjustments	(104)	(151)
Appropriations Used	<u>(31,690,963)</u>	<u>(35,782,109)</u>
Total Unexpended Appropriations	<u>\$ 3,723,550</u>	<u>\$ 10,558,338</u>
Cumulative Results of Operations:		
Beginning Balance	\$ (27,669,576)	\$ (10,253,525)
Other Adjustments:		
Current Year Liquidating Equity Activity	(5,932)	(460)
Appropriations Used	31,690,963	35,782,109
Donations of Cash and Cash Equivalents	-	506
Transfers In/Out Without Reimbursement	-	10,115
Imputed Financing	38,595	44,092
Other:		
Non-entity Activity	<u>(2,162,312)</u>	<u>(6,155,464)</u>
Net Cost of Operations	<u>35,322,586</u>	<u>47,096,949</u>
Net Change in Cumulative Results of Operations	<u>(5,761,272)</u>	<u>(17,416,051)</u>
Total Cumulative Results of Operations	<u>\$ (33,430,848)</u>	<u>\$ (27,669,576)</u>
Ending Net Position	<u>\$ (29,707,298)</u>	<u>\$ (17,111,238)</u>

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, 2023 and 2022

(Dollars in Thousands)

	September 30, 2023		
	Budgetary	Nonbudgetary Financing	Total
BUDGETARY RESOURCES			
Unobligated Balance from Prior Year Budget Authority, Net (discretionary and mandatory)	\$ 10,514,312	\$ 44,320,084	\$ 54,834,396
Appropriations (discretionary and mandatory)	24,899,206	-	24,899,206
Borrowing Authority (discretionary and mandatory)	-	5,903,912	5,903,912
Spending Authority from Offsetting Collections	1,246,101	20,270,103	21,516,204
Total Budgetary Resources	\$ 36,659,619	\$ 70,494,099	\$ 107,153,718
STATUS OF BUDGETARY RESOURCES			
New Obligations and Upward Adjustments (total)	\$ 32,264,241	\$ 32,336,647	\$ 64,600,888
Unobligated Balance, end of year:			
Apportioned, unexpired accounts	1,658,289	14,681,439	16,339,728
Unapportioned, unexpired accounts	327,684	23,476,013	23,803,697
Unexpired Unobligated Balance, end of year	1,985,973	38,157,452	40,143,425
Expired Unobligated Balance, end of year	2,409,405	-	2,409,405
Total Unobligated Balance, end of year	4,395,378	38,157,452	42,552,830
Total Status of Budgetary Resources	\$ 36,659,619	\$ 70,494,099	\$ 107,153,718
OUTLAYS, NET and DISBURSEMENTS, NET			
Net Outlays (discretionary and mandatory)	\$ 31,040,175		\$ 31,040,175
Distributed Offsetting Receipts	(5,047,035)		(5,047,035)
Agency Outlays, Net (discretionary and mandatory)	\$ 25,993,140		\$ 25,993,140
Disbursements, Net (total) (mandatory)		\$ (22,583,469)	

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, 2023 and 2022

(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
Total Unobligated Balance, end of year	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.



NOTE 1 Significant Accounting Policies

REPORTING ENTITY

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

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

BASIS OF ACCOUNTING AND PRESENTATION

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

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

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

USE OF ESTIMATES

SBA's management makes assumptions and uses estimates to prepare the financial statements based upon the facts that exist when the statements are prepared. The SBA also uses economic assumptions provided by the Office of Management and Budget in preparing the estimates. Actual results may differ from those assumptions and estimates. The most significant differences between actual results and these estimates may occur in the valuation of credit program receivables and liabilities for loan guaranties under guidelines in FCRA. The SBA recognizes the sensitivity of credit reform modeling to slight changes in some model assumptions and therefore continually reviews its model factors and statistical modeling techniques to reflect the most accurate credit program costs possible in its annual financial statements.



BUDGETS AND BUDGETARY ACCOUNTING FOR LOAN PROGRAMS

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

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

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

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

ADVANCES

Advances are cash outlays made by a Federal entity to its employees, contractors, grantees, or others to cover a part or all of the recipients' anticipated expenses or as advance payments for the costs of goods and services the entity receives. Prepayments are payments made by a Federal entity to cover certain periodic expenses before those expenses are incurred. The SBA has both intragovernmental advances and advances to the public. Intragovernmental advances are primarily to the Interior Business Center of the Department of the Interior for contracting assistance on work not yet performed. Advances to the public represent prepaid grants to counseling and training partners.

ACCOUNTS PAYABLE

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

ACCRUED GRANT LIABILITY

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

CONTINGENCIES

The SBA is a party in various administrative proceedings, legal activities, environmental suits, and claims brought against the Agency. In the opinion of SBA's management and legal counsel, there are certain matters regarding subsequent legal claims for which a clear evaluation of the likelihood of an unfavorable outcome cannot be determined as of the date of this financial report. See Note 18, Subsequent Events for further details. The resolution of all other legal proceedings, actions, suits, and claims will not materially affect the financial position or results of SBA's operations.

CUMULATIVE RESULTS OF OPERATIONS

The Cumulative Results of Operations, presented on the Balance Sheet and on the Statement of Changes in Net Position, is the accumulated difference between expenses and financing sources since the inception of the Agency. The amounts reported reflect timing differences between the recording of expenses and the recognition of resources. Most of this timing difference results from subsidy reestimates which are funded in the following year. The SBA does not have funds from dedicated collections.

UNEXPENDED APPROPRIATIONS

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

CLASSIFIED ACTIVITIES

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

FIDUCIARY ACTIVITIES

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

EMPLOYEE BENEFITS

Leave

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



Employee Health and Life Insurance Benefits

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

Employee Pension Benefits

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

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

Imputed Financing Costs

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

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

Federal Employees' Compensation Act

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

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

NOTE 2 Fund Balance with Treasury

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

FBWT is an asset to the SBA 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,	2023	2022
Appropriated Funds	\$ 5,833,607	\$ 12,101,171
Financing Funds	38,060,348	43,958,137
Liquidating Funds	344	549
Revolving Funds	113,918	110,492
Trust Fund	552	671
Total Entity Fund Balance with Treasury	44,008,769	56,171,020
Budget Clearing Account Balance	72,522	54,789
Total Fund Balance with Treasury	\$ 44,081,291	\$ 56,225,809
Status of Fund Balance with Treasury		
Apportioned, unexpired accounts	\$ 16,339,728	\$ 13,919,268
Unapportioned, unexpired accounts	23,803,697	28,188,089
Obligated Balance Not Yet Disbursed	2,421,001	14,906,099
Expired Unobligated Balance	2,409,405	2,309,973
Borrowing Authority Not Converted to Funds	(965,062)	(3,152,409)
Nonbudgetary	72,522	54,789
Total Fund Balance with Treasury	\$ 44,081,291	\$ 56,225,809

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

NOTE 3 Cash

The SBA field offices deposit collections from borrowers in SBA's account at the Treasury using an electronic deposit system. At the end of the fiscal year, collections temporarily held by SBA field offices pending deposit are recorded as Undeposited Collections – Cash in Transit and totaled \$10.5 million and \$2.3 million as of September 30, 2023 and 2022.

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

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

The Master Reserve Fund is a fiduciary activity administered by SBA's 7(a) Fiscal Transfer Agent. 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) guaranteed loans that are purchased by secondary market investors. The MRF receives monthly payments from SBA guaranteed borrowers and disburses monthly to 7(a) secondary market pool investors based on a schedule of amounts due. The 7(a) secondary market program includes SBA's guaranty of timely payment, as well as a default guaranty, to 7(a) secondary market investors. The MRF supports \$38.1 billion and \$38.0 billion of outstanding SBA guaranteed 7(a) secondary market pool principal as of September 30, 2023 and 2022.

The Master Reserve Account is a fiduciary activity administered by SBA's 504 Central Servicing Agent. The balance in the MRA is invested entirely in Treasury securities. The MRA facilitates the operation of the 504 Certified Development Company secondary market program. The MRA was authorized by Section 505 of the Small Business Investment Act of 1958 as amended, as a vehicle to receive, temporarily hold, and distribute 504 program cash flows. The MRA receives monthly payments from 504 borrowers and retains the payments until a semi-annual debenture payment is due to secondary market investors. The 504 secondary market program includes SBA's guaranty of timely payment, as well as a default guaranty, to 504 secondary market investors. The MRA supports \$36.1 billion and \$32.7 billion of SBA guaranteed 504 debentures outstanding in the secondary market as of September 30, 2023 and 2022.

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

MASTER RESERVE FUND AND MASTER RESERVE ACCOUNT

(Dollars in Thousands)

FIDUCIARY ASSETS As of September 30,	2023			2022		
	MRF	MRA	Total	MRF	MRA	Total
Short Term Securities						
Money Market Funds	\$ 480,960	\$ 584,118	\$ 1,065,078	\$ 501,161	\$ 780,155	\$ 1,281,316
Treasury Bills	221,905	-	221,905	661,816	-	661,816
Total Cash and Short Term Securities	702,865	584,118	1,286,983	1,162,977	780,155	1,943,132
Long Term Securities						
Treasury Notes/Bonds Including Interest	1,191,086	-	1,191,086	875,912	-	875,912
Total Long Term Securities	1,191,086	-	1,191,086	875,912	-	875,912
Net Assets	\$ 1,893,951	\$ 584,118	\$ 2,478,069	\$ 2,038,889	\$ 780,155	\$ 2,819,044

(Dollars in Thousands)

RECONCILIATION OF FIDUCIARY ASSETS For the Years Ended September 30,	2023			2022		
	MRF	MRA	Total	MRF	MRA	Total
Beginning Net Assets	\$ 2,038,889	\$ 780,155	\$ 2,819,044	\$ 2,093,543	\$ 878,654	\$ 2,972,197
Receipts						
Earned Income	63,935	36,937	100,872	25,862	5,393	31,255
Contributions	11,312,538	13,238,008	24,550,546	10,657,949	18,754,704	29,412,653
Total Receipts	11,376,473	13,274,945	24,651,418	10,683,811	18,760,097	29,443,908
Less Disbursements						
Payments to Investors	11,521,411	13,470,982	24,992,393	10,738,465	18,858,596	29,597,061
Total Disbursements	11,521,411	13,470,982	24,992,393	10,738,465	18,858,596	29,597,061
Ending Net Assets	\$ 1,893,951	\$ 584,118	\$ 2,478,069	\$ 2,038,889	\$ 780,155	\$ 2,819,044

The SBA has four accounts that belong to the 7(a) loan program and are non-MRF in nature. Two of the four non-MRF accounts are fiduciary in nature (7a Escrow & 7a Disbursement). The balances of the two fiduciary accounts are \$151.0 million and \$264.9 million as of September 30, 2023 and September 30, 2022. 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 SBA's loan and surety bond programs, refunds due from employees and others, as well as other amounts owed by lenders for guaranteed loan purchases that lack the required documents. An Allowance for Loss on uncollectible Surety Bond Guaranty fees is based on an aging of delinquent balances. The uncollectible amount for refunds and loan guaranty fees is not significant and no allowance is provided. Amounts over 180 days past due on guaranteed loans purchased by the SBA are written off for financial reporting purposes. The amount shown in "Other" consists primarily of receivables due from lenders and guaranty purchase repairs.

(Dollars in Thousands)

As of September 30,	2023	2022
Other than Intragovernmental		
Guaranty Fees Receivable	\$ 75,764	\$ 67,913
Refunds	1,891	3,093
Other	88,990	65,795
Total Other than Intragovernmental	166,645	136,801
Allowance For Loss	(1,158)	(1,172)
Net Other than Intragovernmental	\$ 165,487	\$ 135,629

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



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 offered low-interest Economic Injury Disaster Loans for working capital to small businesses suffering substantial economic injury as a result of the COVID-19 pandemic. The intent of the COVID-19 EIDL loans was to assist these businesses in meeting financial obligations and covering operating expenses due to the pandemic. The interest rate was 3.75 percent for small businesses and 2.75 percent for non-profits. The SBA stopped accepting new loan applications on January 1, 2022.

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

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

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

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

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



Subsidy Funding under the Federal Credit Reform Act

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

Credit Program Receivables and Related Foreclosed Property, Net

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

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

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

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

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

Foreclosed property is comprised of real and personal property acquired through foreclosure on direct loans and defaulted loan guaranties. Properties acquired as a result of defaulted loans committed after FY 1991 are shown at recoverable value, which is adjusted to the present value of expected future cash flows for financial statement presentation through the allowance for subsidy. Other foreclosed property is shown at the appraised value. At September 30, 2023 SBA's foreclosed property was \$27.8 million related to 71 loans. The properties had been held for an average of 1,594 days. At September 30, 2022 foreclosed property was \$26.2 million related to 57 loans. The properties had been held for an average of 1,761 days.

Valuation Methodology for the Liability for Loan Guaranties under FCRA

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

Valuation Methodology for Pre-FCRA Liability for Loan Guaranties

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



B. CREDIT PROGRAM RECEIVABLES AND RELATED FORECLOSED PROPERTY, NET

(Dollars in Thousands)

As of September 30, 2023	Pre-1992 Loans	Post-1991 Loans	Total
Direct Business Loans			
Business Loans Receivable	\$ 753	\$ 232,732	\$ 233,485
Interest Receivable	-	1,000	1,000
Foreclosed Property	2,620	-	2,620
Allowance	(3,373)	(20,362)	(23,735)
Total Direct Business Loans	-	213,370	213,370
Direct Disaster Loans			
Disaster Loans Receivable	204	311,320,821	311,321,025
Interest Receivable	308	13,257,040	13,257,348
Foreclosed Property	-	4,160	4,160
Allowance	(70)	(53,947,589)	(53,947,659)
Total Direct Disaster Loans	442	270,634,432	270,634,874
Defaulted Guaranteed Business Loans & Other Loans Receivable			
Defaulted Guaranteed Business Loans	448	3,492,648	3,493,096
Other Loans Receivable (see note below)	-	59,438	59,438
Interest Receivable	-	28,191	28,191
Foreclosed Property	1,263	19,742	21,005
Allowance	(1,711)	(2,503,269)	(2,504,980)
Total Defaulted Guaranteed Business Loans & Other Loans Receivable	-	1,096,750	1,096,750
Total Credit Program Receivables & Related Foreclosed Property, Net			\$ 271,944,994



B. CREDIT PROGRAM RECEIVABLES AND RELATED FORECLOSED PROPERTY, NET CONTINUED*(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 Guaranteed Business Loans & Other Loans Receivable			
Defaulted Guaranteed 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 Guaranteed Business Loans & Other Loans Receivable	1,457	1,007,745	1,009,202
Total Credit Program Receivables & Related Foreclosed Property, Net			\$ 321,528,158

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,	2023	2022
Business Direct Loan Program	\$ 48,772	\$ 42,950
Disaster Loan Program	2,097,897	127,261,347
Total Direct Loans Disbursed	\$ 2,146,669	\$ 127,304,297
Outstanding Loan Obligations as of September 30,	2023	2022
Business Direct Loan Program	\$ 48,372	\$ 47,145
Disaster Loan Program	896,097	13,128,963
Total Direct Loan Obligations	\$ 944,469	\$ 13,176,108
GUARANTIED LOANS		
New Loans Disbursed During the Year Ended September 30,	2023	2022
Total Principal Disbursed at Face Value	\$ 33,410,769	\$ 38,855,280
Total Principal Disbursed Guaranteed by the SBA	26,958,798	32,578,412
Outstanding Loan Obligations as of September 30,	2023	2022
Business Guaranteed Loan Programs	\$ 22,600,122	\$ 22,416,143
Loans Outstanding as of September 30,	2023	2022
Total Principal Outstanding at Face Value	\$ 165,520,099	\$ 187,900,729
Total Principal Outstanding Guaranteed by the SBA	140,270,131	163,785,929

Note: Total guaranteed 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. Process changes implemented in FY 2023 to reduce guaranteed balances after forgiveness is remitted by SBA, have reduced the impact of the lender reporting lag. Total guaranteed balances also include 504 guaranteed debenture balances which have not been reduced by recent semi-annual scheduled principal payments.



D. SUBSIDY COST ALLOWANCE BALANCES

(Dollars in Thousands)

For the Years Ended September 30,	2023	2022
Post-1991 Business Direct and Purchased Guaranteed Loans		
Beginning Balance of Allowance Account	\$ 2,362,578	\$ 2,290,475
Current Year's Subsidy (see 6.G for breakdown by component)	3,650	3,607
Loans Written Off	(11,227,347)	(5,419,939)
Subsidy Amortization	(2,102)	(3,040)
Allowance Related to Guaranteed Loans Purchased This Year	10,237,161	5,342,638
Miscellaneous Recoveries and Costs	1,157,900	152,182
Balance of Subsidy Allowance Account before Reestimates	2,531,840	2,365,923
Reestimates	(8,209)	(3,345)
Ending Balance of Allowance Account	\$ 2,523,631	\$ 2,362,578
Post-1991 Disaster Direct Loans		
Beginning Balance of Allowance Account	\$ 61,462,708	\$ 12,633,871
Current Year's Subsidy (see 6.G for breakdown by component)	251,139	14,756,882
Loan Modification	57,961	172,204
Loans Written Off	(49,728,611)	(366,244)
Subsidy Amortization	6,544,909	6,126,803
Miscellaneous Recoveries and Costs	1,291,687	66,877
Balance of Subsidy Allowance Account before Reestimates	19,879,793	33,390,393
Reestimates	34,067,796	28,072,315
Ending Balance of Allowance Account	\$ 53,947,589	\$ 61,462,708



E. LIABILITY FOR LOAN GUARANTIES

(Dollars in Thousands)

For the Years Ended September 30,	2023	2022
Post-1991 Business Loan Guaranties		
Beginning Balance of Liability for Loan Guaranties	\$ 25,708,234	\$ 227,831,513
Claim Payments to Lenders/Guarantee Payments	(12,223,993)	(6,023,484)
Fees	1,244,154	1,474,784
Interest Supplements Paid	(307,695)	(1,939,216)
Interest Revenue on Uninvested Funds	113,905	275,218
Interest Expense on Entity Borrowings	(62,886)	(62,693)
Current Year's Subsidy (see 6.G for breakdown by component)	72,371	183,871
Upward Reestimates	408,676	32,540
Downward Reestimates	(1,611,710)	(5,230,089)
Adjustment Due to Reestimate & Guaranteed Loan Purchases	1,986,832	680,846
Miscellaneous Recoveries and Costs	(7,432,390)	(191,515,056)
Total Ending Balance of Liability for Loan Guaranties	\$ 7,895,498	\$ 25,708,234

F. 2023 SUBSIDY RATES BY PROGRAM AND COMPONENT

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.

Loan Program	Total Subsidy	Financing	Default	Other	Fee
Guaranty					
7(a)	0.00%	0.00%	4.07%	0.00%	-4.07%
504 CDC	0.00%	0.00%	5.00%	0.50%	-5.50%
504 Refi	0.00%	0.00%	5.11%	0.50%	-5.61%
SBIC Debentures	0.00%	0.00%	3.35%	0.03%	-3.38%
Direct					
Disaster	12.91%	1.66%	11.57%	-0.32%	0.00%
Microloan	8.18%	6.31%	2.25%	-0.38%	0.00%

G. SUBSIDY EXPENSE BY COMPONENT

(Dollars in Thousands)

For the Years Ended September 30,	2023	2022
Business Loan Guaranties		
Defaults	\$ 108,675	\$ 822,338
Fees	(41,895)	(203,611)
Other	5,591	(434,856)
Subsidy Expense Before Reestimates and Loan Modifications	<u>72,371</u>	<u>183,871</u>
Components of Subsidy Reestimates		
Technical Assumptions/Default Reestimates	(1,177,584)	(5,220,762)
Interest Rate Reestimates	(25,450)	23,213
Total of the above Components of Subsidy Reestimates	<u>(1,203,034)</u>	<u>(5,197,549)</u>
Total Guaranteed Business Loan Subsidy Expense	<u>\$ (1,130,663)</u>	<u>\$ (5,013,678)</u>
Business Direct Loans		
Interest	\$ 2,661	\$ 2,768
Defaults	1,161	992
Other	(172)	(153)
Subsidy Expense Before Reestimates and Loan Modifications	<u>3,650</u>	<u>3,607</u>
Components of Subsidy Reestimates		
Technical Assumptions/Default Reestimates	(7,301)	(3,251)
Interest Rate Reestimates	(908)	(94)
Total of the above Components of Subsidy Reestimates	<u>(8,209)</u>	<u>(3,345)</u>
Total Business Direct Loan Subsidy Expense	<u>\$ (4,559)</u>	<u>\$ 262</u>
Disaster Direct Loans		
Interest	\$ (229,722)	\$ (41,045,330)
Defaults	411,396	42,808,837
Other	69,465	12,993,375
Subsidy Expense Before Reestimates and Loan Modifications	<u>251,139</u>	<u>14,756,882</u>
Loan Modifications	57,961	172,204
Components of Subsidy Reestimates		
Technical Assumptions/Default Reestimates	30,167,468	18,558,485
Interest Rate Reestimates	3,900,328	9,513,830
Total of the above Components of Subsidy Reestimates	<u>34,067,796</u>	<u>28,072,315</u>
Total Disaster Direct Loan Subsidy Expense	<u>\$ 34,376,896</u>	<u>\$ 43,001,401</u>

Note: For new Disaster loans approved in FY 2023, loan modifications were required to waive interest during the first year and extend the due date for the first required payment to 12 months. Loan modifications were also required to increase home Disaster loan limits. In FY 2022, loan modifications were required to extend Disaster COVID-19 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,	2023	2022
Disaster Direct Loan Programs	\$ 1,014,570	\$ 617,843
Business Loan Programs	165,718	163,539
Total Administrative Expense	\$ 1,180,288	\$ 781,382

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 of future economic conditions, and enhancements to cash-flow projection methods. Financial statement reestimates were performed using a full year of performance data for FY 2023 for SBA's large loan programs, with nine months of actual and three months of projected performance data for the Secondary Market Guarantee, Microloan, and the small loan programs.

Business Guaranteed Loan Programs

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

(Dollars in Thousands)

For the Years Ended September 30,	2023	2022
7(a)	\$ 197,242	\$ (1,043,011)
7(a) – Recovery Act	(5,262)	(5,498)
7(a) – Jobs Act	100	(2,716)
7(a) – COVID Support	(41,981)	(694,093)
504 CDC	(216,797)	(266,964)
504 CDC – Recovery Act	(4,573)	(4,885)
504 CDC – Jobs Act	(993)	(1,593)
504 CDC – COVID Support	(30,695)	(76,577)
504 CDC – Debt Refinancing	(4,018)	(11,706)
504 CDC – Debt Refinancing – COVID Support	(2,918)	(18,802)
504 First Mortgage Loan Pooling – Recovery Act	(4,239)	(1,129)
SBIC Debentures	108,228	(200,001)
SBIC Participating Securities	10,475	(10,505)
Secondary Market Guaranty Program	(18,237)	(130,803)
Paycheck Protection Program	(1,186,597)	(2,728,162)
ARC – Recovery Act	(266)	(334)
All Other Guaranty Loan Programs	(2,503)	(770)
Total Guaranteed Loan Program Subsidy Reestimates	\$ (1,203,034)	\$ (5,197,549)



The 7(a) Loan Guaranty program, SBA's flagship program, had a net upward reestimate of \$197.2 million in FY 2023. The reestimate is mostly concentrated in the 2022 and 2023 cohorts and is in part due to higher purchases in FY 2023 than previously projected for these cohorts. The reestimate for these cohorts is also in part due to higher projected losses, due to higher unemployment rate and Prime rate projections than previously projected. The reestimate is also in part due to lower secondary market premium income for 2023 cohort loans than previously projected.

The 7(a) Recovery Act program had a net downward reestimate of \$5.3 million. The reestimate is mostly due to better than expected recoveries in FY 2023.

The 7(a) Jobs Act cohort had a net upward reestimate of \$0.1 million. Several factors had small and offsetting impacts that result in the relatively small reestimate.

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 guarantee and upfront and ongoing fee waivers for eligible borrowers and additional debt relief support. The 7(a) COVID Support program had a net downward reestimate of \$42.0 million. The reestimate is in part due to better than projected actual loan performance in FY 2023.

The 504 Certified Development Company program had a net downward reestimate of \$216.8 million. The reestimate is mostly due to better than expected loan performance in FY 2023 contributing to a downward reestimate in all but one cohort. Aggregate purchases were lower than projected, and recoveries were higher than projected by the prior year model.

The 504 Recovery Act program had a net downward reestimate of \$4.6 million. The reestimate is mostly due to better than expected loan performance in FY 2023.

The 504 Jobs Act program had a net downward reestimate of \$1.0 million. The reestimate is mostly due to better than expected loan performance in FY 2023.

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 \$30.7 million. The reestimate is mostly due to better than expected loan performance in FY 2023. Aggregate purchases were lower than projected by the prior year model.

The 504 Debt Refinancing program had a net downward reestimate of \$4.0 million. The reestimate is mostly due to better than expected loan performance in FY 2023 contributing to a downward reestimate in most of the cohorts except for 2021 and 2023. Aggregate purchases were lower than projected, and recoveries were higher than projected by the prior year model.

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 504 Debt Refinance COVID support program had a net downward reestimate of \$2.9 million. The reestimate is in part due to better projected loan performance in FY 2023. The reestimate is also in part due to lower than projected disbursements for the 2021 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 \$4.2 million. The reestimate is mostly due to higher than projected recoveries, and lower than projected purchases in FY 2023.

The SBIC Debentures program had a net upward reestimate of \$108.2 million. The reestimate is mostly due to higher projected purchases due to updates to performance assumptions and updated economic forecasts. The reestimate is also in part due to lower than projected recoveries in FY 2023.

The SBIC Participating Securities program had a net upward reestimate of \$10.5 million. The reestimate is mostly due to lower cash inflows, in the form of profit participation and other inflows, than projected by the prior year model, namely for the 2001-2004 cohorts.

The Secondary Market Guaranty program had a net downward reestimate of \$18.2 million. The reestimate is primarily driven by higher than projected prepayments and updated economic assumptions which resulted in higher expected investment earnings, both of which contributed to lowering long term expected cash outflows.

The Paycheck Protection Program (PPP) had a downward reestimate of \$1,186.6 million in FY 2023. The reestimate is mostly due to lower net outflows, aggregate of forgiveness payments and guarantee purchases, processed in FY 2023 than anticipated for both the 2020 and 2021 cohorts. The reestimate is also in part due to higher net recoveries in FY 2023 than anticipated. The gap in actual and expected cash flows in FY 2023 was partially offset by a higher lifetime expected default rate for the 2021 cohort.

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 2023.

All Other Guaranty Loan programs includes the SBIC New Market Venture Capital program that had a net downward reestimate of \$2.6 million. The reestimate is due to higher than projected recoveries in FY 2023.

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,	2023	2022
7(m) Microloan	\$ (8,180)	\$ (3,207)
7(m) Microloan - Recovery Act	(7)	-
Intermediary Lending Pilot Program	(10)	(134)
All Other Direct Loan Programs	(12)	(4)
Total Direct Loan Program Subsidy Reestimates	\$ (8,209)	\$ (3,345)

The 7(m) Direct Microloan program had a net downward reestimate of \$8.2 million. The reestimate is primarily due to aggregate actual defaults being lower than projected in FY 2023. In addition, higher borrower interest rates for 2022 and 2023 cohort loans relative to the originally estimated rates contribute to the downward reestimate.

The Intermediary Lending Pilot and 7(m) Direct Microloan Recovery Act programs each had a downward reestimate of \$0.01 million. The reestimate is mostly due to minor differences in actual FY 2023 inflows relative to prior year projections.

All Other Direct Loan programs includes the Economic Opportunity Loan program that had a net downward reestimate of \$0.01 million. The reestimate is mostly due to minor differences in actual FY 2023 inflows relative to prior year projections.

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,	2023	2022
Disaster	\$ 34,067,796	\$ 28,072,315
Total Disaster Direct Loan Program Subsidy Reestimates	\$ 34,067,796	\$ 28,072,315

The Disaster Assistance program had a net upward reestimate of \$34,067.8 million. The upward reestimate is primarily due to higher than projected charge offs of COVID-19 EIDL loans in FY 2023, the first year of required repayment for many COVID-19 EIDL borrowers. The higher than projected charge offs also contributed to updated performance assumptions which resulted in downward revisions to future cash collections from outstanding COVID-19 EIDL loans.

J. LOANS RECEIVABLE

Business Direct

(Dollars in Thousands)

As of September 30, 2023	Pre-1992 Loans	Post-1991 Loans	Total
Loans Receivable Direct, Net, beginning of year	\$ 2,955	\$ 196,956	\$ 199,911
Loans Disbursed	-	48,772	48,772
Principal & Interest Payments Received	998	(39,592)	(38,594)
Foreclosed Property	11	-	11
Loans Written Off	-	(19)	(19)
Interest Revenue on Uninvested Funds	-	(1,181)	(1,181)
Interest Expense on Entity Borrowings	-	4,474	4,474
Subsidy Expense	-	(3,650)	(3,650)
Upward Reestimates	-	(953)	(953)
Downward Reestimates	-	9,162	9,162
Subsidy Allowance	-	(1,193)	(1,193)
Other	(3,964)	594	(3,370)
Loans Receivable Direct, Net, end of year	\$ -	\$ 213,370	\$ 213,370



Disaster Direct

(Dollars in Thousands)

As of September 30, 2023	Pre-1992 Loans	Post-1991 Loans	Total
Loans Receivable Disaster, Net, beginning of year	\$ 319	\$ 320,318,726	\$ 320,319,045
Loans Disbursed	-	2,097,897	2,097,897
Principal & Interest Payments Received	(63)	(3,576,632)	(3,576,695)
Foreclosed Property	-	2,224	2,224
Loans Written Off	-	(49,728,611)	(49,728,611)
Interest Revenue on Uninvested Funds	-	(879,147)	(879,147)
Interest Expense on Entity Borrowings	-	5,919,111	5,919,111
Loan Modification	-	(57,961)	(57,961)
Subsidy Expense	-	(251,139)	(251,139)
Upward Reestimates	-	(34,530,798)	(34,530,798)
Downward Reestimates	-	463,003	463,003
Subsidy Allowance	-	(11,585,581)	(11,585,581)
Other	186	42,443,340	42,443,526
Loans Receivable Disaster, Net, end of year	\$ 442	\$ 270,634,432	\$ 270,634,874

Business Guaranteed

(Dollars in Thousands)

As of September 30, 2023	Pre-1992 Loans	Post-1991 Loans	Total
Defaulted Guaranteed Loans Receivable, Net, beginning of year	\$ 1,457	\$ 1,007,745	\$ 1,009,202
Claim Payment to Lenders/Guarantee Payments	-	12,223,993	12,223,993
Principal & Interest Payments Received	(125)	(502,218)	(502,343)
Fees	-	(1,244,154)	(1,244,154)
Foreclosed Property	(1)	(693)	(694)
Loans Written Off	-	(11,227,328)	(11,227,328)
Subsidy Allowance	-	1,178,413	1,178,413
Other	(1,331)	(339,008)	(340,339)
Defaulted Guaranteed Loans Receivable, Net, end of year	\$ -	\$ 1,096,750	\$ 1,096,750



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)
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)
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	1,844,350
Loans Receivable Disaster, Net, end of year	\$ 319	\$ 320,318,726	\$ 320,319,045



Business Guaranteed

(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 2 years or more, at full cost and depreciates using the straight-line method over the useful life. The SBA expenses equipment not meeting the capitalization criteria.

Leasehold improvements with modifications of \$200,000 or more and a useful life of 2 years or more are capitalized and amortized using the straight-line method over the useful life of the improvement or the lease term, whichever is shorter. Leasehold improvements not meeting the capitalization criteria are expensed.

Software intended for internal use, whether internally developed, contractor developed, or purchased is capitalized at cost if the unit acquisition cost is \$500,000 or more and service life is at least 2 years. Capitalized software costs include all direct and indirect costs incurred, including overhead to develop the software. Software for internal use is amortized using the straight-line method over its useful life, not to exceed 5 years. Amortization begins when the software is put into production. The costs of enhancements are capitalized when it is more likely than not that the enhancements will result in significant additional capabilities. Costs that do not meet the capitalization criteria are expensed when incurred.

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

(Dollars in Thousands)

As of September 30,	2023	2022
Software in Development	\$ 6,269	\$ 4,702
Software in Use	171,405	145,188
Amortization of Software in Use	(73,679)	(49,173)
Net	103,995	100,717
Total General Property and Equipment, Net	\$ 103,995	\$ 100,717



The increase in Software in Development represents the SBA's investment in the development of a unified experience structure. The changes in Software in Use represents the SBA's use of software developed for the disaster loan system modernization to streamline borrower interface and provide the ability for disaster borrowers to make payments via the SBA's unified lending platform. Additional use includes the Veteran-Owned Small Businesses and Service-Disabled Veteran-Owned Small Businesses certification management system launching the SBA's ownership from the U.S. Department of Veteran's Affairs starting January 2023 as authorized in the National Defense Authorization Act of 2021.

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,	2023	2022
Intragovernmental Liabilities - Benefit Program Contributions Payable		
Unfunded Employment Taxes Payable	\$ 2,249	\$ 6,171
Federal Employees' Compensation Act Payable	5,899	6,403
Total Intragovernmental Liabilities - Benefit Program Contributions Payable	8,148	12,574
Other than Intragovernmental Liabilities - Federal Employee Benefits Payable		
Federal Employees' Compensation Act Actuarial Liability	27,477	27,477
Accrued Unfunded Annual Leave	45,736	41,544
Total Other than Intragovernmental Liabilities - Federal Employee Benefits Payable	73,213	69,021
Surety Bond Guarantee Program Future Claims	68,655	62,635
Total Other Liabilities		
Total Liabilities Not Covered by Budgetary Resources	\$ 150,016	\$ 144,230
Total Liabilities Covered by Budgetary Resources	345,813,548	394,924,807
Total Liabilities Not Requiring Budgetary Resources	72,318	54,566
Total Liabilities	\$ 346,035,882	\$ 395,123,603

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,	2023	2022
Principal Payable to the Bureau of the Fiscal Service		
Beginning Balance	\$ 362,801,468	\$ 262,654,877
New Borrowings	9,927,898	114,163,763
Repayments	(38,409,156)	(14,017,172)
Total Principal Payable to the Bureau of the Fiscal Service	334,320,210	362,801,468
Interest Payable		
Change in Interest Payable - Liquidating Funds	69	251
Total Interest Payable	69	251
Ending Balance	\$ 334,320,279	\$ 362,801,719

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,	2023	2022
Disaster Loan Fund	\$ 442	\$ 318
Business Loan and Investment Fund	10,518	6,738
Total Due to Treasury	\$ 10,960	\$ 7,056

NOTE 11 Other Liabilities

Other liabilities are shown in the following table.

(Dollars in Thousands)

As of September 30,	2023	2022
Other Liabilities - Intragovernmental		
Employment Taxes Payable	\$ 2,949	\$ 2,117
Payable to Treasury	6	6
Total Other Liabilities - Intragovernmental	\$ 2,955	\$ 2,123
Other Liabilities - Other than Intragovernmental		
Accrued Funded Payroll and Leave	\$ 57,073	\$ 45,353
Suspense Accounts	72,318	54,566
Total Other Liabilities - Other than Intragovernmental	\$ 129,391	\$ 99,919

All liabilities reflected are current liabilities.

NOTE 12 Leases

The SBA leases all of its facilities from the General Services Administration. The SBA enters into an Occupancy Agreement with the GSA for each facility. The GSA, in turn, leases commercial facilities or provides space in federal buildings. Agreements for space in federal buildings can be vacated with 120 to 180 days' notice. However, the SBA anticipates continuing the same or similar facilities leases in the future. These federal leases with the GSA are operating leases and are expensed in the Statement of Net Cost when incurred. FY 2023 and FY 2022 historical facilities lease costs were \$34.1 million and \$44.8 million. Future lease payments are based on FY 2024 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 2028 increased due to the increase in the total number of Occupancy Agreements still in effect until 2043.

FUTURE FACILITIES OPERATING LEASE PAYMENTS

(Dollars in Thousands)

Fiscal Year	Lease Projections
2024	\$ 44,571
2025	45,908
2026	47,285
2027	48,704
2028	50,165
After 2028	341,191
Total	\$ 577,824



NOTE 13 Non-entity Reporting

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

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

(Dollars in Thousands)

As of September 30,	2023	2022
Entity		
Financing Fund Payable	\$ (2,724,486)	\$ (5,591,451)
Non-entity		
Miscellaneous Receipts Fund Receivable	2,724,486	5,591,451
Downward Reestimate Payable to Treasury	<u>(2,724,486)</u>	<u>(5,591,451)</u>
Balance Sheet Reported Payable	<u>\$ (2,724,486)</u>	<u>\$ (5,591,451)</u>

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

NOTE 14 Consolidated Statement of Net Cost

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

OPERATING COST

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

EARNED REVENUE

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

REPORTING BY STRATEGIC GOAL

The SBA reports net costs consistent with its three strategic goals on a full cost allocation basis. 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 SBA's annual Agency Financial Report includes additional detail on SBA's strategic goals. Costs Not Assigned to Strategic Goals are costs associated with the Office of the Inspector General. The OIG's mission and funding are a separate and independent part of the SBA and is therefore not assigned.

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

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



GROSS COST AND EXCHANGE REVENUE

(Dollars in Thousands)

For the Years Ended September 30,	2023	2022
STRATEGIC GOAL 1:		
Ensure Equitable and Customer-Centric Design and Delivery of Programs to Support Small Businesses and Innovative Startups		
Intragovernmental Gross Cost	\$ 176,519	\$ 170,900
Other than Intragovernmental Gross Cost	857,273	(834,344)
Total Strategic Goal 1 Gross Cost	1,033,792	(663,444)
Intragovernmental Earned Revenue	117,292	277,457
Other than Intragovernmental Earned Revenue	117,360	111,600
Total Strategic Goal 1 Earned Revenue	234,652	389,057
STRATEGIC GOAL 2:		
Build Resilient Businesses and a Sustainable Economy		
Intragovernmental Gross Cost	\$ 6,044,967	\$ 4,952,660
Other than Intragovernmental Gross Cost	33,995,093	48,073,605
Total Strategic Goal 2 Gross Cost	40,040,060	53,026,265
Intragovernmental Earned Revenue	879,147	980,978
Other than Intragovernmental Earned Revenue	5,040,138	4,167,450
Total Strategic Goal 2 Earned Revenue	5,919,285	5,148,428
STRATEGIC GOAL 3:		
Implement Strong Stewardship of Resources for Greater Impact		
Intragovernmental Gross Cost	\$ 27,313	\$ 19,587
Other than Intragovernmental Gross Cost	142,221	130,427
Total Strategic Goal 3 Gross Cost	169,534	150,014
COST NOT ASSIGNED TO STRATEGIC GOALS		
Intragovernmental Gross Cost	\$ 32,313	\$ 15,767
Other than Intragovernmental Gross Cost	200,824	105,832
Total Gross Cost Not Assigned to Strategic Goals	233,137	121,599
Net Cost of Operations	\$ 35,322,586	\$ 47,096,949

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, 2023 and 2022. SBA's budgetary resources were \$36.7 billion and \$44.2 billion for the fiscal years ended September 30, 2023 and 2022. Additionally, \$70.5 billion and \$375.8 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, 2023 and 2022.

NET ADJUSTMENTS TO UNOBLIGATED BALANCE, BROUGHT FORWARD, OCTOBER 1

The beginning balance brought forward for FY 2023 increased by \$10.4 billion in total. This amount reflects an increase of \$14.4 billion in recoveries and a decrease of \$4.0 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. SBA's Liquidating Funds also receive permanent indefinite appropriations to fund obligations. The Financing Funds are used to account for credit program obligations made subsequent to FY 1991. Liquidating Funds are used to account for credit program obligations made prior to FY 1992.

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

BORROWING AUTHORITY AND TERMS OF BORROWING

The SBA is authorized to borrow from the Treasury's Bureau of the Fiscal Service when funds needed to disburse direct loans and purchase guaranteed loans exceed subsidy costs and collections in the nonbudgetary loan financing funds. In FY 2023 and FY 2022, the SBA received \$5.9 billion and \$113.7 billion of borrowing authority from the OMB. At the end of FY 2023, the SBA had \$1.0 billion in borrowing authority carried over to fund direct loans and default claims to be disbursed in the future. At the end of FY 2022, the SBA had \$3.2 billion in available borrowing authority. The SBA pays interest to the Treasury based on Treasury's cost of funds. The rate at which interest is paid to the Treasury on the amounts borrowed (or received from the Treasury on uninvested cash balances) in a loan financing fund for a particular cohort is a disbursement-weighted average discount rate for cohorts prior to FY 2001 and a single effective rate for cohorts beginning with FY 2001. The SBA calculates and repays borrowings not needed for working capital at mid-year and at year-end for prior year cohorts. The SBA uses the loan principal, interest, and fees collected from the borrowers in its loan financing funds to repay its Treasury borrowings. The repayment maturity dates for borrowings from the Treasury are based on the loan maturities used in the subsidy calculation. The maturities range from 16 years for direct business loans, 25 years for guaranteed business loans, and 30 years for disaster loans.

UNOBLIGATED BALANCES

Unobligated balances at September 30, 2023 and 2022 are \$42.6 billion and \$44.4 billion, which include \$26.2 billion and \$30.5 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 (\$38.2 billion in FY 2023 and \$35.6 billion in FY 2022) from fees and subsidy to fund default claims in future years. In addition, unobligated balances are accumulated in budgetary accounts from appropriations (\$4.4 billion in FY 2023 and \$8.8 billion in FY 2022) that are used to finance SBA's ongoing program operations. The SBA requests OMB apportionments as needed, and after OMB approval, apportioned amounts are available for obligation.



UNDELIVERED ORDERS

Undelivered orders consist of goods or services ordered and obligated which the SBA has not received. This includes any orders that have been paid in advance, but for which delivery or performance has not yet occurred.

(Dollars in Millions)

As of September 30,	2023	2022
Intragovernmental		
Unpaid	\$ 210.3	\$ 1,902.8
Paid	7.0	2.5
Total Intragovernmental	217.3	1,905.3
Other than Intragovernmental		
Unpaid	\$ 1,556.1	\$ 14,019.7
Paid	15.9	16.2
Total Other than Intragovernmental	1,572.0	14,035.9
Total Undelivered Orders	\$ 1,789.3	\$ 15,941.2

DIFFERENCES BETWEEN THE STATEMENT OF BUDGETARY RESOURCES AND THE BUDGET OF THE U. S. GOVERNMENT

There was no material difference between the FY 2022 Statement of Budgetary Resources and the President's FY 2024 budget submission. The President's FY 2025 Budget with actual numbers for FY 2023 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 2023 reported results when the budget becomes available in February 2024.

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 Outlay

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

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

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

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

Changes in liabilities recognize the timing difference between the recording and payment of expenses.

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 2023
Net Operating Cost (SNC)	\$ 5,284,673	\$ 30,037,913	\$ 35,322,586
Components of Net Operating Cost Not Part of the Budgetary Outlays			
General Property, plant and equipment depreciation expense	-	(24,506)	(24,506)
Year-end credit reform subsidy reestimates	(32,154,833)	-	(32,154,833)
President's Budget adjustment to downward reestimates	(640,612)	-	(640,612)
President's Budget adjustment to upward reestimates	(61,108)	-	(61,108)
Increase/(decrease) in assets not affecting Budget Outlays:			
Accounts Receivable, Net	-	(946)	(946)
Advances	4,845	(2,270)	2,575
Loans Receivable, Net	-	(4,285)	(4,285)
Other assets	-	8,190	8,190
(Increase)/decrease in liabilities not affecting Budget Outlays:			
Accounts Payable	1,968	9,702	11,670
Accrued Grant Liability	-	(50,442)	(50,442)
Federal Employee Benefits Payable	-	(4,313)	(4,313)
Surety Bond Guarantee Program Future Claims	-	(6,020)	(6,020)
Other Liabilities	2,428	(11,738)	(9,310)
Other Financing Sources:			
Imputed Cost	(38,595)	-	(38,595)
Total Components of Net Operating Cost Not Part of the Budget Outlays	\$ (32,885,907)	\$ (86,628)	\$ (32,972,535)
Components of the Budget Outlays That Are Not Part of Net Operating Cost			
Acquisition of Capital Assets	-	27,784	27,784
Effect of prior year credit reform subsidy reestimates	28,662,340	-	28,662,340
Total Components of the Budget Outlays That Are Not Part of Net Operating Cost	\$ 28,662,340	\$ 27,784	\$ 28,690,124
Other Reconciling Items			
Distributed Offsetting Receipts	-	(5,047,035)	(5,047,035)
Total Other Reconciling Items	\$ -	\$ (5,047,035)	\$ (5,047,035)
Total Net Outlays			\$ 25,993,140
Budgetary Agency Outlays, Net (SBR)			
Budgetary Agency Outlays, Net			\$ 25,993,140



BUDGET AND ACCRUAL RECONCILIATION, CONTINUED*(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)
FECA Actuarial Liability	-	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 reestimates	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



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 health-care system, to alleviate the severe economic hardships and public health threat created by the 2019 Novel Coronavirus pandemic. The CARES Act was subsequently modified in legislation in April, June, and July of 2020 to add funding and adjust programs for continued pandemic response. Agency disaster declarations were announced for all states and six territories of the United States, enabling existing disaster response programs to respond to the pandemic. CARES Act programs included:

- Subsidy for Paycheck Protection Program (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
- Microloan Technical Assistance Grant

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

Pursuant to P.L.117-58, 135 STAT 1347 Sec 90007 (d)(1), \$4.7 billion was permanently rescinded in FY 2022. Pursuant to P.L.117-328, Division MM, Sec.101(d)(1), \$2.9 billion was permanently rescinded in FY 2023. Rescinded amounts were from unobligated balances made available under P.L. 116– 260 and P.L. 117-2. The rescissions were 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), \$255.2 million was permanently rescinded in FY 2022, and \$24.6 million realized recovery was permanently rescinded in FY 2023. Rescinded amounts were from unobligated balances made available under P.L. 116-260. The rescissions were 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-19 EIDL advances.

Pursuant to P.L.117-58, 135 STAT 1347 Sec 90007 (b)(1), \$15.8 billion was permanently rescinded in FY 2022, and \$27.8 million was permanently rescinded in FY 2023. Rescinded amounts were from unobligated balances made available under P.L. 116-260. The rescissions were recorded in fund X0500.

EMERGENCY EIDL GRANTS

This funding establishes an additional amount for the cost of emergency EIDL grants established under Section 1110 of the CARES Act.

Pursuant to P.L. 118-5, Sec. 47, of the unobligated balances made available by P.L. 116-139, \$48.2 million was permanently rescinded in FY 2023. The rescission was recorded in fund X0500.

DISASTER LOAN PROGRAM ACCOUNT

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 as a result of the Coronavirus (COVID-19) 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 deferrals granted to COVID-19 EIDL Borrowers to provide an additional 6-month deferral of principal and interest payments on their COVID EIDLs. This 6-month deferral extension is effective for all COVID EIDLs approved in calendar years 2020, 2021 and 2022. COVID EIDLs have a total deferral 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 deferral of principal and interest payments through December 31, 2020. This initial deferral period was subsequently extended through March 31, 2021. An additional 12-month deferral 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), \$13.5 billion was permanently rescinded in FY 2022. Pursuant to P.L. 118-5 Sec 22, \$858 million by section 5002(b) and 5006(a)(2) of Public Law 117-2, including any amounts transferred and merged with “Small Business Administration- Disaster Loan Program Account” pursuant to section 90007(b)(2)(A) of P.L. 117-58 was permanently rescinded in FY2023. In addition, \$1.5 billion under the heading “Independent Agencies—Small Business Administration, Disaster Loans Program Account” in the title II of Div B of P.L. 116-139 was permanently rescinded pursuant to P.L. 118-5 Sec. 23. The rescissions were 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.

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, Sec 4(a)(3), \$1.2 billion was permanently rescinded in FY 2022. Pursuant to P.L. 117-328 Division MM, Sec 101(d)(2), \$459 million was permanently rescinded in FY 2023. Rescinded amounts were from unobligated balances made available under P.L. 116-260 and P.L. 117- 2. The rescissions were 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.

MICROLOAN TECHNICAL ASSISTANCE GRANT

This program provides technical assistance grants under such section 7(m), a program grant for microloan intermediaries. Intermediaries use these funds to provide training and technical assistance to microloan borrowers and prospective borrowers. Pursuant to P.L. 118-5 Sec.49, \$1.4M was permanently rescinded in FY2023. Rescinded amounts were from unobligated balances made under P.L. 116-260, Sec. 323(d)(1)(E)(i).



SALARIES AND EXPENSES ADMINISTRATIVE FUNDING

P.L. 116-260 P.L. 117-2 and authorities provided within P.L.117-58, provided no-year S&E funds to SBA to support ongoing operating requirements related to pandemic relief programs.

Pursuant to P.L.117-58, 135 STAT 1348 Sec 90007 (g)(1), \$45.8 million was permanently rescinded in FY 2022. Pursuant to P.L. 117-58, Sec 90007 (g)(1), \$5,469.65 realized recovery was permanently rescinded in FY 2023. Rescinded amounts were from unobligated balances made available under P.L. 116-136, P.L. 116-139, and P.L. 116-260. The rescissions were recorded in fund X0100.

The impact of COVID programs on various financial statement and footnote lines are decreases and 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 2023	FY 2022
Budgetary Resources: Unobligated (and Unexpired) Balance Carried Forward from PY	\$ 7,185,885	\$ 64,520,626
Rescissions(-)/Other Changes (+/-) to Budgetary Resources	(4,185,295)	(28,763,165)
Budgetary Resources Obligated (-)	404,434	23,035,026
Budgetary Resources: Ending Unobligated (and Unexpired) Balance to be Carried Forward	242,955	10,457,142
Outlays, Net (Total)	677,015	23,712,329



NOTE 18 Subsequent Events

On October 25, 2023, a class action lawsuit was filed against the SBA (naming the United States the defendant as required) in the United States Court of Federal Claims by 303 plaintiffs seeking damages for failure to obtain RRF funding. The SBA is unable to determine the likelihood of the outcome of this lawsuit as of the date of this financial report.

NOTE 19 Reclassification of Financial Statement Line Items for Financial Report Compilation Process

To prepare the Financial Report of the U.S. Government (Financial Report), the Department of the Treasury requires agencies to submit an adjusted trial balance, which is a listing of amounts by U.S. Standard General Ledger account that appear in the financial statements. Treasury uses the trial balance information reported in the Government-wide Treasury Account Symbol Adjusted Trial Balance System (GTAS) to develop a Reclassified Statement of Net Cost and a Reclassified Statement of Changes in Net Position for each agency, which are accessed using GTAS. Treasury eliminates all intragovernmental balances from the reclassified statements and aggregates lines with the same title to develop the Financial Report statements. This note shows SBA's financial statements and SBA's reclassified statements prior to elimination of intragovernmental balances and prior to aggregation of repeated Financial Report line items. A copy of the 2022 Financial Report can be found here: Bureau of the Fiscal Service – Reports, Statements & Publications ([treasury.gov](https://www.treasury.gov)), and a copy of the 2023 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 2023 SBA Statement of Net Cost		Line Items Used to Prepare FY 2023 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			
Gross Cost	\$ 1,033,792	\$ 35,195,412	Non-Federal Cost
Less: Earned Revenue	234,652	<u>35,195,412</u>	Non-Federal Gross Cost
Net Cost of Strategic Goal 1	799,140		Total Non-Federal Cost
STRATEGIC GOAL 2:			
Build Resilient Businesses and a Sustainable Economy			
Gross Cost	40,040,060	5,986,541	Intragovernmental Costs
Less: Earned Revenue	5,919,285	46,890	135,786 Benefit Program Costs
Net Cost of Strategic Goal 2	34,120,775	<u>6,281,111</u>	38,595 Imputed Costs
			73,299 Buy/Sell Costs
			Borrowing and Other Interest Expense
			Other Expenses (w/o Reciprocals)
		<u>6,281,111</u>	Total Intragovernmental Costs
		<u>41,476,523</u>	Total Reclassified Gross Cost
STRATEGIC GOAL 3:			
Implement Strong Stewardship of Resources for Greater Impact			
Gross Cost	169,534	5,157,498	Non-federal Earned Revenue
Net Cost of Strategic Goal 3	169,534		Intragovernmental Earned Revenue
		2,206	Buy/Sell Revenue
		994,233	Borrowing and Other Interest Revenue
		<u>996,439</u>	Total Intragovernmental Earned Revenue
COST NOT ASSIGNED TO STRATEGIC GOALS			
Gross Cost	233,137	6,153,937	Total Reclassified Earned Revenue
Net Cost Not Assigned to Strategic Goals	233,137	<u>6,153,937</u>	
Net Cost of Operations	\$ 35,322,586	<u>\$ 35,322,586</u>	Net Cost

(Dollars in Thousands)

FY 2023 SBA Statement of Changes in Net Position		Line Items Used to Prepare FY 2023 Government-Wide Statement of Changes in Net Position	
Funds from other than Dedicated Collections		<i>Line Item Amount</i>	
Unexpended Appropriations:			
Beginning balance	\$ 10,558,338	\$ 10,558,338	Unexpended Appropriations, Beginning Balance
Appropriations Received	30,739,480	24,856,175	Appropriations Received
Other Adjustments:			
Rescissions	(5,867,516)		
Adjustment - Cancelled Authority	(15,088)		
Return of Unrequired Liquidating Fund Appropriation	(597)		
Other Adjustments	(104)		
Appropriations Used	(31,690,963)	(31,690,963)	Appropriations Used
Total Unexpended Appropriations	\$ 3,723,550	\$ 3,723,550	Total Unexpended Appropriations
Cumulative Results of Operations:			
Beginning Balance	\$ (27,669,576)	\$ (27,669,576)	Cumulative Results, Beginning Balance
Other Adjustments:			
Current Year Liquidating Equity Activity	(5,932)	31,690,963	Appropriations Expended
Appropriations Used	31,690,963		
		(5,932)	Non-expenditure Transfers-Out of Unexpended Appropriations and Financing Sources
		31,685,031	Total Appropriations Used
		24	Other Taxes and Receipts
		24	Total Non-Federal Non-Exchange Revenue
Imputed Financing	38,595	38,595	Imputed Financing
Other:		(5,029,301)	Non-Entity Collections Transferred to the General Fund of the U.S. Government
Non-entity Activity	(2,162,312)	2,866,965	Accrual for Non-Entity Amounts to be Collected and Transferred to the General Fund of the U.S. Government
		(2,123,741)	Total Transfers and Imputed Financing
Net Cost of Operations	35,322,586	35,322,586	Net Cost of Operations
Net Change in Cumulative Results of Operations	(5,761,272)		
Total Cumulative Results of Operations	\$ (33,430,848)	\$ (33,430,848)	Total Cumulative Results of Operations
Ending Net Position	\$ (29,707,298)	\$ (29,707,298)	Net Position

REQUIRED SUPPLEMENTARY INFORMATION
COMBINING STATEMENT OF BUDGETARY RESOURCES

For the Years Ended September 30, 2023 (Unaudited)

(Dollars in Thousands)

BUDGETARY RESOURCES	BLIF		DLF		SBGRF	SE	OIG
	Budgetary	Nonbudgetary Financing	Budgetary	Nonbudgetary Financing	Budgetary	Budgetary	Budgetary
Unobligated Balance from Prior Year Budget Authority, Net (discretionary and mandatory)	\$ 5,028,683	\$ 32,272,168	\$ 2,320,662	\$ 12,047,916	\$ 112,754	\$ 1,447,519	\$ 42,515
Appropriations (discretionary and mandatory)	(2,714,261)	-	28,046,857	-	-	501,023	41,620
Borrowing Authority (discretionary and mandatory)	-	375,023	-	5,528,889	-	-	-
Spending Authority from Offsetting Collections	2	2,240,809	(1)	18,029,294	21,990	1,224,107	4
Total Budgetary Resources	\$ 2,314,424	\$ 34,888,000	\$ 30,367,518	\$ 35,606,099	\$ 134,744	\$ 3,172,649	\$ 84,139
STATUS OF BUDGETARY RESOURCES							
New Obligations and Upward Adjustments (total)	\$ 278,207	\$ 24,102,252	\$ 29,922,410	\$ 8,234,395	\$ 20,941	\$ 1,568,778	\$ 46,533
Unobligated Balance, end of year:							
Apportioned, unexpired accounts	4,749	10,720,944	334,682	3,960,495	591	1,180,826	34,946
Unapportioned, unexpired accounts	86,619	64,804	110,426	23,411,209	113,212	-	4
Unexpired Unobligated Balance, end of year	91,368	10,785,748	445,108	27,371,704	113,803	1,180,826	34,950
Expired Unobligated Balance, end of year	1,944,849	-	-	-	-	423,045	2,656
Unobligated Balance, end of year (total)	2,036,217	10,785,748	445,108	27,371,704	113,803	1,603,871	37,606
Total Status of Budgetary Resources	\$ 2,314,424	\$ 34,888,000	\$ 30,367,518	\$ 35,606,099	\$ 134,744	\$ 3,172,649	\$ 84,139
OUTLAYS, NET and DISBURSEMENTS, NET							
Net Outlays (discretionary and mandatory)	\$ 348,332		\$ 29,927,641		\$ (3,427)	\$ 241,782	\$ 45,279
Distributed Offsetting Receipts	-		-		-	(5,047,035)	-
Agency Outlays, Net (discretionary and mandatory)	\$ 348,332		\$ 29,927,641		\$ (3,427)	\$ (4,805,253)	\$ 45,279
Disbursements, Net (total) (mandatory)		\$ 21,087,133		\$ (43,670,602)			

(Dollars in Thousands)

BUDGETARY RESOURCES	ADVOCACY	EDP	EIDL	SVOG	RRF	WCF	BATF	TOTAL	TOTAL	Total
	Budgetary	Budgetary	Budgetary	Budgetary	Budgetary	Budgetary	Budgetary	Budgetary	Nonbudgetary Financing	
Unobligated Balance from Prior Year Budget Authority, Net (discretionary and mandatory)	\$ 4,896	\$ 90,688	\$ 871,249	\$ 487,737	\$ 91,669	\$ 15,269	\$ 671	\$ 10,514,312	\$ 44,320,084	\$ 54,834,396
Appropriations (discretionary and mandatory)	10,211	318,558	(858,884)	(459,000)		13,082	-	24,899,206	-	24,899,206
Borrowing Authority (discretionary and mandatory)	-	-	-	-	-	-	-	-	5,903,912	5,903,912
Spending Authority from Offsetting Collections	-	-	-	-	-	(1)	-	1,246,101	20,270,103	21,516,204
Total Budgetary Resources	\$ 15,107	\$ 409,246	\$ 12,365	\$ 28,737	\$ 91,669	\$ 28,350	\$ 671	\$ 36,659,619	\$ 70,494,099	\$ 107,153,718
STATUS OF BUDGETARY RESOURCES										
New Obligations and Upward Adjustments (total)	\$ 8,984	\$ 323,409	\$ 53	\$ 5,559	\$ 83,014	\$ 6,234	\$ 119	\$ 32,264,241	\$ 32,336,647	\$ 64,600,888
Unobligated Balance, end of year:										
Apportioned, unexpired accounts	6,123	57,505	1,215	23,178	-	13,922	552	1,658,289	14,681,439	16,339,728
Unapportioned, unexpired accounts	-	600	-	-	8,655	8,168	-	327,684	23,476,013	23,803,697
Unexpired Unobligated Balance, end of year	6,123	58,105	1,215	23,178	8,655	22,090	552	1,985,973	38,157,452	40,143,425
Expired Unobligated Balance, end of year	-	27,732	11,097	-	-	26	-	2,409,405	-	2,409,405
Unobligated Balance, end of year (total)	6,123	85,837	12,312	23,178	8,655	22,116	552	4,395,378	38,157,452	42,552,830
Total Status of Budgetary Resources	\$ 15,107	\$ 409,246	\$ 12,365	\$ 28,737	\$ 91,669	\$ 28,350	\$ 671	\$ 36,659,619	\$ 70,494,099	\$ 107,153,718
OUTLAYS, NET AND DISBURSEMENTS, NET										
Net Outlays (discretionary and mandatory)	\$ 8,927	\$ 440,165	\$ (1,483)	\$ (22,114)	\$ 53,700	\$ 1,254	\$ 119	\$ 31,040,175		\$ 31,040,175
Distributed Offsetting Receipts	-	-	-	-	-	-	-	(5,047,035)		(5,047,035)
Agency Outlays, Net (discretionary and mandatory)	\$ 8,927	\$ 440,165	\$ (1,483)	\$ (22,114)	\$ 53,700	\$ 1,254	\$ 119	\$ 25,993,140		\$ 25,993,140
Disbursements, Net (total) (mandatory)									\$ (22,583,469)	



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Other Information (Unaudited)

SECTION 3

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

**TOP MANAGEMENT AND PERFORMANCE CHALLENGES FACING
THE SMALL BUSINESS ADMINISTRATION IN
FISCAL YEAR 2024**



October 16, 2023
Report 24-01

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Message from the Inspector General



SBA's role in the nation's pandemic response was unprecedented and immense. Even before the pandemic, SBA faced major challenges in its internal control environments for large financial lending programs, information technology, and business development assistance programs. The strain on the agency's capacity to meet the needs of delivering more than \$1.2 trillion in pandemic assistance to America's small businesses laid bare these challenges. SBA continues to be responsive to OIG's recommended corrective actions to promote efficiency and effectiveness in the programs and mitigate the eight challenges identified in this report.

Major consequences of internal controls that do not provide assurance of identity and eligibility include a loss of public trust, improper payments, and fraud.

OIG's white paper *COVID-19 Pandemic EIDL and PPP Loan Fraud Landscape* estimated that SBA disbursed over \$200 billion in potentially fraudulent COVID-19 Economic Injury Disaster Loans (EIDL), EIDL Targeted Advances, Supplemental Targeted Advances, and Paycheck Protection Loans (PPP) loans. Every fraudulent transaction also is an improper payment. With SBA's flagship contracting, capital, and counseling programs having identified challenges in mitigating improper payments and ensuring only eligible entities gain access to its programs, action to eliminate self-certification as a practice and strengthen internal controls is at the forefront of our recommended corrective actions.

OIG also shares SBA's concern in its capacity to service its EIDL portfolio. SBA is now servicing about 4 million outstanding disaster loans — 15 times the amount the agency was managing before the pandemic. SBA must be responsive to recipients of these loans and perform its due diligence to mitigate loss to the taxpayer.

SBA's pandemic response also offered an opportunity to learn new ways to meet America's small business owners in underserved areas. This principally involved SBA lending partners leveraging financial technology and SBA expanding the reach of its Supervised Lenders, which are Non-Federally Regulated Lenders. Technology must be integrated within programs in a manner that assures eligibility criteria are met, to include identity, and that robust verification and validation are inherent in the internal control framework. SBA must fully meet its lender oversight responsibilities to avoid missteps that occurred in its pandemic response.

The nation can depend on OIG to provide independent, objective, and timely oversight of SBA. We will focus our resources on systems and processes that present serious management and performance challenges within SBA programs with a goal of improving the integrity, accountability, and performance of those programs for the benefit of the American people.

Sincerely,

A handwritten signature in black ink, appearing to read "H. Ware", written in a cursive style.

Hannibal "Mike" Ware
SBA Inspector General

FY 2024 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 will likely continue to be challenges in the coming years. Addressing the challenges will require consistent attention from agency management and ongoing engagement with Congress, the public, and other stakeholders.

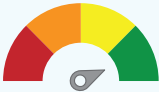





Table 1: Top Management and Performance Challenges Facing SBA in FY 2024

Challenge	Issue
Challenge 1 – SBA's Economic Relief Programs Are Susceptible to Significant Fraud Risks and Vulnerabilities	<ul style="list-style-type: none"> • 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 OIG Reports • Unprecedented Increase in Servicing COVID-19 EIDLs
Challenge 2 – Eligibility Concerns in Small Business Contracting Programs Undermine the Reliability of Contracting Goal Achievements	<ul style="list-style-type: none"> • Agencies Receive Credit for Ineligible Firms or Those Not Participating in SBA's Contracting Programs • Women-Owned Small Business Federal Certification Program Susceptible to Abuse
Challenge 3 – SBA Faces Significant Challenges in IT Investments, System Development, and Security Controls	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • Reserve Staff Need Training to Sustain Productivity During Mobilization • Improper Payment Quality Assurance Process Needs Strengthening
Challenge 8 – SBA Needs Robust Grants Management Oversight	<ul style="list-style-type: none"> • 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 • Leveraging SBA's Workforce to Ensure Effective Administration of New and Significantly Expanded Grant Programs to Aid Small Businesses

The management challenges report is an important tool to help the agency prioritize its work to improve program performance and enhance operations. OIG remains committed to protecting the interests of American taxpayers by promoting positive change within SBA and across government, ensuring taxpayer dollars are spent efficiently according to intent. I am confident SBA leaders are willing partners in ensuring their programs have integrity and meet the needs of the nation’s small businesses.

Table 2: Color Code Definitions

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. The color gauge indicates whether the agency has made little, no, or significant progress on the issue to date.

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

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

Why This Is a Challenge

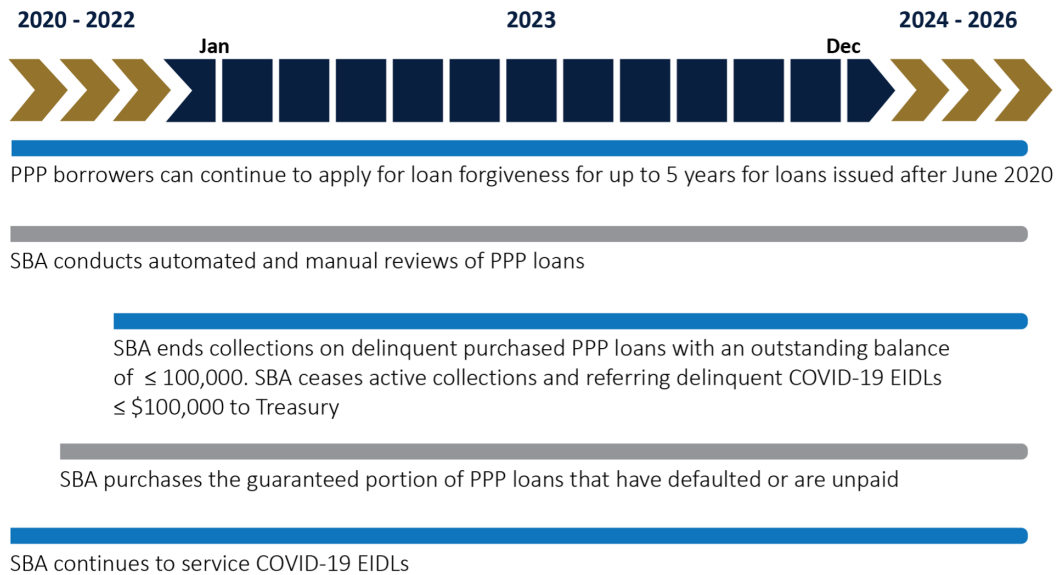
In the wake of the Coronavirus Disease 2019 (COVID-19) pandemic, action was needed to avert an economic crisis caused by lockdowns, business closures, and other economic impediments. More than 30 million small businesses in the United States were adversely affected by the economic crisis. In March 2020 the Coronavirus Aid, Relief, and Economic Security (CARES) Act was enacted, authorizing the U.S. Small Business Administration (SBA) to administer an unprecedented amount of funds through the Paycheck Protection Program (PPP) and COVID-19 Economic Injury Disaster Loan (EIDL) program. These funds were intended to help eligible small business owners and entrepreneurs adversely affected by the economic crisis.

Executive and legislative actions intended to expedite aid during the crisis led SBA to reduce or eliminate key internal controls that could have helped to mitigate fraud and misuse of taxpayer funds. The agency also relied on a mandated self-certification of eligibility for PPP loans to expedite aid. We have determined the agency has made progress in strengthening internal controls, but several issues remain open, which we highlight in this report, and should be considered for future economic relief programs like the PPP and COVID-19 EIDL.

Our PPP and EIDL investigative work has resulted in 1,090 indictments, 906 arrests, and 576 convictions as of August 31, 2023. The Office of Inspector General (OIG) has received more than 250,000 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 from the EIDL program. OIG played a key role in assisting financial institutions in the return of another \$8 billion to SBA's EIDL program. SBA has received over \$20 billion in EIDL funds returned by borrowers prior to the deferment period ending. We are also aware of approximately \$168 million in additional PPP seizures and funds that may have been returned. However, due to the informal, ad hoc nature of SBA's tracking, the full scope of PPP seized and returned funds is not presently known, as detailed in our management advisory *Serious Concerns Regarding the Return of Paycheck Protection Program Funds* ([Report 23-08](#)). To date, we have issued 12 reports related to the PPP program and 12 reports related to the COVID-19 EIDL program.

Since both programs have closed to new loans, the challenge has evolved from preventing fraud to bringing wrongdoers to justice and identifying and recovering funds that were misused or illegally obtained. Thanks to swift congressional action, the statute of limitations for COVID-19 EIDL and PPP fraud was increased to 10 years. As SBA conducts automated and manual reviews of PPP loans regarding forgiveness and guaranty purchasing, it could still identify ineligible loans, work to recover funds, and refer potential fraud for investigation. Fraud can be identified in these loans at any stage, even after they have been forgiven. See Figure 1 for important stages of these programs that are ongoing through 2026 and beyond.

Figure 1: Current and Ongoing Actions Relating to the PPP and COVID-19 EIDL



Source: OIG generated from SBA data

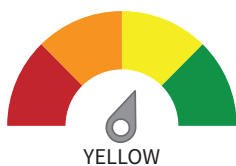
PAYCHECK PROTECTION PROGRAM

As a result of the pandemic’s widespread economic effects on the U.S. economy, Congress approved legislation to create and fund SBA’s PPP, which was gradually increased to \$813.7 billion in 2021.

PPP loans were made through more than 5,400 private lenders and can be fully forgiven if proceeds were used in accordance with law. Often, the lenders had existing relationships with the borrowers. PPP loans were made through existing SBA lenders and non-traditional lenders, including online financial technology companies (fintechs), which did not have the same relationships with borrowers as traditional lenders.

The pandemic radically affected the agency tasked with economic assistance to America’s small businesses. From FY 2000 to 2019, before the pandemic, SBA-guaranteed 7(a) lending amounted to about 1.2 million loans, totaling \$333 billion. By the end of the PPP program, SBA had processed 11.8 million PPP loans, totaling \$800 billion. In just over a year the agency handled more demand than in the previous 20 years combined. The unprecedented demand and stress on SBA systems were considerable challenges for the agency, and fraudsters took advantage.

ISSUE: PAYCHECK PROTECTION PROGRAM SUSCEPTIBLE TO ABUSE AND FRAUD



SBA’s fraud risk management approach in 2020 for PPP loans was intentionally developed with more fraud risk controls at the loan forgiveness phase, the final phase, rather than at application. For funds disbursed on a fraudulent loan, the back-end controls established for the forgiveness stage may never be applied because it is unlikely that forgiveness will be sought. This has led to the current environment, where we and other law enforcement partners are chasing taxpayer funds that have already been stolen.

We explored this issue in detail in our *COVID-19 Pandemic EIDL and PPP Loan Fraud Landscape (Report 23-09)* white paper. We estimated that SBA disbursed \$64 billion in potentially fraudulent PPP loans, which represents 8 percent of total disbursed funds.

Based on the various fraud schemes identified in our ongoing and adjudicated criminal investigations, we expanded rule-based analytics through link analysis — an investigative technique that identifies fraud clusters through shared data attributes. As a result, we identified multiple fraud indicators and schemes fraudsters used to steal from the American taxpayer and exploit programs meant to help those in need. The potential fraud estimates directly correlate to our investigative casework, adjudicated and ongoing criminal cases, and to schemes OIG and other oversight agencies are continuing to unravel and then prosecute. These indicators will continue to evolve as more data becomes available to us.

Indicators of potential PPP fraud include:

- Hold codes — loans flagged by SBA or third-party lenders that identified potential indicators of fraud.
- Internet Protocol (IP) addresses — loan applications submitted from a foreign country, so likely ineligible, or from an IP address that matches another application found to have a higher likelihood of fraud.
- Defaulted/no loan forgiveness — borrowers have not made any payments, are in default, or have not asked for loan forgiveness because they never intended to use the loan according to program requirements.
- Employer Identification Numbers (EIN) — borrowers who appeared to have established their business after the qualifying date; EINs that match those of other PPP loans.
- Hotline complaints — the loan was the subject of an OIG Hotline complaint with a high probability of fraud, such as a business misusing funds or identity theft.
- Suspicious email addresses — borrowers whose email addresses are from potentially temporary domains, have modifications such as dots, dashes, or pluses, or match those in other applications found to have a higher likelihood of fraud.
- Bank accounts — SBA lenders disbursed PPP loan funds to bank accounts matching other applications found to have a higher likelihood of fraud.

See Figure 2 for the total disbursed dollar value estimate of each PPP fraud indicator. The aggregate of each group total differs from the total potential fraud estimate because duplicates across groups may exist, while duplicates are removed from the total potential fraud estimate.

Figure 2: Summary of Potentially Fraudulent PPP Loans by Fraud Indicator



Source: OIG analysis of PPP data

We have several concerns from past audit work that falls under this issue, so we highlight here major concerns which are still being addressed by the agency.

Returning Potentially Fraudulent Paycheck Protection Program Funds

In our management advisory *Serious Concerns Regarding the Return of Paycheck Protection Program Funds* ([Report 23-08](#)), we found SBA's guidance to borrowers and lenders on returning PPP funds was insufficient. SBA did not explain how funds could be returned after forgiveness was approved. Also, SBA did not have specific guidance for financial institutions that needed to return PPP funds. At the time, SBA was tracking return of PPP funds on an ad hoc basis using a spreadsheet. Due to the informal and ad hoc nature of SBA's tracking, the full scope of returned PPP funds is not presently known.

When an agency implements a process ad hoc, it means program managers have no set procedure, which could lead to financial loss. We made four suggestions related to SBA establishing clear and detailed guidance for borrowers, lenders, and financial institutions on how to return PPP funds and implementing a process to accurately handle and track the returned funds to mitigate the risk of financial loss.

Duplicate Paycheck Protection Program Loans

Because SBA did not always have sufficient controls in place to detect and prevent duplicate PPP loans (see *Duplicate Loans Made Under the Paycheck Protection Program*, ([Report 21-09](#)), OIG and other federal agencies have worked to track criminal fraud cases related to duplicate loans made to the same business. Based on our 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. These disbursements were made during rounds 1 and 2 when only one PPP loan was permitted.

We made four recommendations to SBA to strengthen controls related to detecting and preventing duplicate loans to include ensuring duplicate PPP loans are not forgiven, taking action to recover improper payments, and ensuring appropriate controls are in place for future PPP type programs.

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

In our evaluation report *SBA's Paycheck Protection Program Loan Review Processes* ([Report 22-09](#)), we noted changes SBA made to expand access to the program for certain borrowers could have been exploited by unscrupulous applicants. In March 2021, SBA issued an interim final rule that allowed individuals who filed an Internal Revenue Service (IRS) Form 1040, Schedule C, to calculate their maximum loan amount using gross income rather than net income. This change led to a significant increase in the number of loans of \$20,833 or less, the maximum allowable loan amount for a Schedule C business with no employees.

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 (i.e., loan service providers) they hired to complete loan processes. 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 fintech lenders, Community Development Financial Institutions, and small business lending companies. SBA Lenders should be providing oversight of their third-party vendors.

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.

Managing the Oversight of Potentially Fraudulent Paycheck Protection Program Loans

We found SBA did not have an organizational structure with clearly defined roles, responsibilities, and processes to manage and handle potentially fraudulent PPP loans in our inspection *SBA's Handling of Potentially Fraudulent Paycheck Protection Program Loans* ([Report 22-13](#)). The agency did not establish a centralized entity to design, lead, and manage fraud risk because it 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 fraudulently obtained funds that remained in the borrower's account. SBA did not provide lenders sufficient and specific guidance to effectively handle potentially fraudulent PPP loans. To better mitigate fraud, we made two recommendations for SBA to establish clearly defined and detailed roles, responsibilities, and processes and provide lenders formal guidance for managing and handling potentially fraudulent loans.

Agency Progress

SBA has made substantial progress in reducing fraud risk moving forward, including:

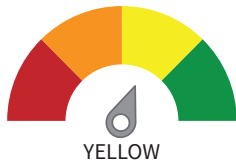
- Establishing a Fraud Risk Management Board in 2022;
- Developing a webpage dedicated to preventing fraud and identity theft, which includes a section titled "Lenders and Fraud Response";
- Developing aggregate review processes to identify different fraud scenarios;
- Developing and implementing a Master 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 before loans were approved;
- 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;
- Developing a plan for recovering PPP funds; and
- Developing and implementing controls to enhance the loan review process, specifically for loans with a no further action decision made by contractors.

Remaining Challenges

Although SBA has made substantial progress in this area, the need to establish and use a clearly defined and comprehensive approach for managing and handling potentially fraudulent PPP loans, to include sufficient guidance when implementing similar future programs, remains an ongoing challenge.

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. We will continue to monitor agency actions to assess and reduce fraud risk and address vulnerabilities in the PPP. Strong internal controls will help reduce fraud risk and enhance program integrity for the PPP and similar programs enacted in the future.

ISSUE: PAYCHECK PROTECTION PROGRAM ELIGIBILITY



PPP funds could still be returned to Treasury as loan forgiveness reviews continue. SBA's PPP risk management approach was intentionally developed with eligibility controls at the loan forgiveness phase, the final phase, rather than at application.

OIG reviews have found deficiencies with internal controls related to eligibility of borrowers. Our review of SBA's implementation of the PPP identified thousands of loans provided to potentially ineligible borrowers. SBA lenders also inappropriately approved loans for businesses that exceeded maximum loan amounts for the number of employees and exceeded the maximum size allowed. Also, SBA lenders approved loans for nonprofit organizations that did not meet SBA's eligibility requirement for size standards.

We have several concerns from past audit work that falls under this issue, so we are highlighting here major concerns which are still being addressed by the agency.

Businesses Exceeding Maximum Loan Amounts

In our *Inspection of SBA's Implementation of the Paycheck Protection Program* ([Report 21-07](#)), 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. The CARES Act states that the maximum loan amount is generally 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. We made six recommendations to improve SBA's program and reduce the risk of financial loss from PPP loans made to ineligible or fraudulent borrowers.

Businesses that Exceeded Maximum Size Standards

In Report 21-07, we also identified hundreds of businesses that exceeded the maximum size standard and may have been erroneously approved for PPP loans. 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.

Eligibility for Nonprofit Organizations

In our inspection report *Paycheck Protection Program Eligibility for Nonprofit Organizations* ([Report 22-21](#)), we identified 179 PPP loans, totaling approximately \$684 million, made to potentially ineligible nonprofits that may have exceeded SBA's requirements for business size at the time of application.

We also reviewed PPP loans for three large nonprofits. We determined that two of the three large nonprofits met the eligibility requirements and one of the large nonprofits did not meet the eligibility requirements. We recommended SBA review the 179 PPP loans to ensure eligibility requirements were met and seek remedy or repayment for all loans deemed ineligible.

Borrowers with Treasury's Do Not Pay Data Matches

In our management alert *Paycheck Protection Program Loan Recipients on the Department of Treasury's Do Not Pay List* ([Report 21-06](#)), we found SBA did not use Treasury's Do Not Pay system data to screen borrowers for eligibility before approving PPP round one loans. Following OIG oversight and communication with the agency, SBA started checking loan applicants against Treasury's Do Not Pay database. The U.S. Department of the Treasury's Do Not Pay system is the designated source of centralized data and analytics services to help agencies verify eligibility. The Payment Integrity Information Act of 2019 requires agencies to establish pre-award procedures to determine eligibility and prevent improper payments before the release of any federal funds. The law further specifies the use of Do Not Pay data sources as a control to determine program or award eligibility.

Agency Progress

SBA has initiated several corrective actions to enhance and develop additional controls to address loan reviews, loan forgiveness, and fraud, including:

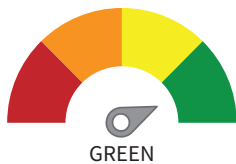
- Developing the Master Review Plan, establishing guidelines for loan and forgiveness reviews;
- Implementing SBA and contractor fraud risk management policy and framework;
- Developing machine learning models to focus on areas of higher risk;
- Implementing automated screening to detect potentially ineligible loans;
- Developing a plan for recovering PPP funds; and
- Continuing manual reviews of loans flagged for potential eligibility issues.

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



OIG's flash report *SBA's Implementation of the Paycheck Protection Program Requirements* ([Report 20-14](#)) 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 flash report found that SBA's demographic information for underserved markets for PPP borrowers was incomplete. SBA's borrower application for PPP did not include standard SBA fields to request demographic information. 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. We believe sufficient data still may not be collected.

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

North American Industry Classification System Data Was Incomplete

In our *Inspection of SBA's Implementation of the Paycheck Protection Program* ([Report 21-07](#)), we found SBA's loan-level data on PPP NAICS codes was incomplete. 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, identified as unclassified establishments because there was no industry classification data on the application.

Job Statistics Were Inaccurate and Incomplete

Also in Report 21-07, we found SBA's loan-level data for job statistics was inaccurate and incomplete. We found that 191,003 loans approved in 2020, 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 for faster approval. 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 for the number of current employees, these loans, totaling about \$4 billion, were not validated before approval and issuance of loan numbers to PPP lenders.

Agency Progress

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

- Adding mandatory fields in borrower and lender application processes;
- Updating controls to ensure data accuracy 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; and
- Launching a new data reporting webpage for public and SBA stakeholders with links to several public SBA reports and datasets.

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.

COVID-19 ECONOMIC INJURY DISASTER LOAN

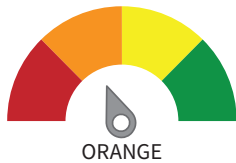
As a result of the pandemic's widespread economic effects on the U.S. economy, Congress approved legislation that increased funding to SBA's disaster assistance program, providing \$470 billion in funding to the Economic Injury Disaster Loan (EIDL) program and \$20 billion for emergency grants for eligible entities, which was then increased to \$35 billion in 2021.

This program was different from the PPP in that a COVID-19 EIDL was a direct loan from the government, requiring collateral or personal guarantees from borrowers depending on the amount of the loan. SBA relied initially on a quick online application and self-certification of eligibility. Later, once authorized by Congress to do so, the agency required Internal Revenue Service (IRS) tax transcripts to confirm business income and expenses.

The COVID-19 EIDL represented a significant increase over all disaster loan funding disbursed in the agency's 70-year history. Since the agency's inception in 1953, SBA has approved 2.2 million disaster assistance loans, totaling \$66.7 billion. From March 2020 to the end of the program in May 2022, so in a little over 2 years, SBA approved approximately 4 million COVID-19 EIDLs totaling \$387 billion.

Like the PPP, the significant increase in demand for disaster funding and the stress on SBA systems created considerable challenges. Again, fraudsters took advantage of the crisis and weak internal controls in SBA's programs. The magnitude of fraud in this program will become more apparent as delinquent loans are liquidated and charged-off and investigations are adjudicated.

ISSUE: SBA MUST REVIEW COVID-19 EIDLs AND GRANTS FOR POTENTIAL FRAUD IDENTIFIED IN OIG REPORTS



Because the COVID-19 EIDL program has closed, the issue has evolved from preventing fraud in the program to identifying and remedying fraud that has already occurred. In our white paper *COVID-19 Pandemic EIDL and PPP Loan Fraud Landscape* ([Report 23-09](#)), we estimated SBA disbursed over \$136 billion in potentially fraudulent COVID-19 EIDLs, which represents 33 percent of total disbursed funds.

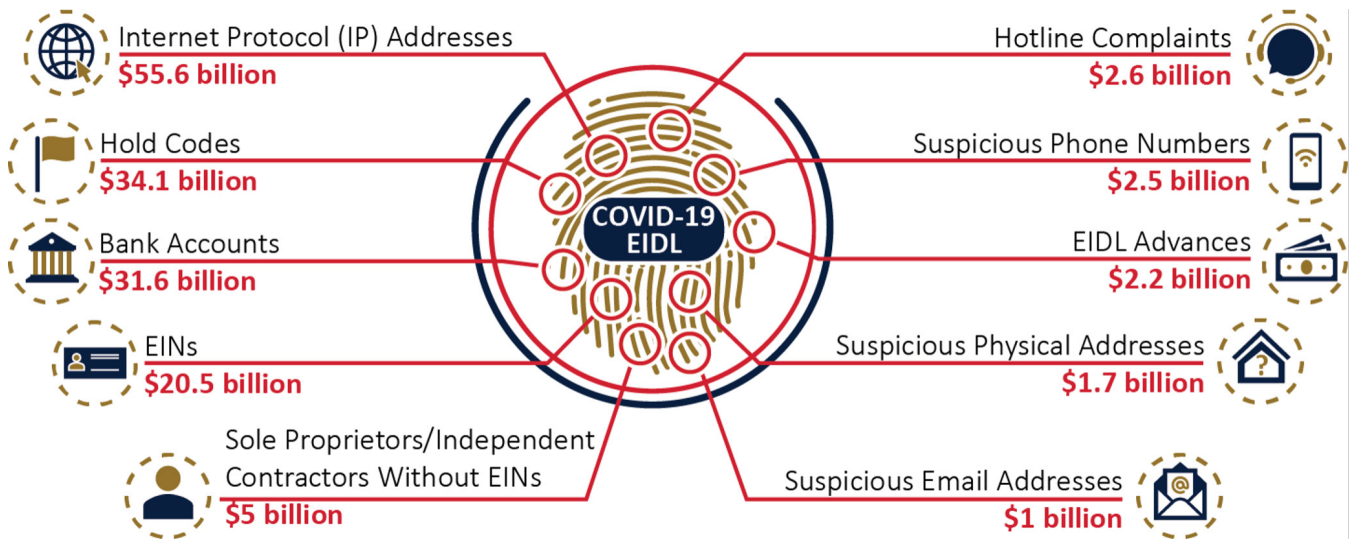
As described above in the PPP section of this report, we identified multiple fraud indicators and schemes used by fraudsters to steal from the American taxpayer and exploit programs meant to help those in need. The potential fraud estimates directly correlate to our investigative casework, adjudicated and ongoing criminal cases, and to schemes OIG and other oversight agencies are continuing to unravel and then prosecute. These indicators will continue to evolve as more data becomes available to us.

Indicators of potential COVID-19 EIDL fraud include:

- Internet Protocol (IP) addresses — loan applications submitted from a foreign country, so likely ineligible, or from an IP address that matches another application, indicating possible duplication of loan requests.
- Hold codes — loans flagged by SBA or a third party that identified potential indicators of fraud.
- Bank accounts — SBA disbursed funds for multiple loans to the same bank account; borrowers who changed their bank account information during the application process, or those whose bank account matches other applications.
- Employer Identification Numbers (EIN) — borrowers who appeared to have established their business after the qualifying date, EINs matching those of other COVID-19 EIDLs, and borrowers with an EIN that is improperly formatted or begins with an invalid prefix, masking a nonexistent or ineligible business.
- Sole proprietors/independent contractors without an EIN — borrowers who claim to employ more than one person but did not use an EIN in their application. The IRS requires all businesses that employ more than one person to register for an EIN.
- Hotline complaints — the loan was the subject of an OIG Hotline complaint.
- Suspicious phone numbers — borrowers whose phone numbers match those in other applications.
- COVID-19 EIDL Targeted Advances — applicants who received advances SBA identified as potentially fraudulent.
- Suspicious physical addresses — borrowers whose addresses match other applications found to have a higher likelihood of fraud.
- Suspicious email addresses — borrowers whose email addresses are from potentially temporary domains, have modifications or match those in other applications.

See Figure 3 for the total disbursed dollar value estimate of each COVID-19 EIDL fraud indicator. The aggregate of each group total differs from the total potential fraud estimate because duplicates across groups may exist, while duplicates are removed from the total potential fraud estimate.

Figure 3: Summary of Potentially Fraudulent COVID-19 EIDLs by Fraud Indicator



Source: OIG analysis of COVID-19 EIDL data

We have several concerns from past audit work that falls under this issue, so we are highlighting here major concerns which have not yet been addressed by the agency. Although the loans and grants we have cited may overlap with each other, the total potential fraud estimate presented in our fraud landscape white paper removed duplicate loans. Per our estimate, there are over \$136 billion in COVID-19 EIDLs and grants that require further investigation.

Ending Collections

In our management advisory *Ending Active Collections on Delinquent COVID-19 Economic Injury Disaster Loans* (Report 23-16), we reported that in April 2022, SBA decided to cease some active collection activities, such as foreclosure on property collateral and wage garnishment, on all delinquent COVID-19 EIDLs with an outstanding balance of \$100,000 or less. While SBA indicated it will not end collection efforts on any amount that appears to be, or has been, reported as fraudulent, false, or misrepresented, these loans only represent \$11.2 billion of the \$70.9 billion COVID-19 EIDLs that are \$100,000 or less.

As indicated in our fraud landscape white paper, \$136 billion COVID-19 EIDLs were determined to be potentially fraudulent. Of this amount, \$25.9 billion were for loans valued at \$100,000 or less. We estimate that SBA will cease active collection activities on \$14.7 billion potentially fraudulent COVID-19 EIDLs valued at \$100,000 or less, which could violate the federal law that prohibits agencies from ending collections on fraudulent, false, or misrepresented claims.

Foreign IP Applications

Our evaluation report *COVID-19 Economic Injury Disaster Loan Applications Submitted From Foreign IP Addresses* (Report 22-17) found that SBA approved and disbursed 41,638 potentially fraudulent COVID-19 EIDLs, advances, and grants totaling \$1.3 billion that were submitted from foreign IP addresses.

Although applicants that reside overseas may qualify for this assistance, transnational crime entities in foreign countries have fraudulently obtained funding from this and other U.S. programs in the past. The numerous applications submitted from foreign IP addresses are an indication of potential fraud that could involve international criminal organizations. OIG has ongoing investigations into international organized crime operations that applied for and stole pandemic relief funds.

We recommended the agency review the loans in our test sample and the \$1.3 billion disbursed to applicants from foreign IP addresses. We also recommended SBA recover any disbursed loans and advances determined to be ineligible or fraudulent. Additionally, we recommended that the agency examine controls related to foreign IP addresses and ensure these controls are more effective in future disaster processing systems.

Treasury's Do Not Pay List

Our management advisory *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 suspect loans identified in this report.

We made three recommendations for SBA to use the Do Not Pay system to prevent improper payments, including for SBA to use the batch match or continuous monitoring functions available in Treasury's Do Not Pay portal to identify potentially ineligible applicants. We are currently assessing whether SBA effectively implemented controls, utilizing the Treasury Do Not Pay databases to ensure only eligible recipients received COVID-19 EIDLs and grants.

Fraudulent Advances and Grants

Our inspection of *SBA's 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. Eligible applicants were entitled to receive \$1,000 per employee up to the CARES Act mandated maximum amount of \$10,000. The report identified 542,897 sole proprietors and 161,197 independent contractors who received a grant of more than \$1,000 but did not have an Employer Identification Number (EIN). The absence of a provided EIN may indicate the applicants should have claimed no employees. We recommended SBA remedy \$4.5 billion in funds disbursed in excess of its statutory allowance to sole proprietors and independent contractors.

Control Weaknesses

Since the start of the pandemic, we have identified potential fraud resulting from serious control weaknesses in the system SBA used to process COVID-19 EIDL and grants. Our *Inspection of SBA's Initial Disaster Assistance Response to the Coronavirus Pandemic* ([Report 21-02](#)) identified \$78.1 billion in potentially fraudulent loans and grants to borrowers who changed their bank account from the original account listed on the loan application prior to disbursement; borrowers who used the same IP address, email address, bank account, or physical address; and potentially ineligible businesses. We made 10 recommendations to SBA to strengthen its controls to lower fraud risk and recover funds from ineligible businesses. Of those, seven recommendations have been closed.

Our *Follow-up Inspection of SBA's Internal Controls to Prevent COVID-19 EIDLs to Ineligible Applicants* ([Report 22-22](#)) found that SBA did not implement the IRS tax transcript requirement in a timely manner, potentially disbursing COVID-19 EIDLs to ineligible entities. In the 4 months after Congress removed the tax return prohibition, SBA disbursed \$92 million to businesses with suspect tax ID numbers. Also, SBA approved and disbursed 20 loans totaling \$1.9 million to businesses that did not exist on or before January 31, 2020, had an unknown start date, or had other red flags, including change of registered agent shortly before the application date, evidence of falsified documents, or evidence that the applicant did not own the business. Ten of these loans were flagged by SBA for suspected fraud. We recommended SBA recover funds disbursed to ineligible applicants identified in our sample and review the remaining COVID-19 EIDL disbursements with suspect tax ID numbers to determine if the business applicant was legitimate.

Agency Progress

SBA made some progress in addressing this issue, implementing new controls in the EIDL program in 2021, such as:

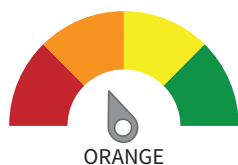
- Reviewing correspondence and making loan referrals to OIG in response to identity theft complaints;
- Validating business addresses with the U.S. Postal Service and location indicators; and
- Implementing multi-factor authentication and automated reviews, such as checking Treasury's Do Not Pay database.

In addition, the fraud review team within the SBA Office of Performance, Planning, and the Chief Financial Officer collaborated with the Office of Capital Access 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 to research suspected cases of identity theft and fraud.

According to SBA, if it is determined that a file should be flagged for suspected fraud or identity theft, an agency hold 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 on hold for review to make a fraud determination. The agency hold review system allowed staff to review and recategorize or refer agency holds to the disaster fraud review team.

SBA has made progress in identifying and reviewing fraud and agency holds, but the sheer volume of potential fraudulent loans and grants discovered in OIG reports will be a continuing challenge for the agency. The deferment period ended for some COVID-19 EIDLs in October 2022, and borrowers were expected to begin making payments on these loans. As of October 2023, approximately 20 percent of active performing loans, totaling \$77 billion, are past due, delinquent, or in liquidation. SBA anticipates the majority of these loans will require liquidation and charge-off. Another \$47.7 billion in COVID-19 EIDLs has already been charged-off. We discuss this issue to a greater extent in this report. OIG's ongoing reviews will continue to assess SBA's progress in addressing potential fraud in the COVID-19 EIDL program.

ISSUE: UNPRECEDENTED INCREASE IN SERVICING COVID-19 EIDLs



Before the COVID-19 pandemic, SBA was servicing about 263,000 outstanding disaster loans, totaling approximately \$9 billion, across the three servicing centers. SBA maintains two Disaster Loan Servicing Centers, one in Birmingham, Alabama and the other in El Paso, Texas, to service 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.

As a result of the unprecedented number of pandemic relief loans, SBA is now servicing about 3.7 million outstanding disaster loans — 15 times what the agency was doing before the pandemic. A total of 30 months of payment deferment was instituted for all COVID EIDLs. The end of this deferment period began 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.

SBA indicated there were over 764,000 COVID-19 EIDLs, totaling \$77 billion, that are either past due, delinquent, or in liquidation as of October 2023. In addition, \$47.7 billion in COVID-19 EIDLs have been charged-off. We have not yet validated this data.

Agency Progress

SBA officials have made some progress to service a historic number of outstanding loans, such as:

- Establishing the standalone COVID-19 EIDL Servicing Center in Fort Worth, Texas, which became fully functional in the first quarter of FY 2023 with 500 employees handling the first loans that entered repayment status. Hiring continued at an intentionally measured pace as more loans reentered repayment status. By the first quarter of FY 2024, 1,841 employees were servicing over 3.7 million loans with a total value of \$349 billion. Recently, SBA stated it is servicing more than 90 percent of the COVID-19 EIDL portfolio after deferments were ended.
- Establishing a dedicated phone number (1-833-853-5638) and general email address inbox (covideidlserviing@sba.gov). Loan servicers use an internal tracking system with controls to administer and monitor servicing in a timely manner.
- Transitioning to a borrower portal, MySBA Loan Portal, active as of the second quarter of 2023, that allows all SBA borrowers to access their loan details, obtain billing notices, and make payments and includes a link for submitting suspected identity theft claims. The loan portal is automated to mail letters, send emails, and call past-due borrowers at regular intervals.
- Enabling a pay-by-phone capability in the third quarter of 2023.
- Issuing Policy Notice 5000-840468, COVID-19 EIDL Servicing and Liquidation, effective December 2022, giving specific requirements on collecting documentation and deciding on different servicing requests.
- Implementing a new hardship accommodation process in November 2022, which allows COVID-19 EIDL borrowers to obtain 6 months of reduced payments, which remains available in FY 2023.

This issue remains a significant challenge for SBA because it is still unclear if the agency will be able to service and collect its entire COVID-19 EIDL portfolio.

Challenge 2: 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, 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 2022 goal, awarding 26 percent of prime contracts to small businesses. Though the overall percentage awarded decreased from FY 2021 goaling achievements, the contracts awarded to small businesses in FY 2022 totaled \$162.9 billion, an \$8.7 billion increase from the previous fiscal year. SBA reported the federal government earned an “A” on this year’s government-wide scorecard.

SBA’s achievement reports do not portray federal contracting dollars ultimately earned by 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.

This risk is revealed in OIG audits on how federal agencies award contracts to small firms with provisions or other contract language that allows larger companies to do most of the work. Although the agencies report these awards as part of their small business contracting goaling achievements, the true percentage of work performed is misreported in these instances. We found this to be the case in our *Evaluation of SBA’s Contract for Disaster Assistance Loan Recommendation Services* ([Report 22-10](#)). SBA awarded the contract using procedures that restricted the competition for the award to small businesses. The business SBA made the award to then subcontracted with a large business. SBA did not adequately assess whether the relationship between the small and large businesses made them affiliated. Also, we found the contractor exceeded the limit for how much of the work it could subcontract.

We found the subcontracting limits were exceeded in another recent evaluation of an SBA agreement that was awarded as a set-aside for an 8(a) small business in *SBA’s Awards for Staffing Support for COVID-19 Economic Relief Loan Programs* ([Report 23-11](#)). Specifically, we found SBA did not ensure the small business complied with the subcontracting limitations for 5 of the 29 contracts we reviewed. For those five orders, the small business subcontracted an average of 93 percent of the work to firms that were not similarly situated and exceeded the 50 percent limitations on subcontracting.

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.

ISSUE: AGENCIES RECEIVE CREDIT FOR INELIGIBLE FIRMS OR THOSE NOT PARTICIPATING IN SBA’S CONTRACTING PROGRAMS



SBA program success and integrity could be adversely affected if the agency admits ineligible firms into programs intended for disadvantaged small businesses. OIG continues to find that SBA does not consistently detect ineligible firms in its small business contracting certification programs. SBA needs to further strengthen its controls in reviewing eligibility to ensure that only businesses meeting program requirements are awarded contracts.

Agency contracting officers have incorrectly reported awards were made to firms certified as HUBZone or 8(a) Business Development program businesses in the System for Award Management (SAM.gov). In 2020, the General Services Administration (GSA) 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.

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 small, disadvantaged 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.

We also found SBA's Dynamic Small Business Search database did not consistently update when SBA made decisions on applicants' WOSB certifications. Contracting officers throughout the government rely on the certification status reported in the database, the system of record for SBA's small business contracting programs. The Dynamic Small Business Search database integrates with SAM.gov. Without reliable information, contracting officers may be awarding contracts set aside for disadvantaged small businesses to ineligible firms.

We have several concerns from past audit work that falls under this issue, so we are highlighting here major concerns which are still being addressed by the agency.

HUBZone Eligibility Requirement

GAO's *Small Business Administration Could Further Strengthen HUBZone Eligibility Reviews in Puerto Rico and Programwide* ([GAO-18-666](#)) and OIG's audit *SBA's HUBZone Certification Process* ([Report 19-08](#)) found SBA did not ensure only eligible firms entered the HUBZone program.

This program was created to bring more economic opportunity to small, disadvantaged businesses and workers located in areas categorized as historically underutilized business zones. In late 2019, SBA changed a HUBZone requirement allowing the businesses to employ a large percentage of its workforce outside the HUBZone, widening eligibility and, we believe, deviating from congressional intent. Under the new requirement, the business continues to qualify as long as it has employees who lived in a HUBZone for at least 180 days leading up to the date of recertification. This means HUBZone businesses could have no employees residing in the HUBZone and still qualify.

Small, Disadvantaged Business Goaling

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. SBA program success and integrity could be adversely affected if the agency admits ineligible firms into programs intended for disadvantaged small businesses. SBA terminated its small, disadvantaged business certification program in 2008 as a result of past court decisions. Since then, firms have been allowed to self-certify, opening up the designation to risk. As of September 2023, SBA's Dynamic Small Business Search database included 300,836 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.

Based on FY 2022 contract data retrieved from SAM.gov, as much as \$16.5 billion in prime contracts was awarded to small, disadvantaged businesses without a certification overseen by SBA. 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.

Even though self-certification is inherently risky, SBA removed regulations allowing for protests of a firm's small, disadvantaged business status in FY 2020. SBA manages a protest process, which means interested parties to the contract that had been set aside for small businesses can challenge the size or status of an entity in line to receive the award. This process is intended to instill integrity within SBA's small business contracting programs.

While firms were still subject to protests related to their small business size, business owners' status as socially or economically disadvantaged could not be challenged. We discovered this oversight and reported it to SBA. In September 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. The agency recently issued a final rule, effective May 30, 2023, to allow for reviews of the small, disadvantaged businesses status.



Agency Progress

SBA has made substantial progress in adding controls to detect ineligible firms in the HUBZone program, such as:

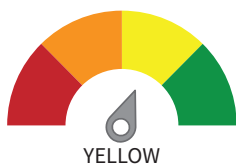
- Updating procedures and training staff on its HUBZone policy directives to standardize analysis and oversight;
- Requiring each firm complete a program examination every 3 years;
- Taking action to decertify firms that are no longer eligible for the program, decertifying 3,750 firms as of June 1, 2023; and
- Educating HUBZone firms on meeting part-time employee requirements.

While recent regulatory and procedural changes improved SBA's oversight of firms in the HUBZone program, the changes also removed a certain control that we believe is essential for proper oversight. The new HUBZone employee residency requirement could reduce the program's ability to meet legislative intent. Allowing certified businesses to count employees who are not current HUBZone residents does not help provide economic opportunity to HUBZone residents.

SBA has achieved significant progress on the issue involving small, disadvantaged business goaling by making the following improvements during FY 2023:

- SBA recently issued a final rule, effective May 30, 2023, to allow for reviews of the small, disadvantaged businesses status.
- SBA strengthened the process it uses to alert other federal agencies of potentially inaccurate contracting data in SAM.gov, the system SBA relies on to assess government-wide goaling achievements and grading federal agencies using the small business contracting scorecard.
- SBA improved its regulations for handling protests, requiring that program officials review entities representing themselves as a small, disadvantaged business on a federal prime contract or subcontract whenever the agency receives credible information.
- SBA also worked with GSA to add clarifying language to SAM.gov so that business owners self-certifying as a small, disadvantaged businesses are prompted to review the definition in the Federal Acquisition Regulation.

ISSUE: WOMEN-OWNED SMALL BUSINESS FEDERAL CERTIFICATION PROGRAM SUSCEPTIBLE TO ABUSE



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 via WOSB.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 the economically disadvantaged women-owned small business.

In our audit *SBA's Implementation of the Women-Owned Small Business Certification Program* ([Report 22-20](#)), 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. 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 showing that 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.

SBA and other agencies rely on a third party for many WOSB certifications, but SBA is still not conducting consistent reviews of these organizations to make sure only qualifying women-owned businesses receive the benefit. 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 progress toward addressing risks in the Women-Owned Small Business program, including:

- Launching WOSB.Certify.sba.gov, the operational platform used to manage the certification process for the WOSB and economically disadvantaged women-owned small business programs in July 2020;
- Conducting WOSB certification determinations in October 2020;
- Hiring additional WOSB analysts, a program director, and increased the number of staff supporting the program;
- Holding bi-weekly webinars to help prepare the firms whose applications were returned for a more successful reapplication;
- Implementing new measures to verify WOSB program data and develop repairs or workarounds to reduce the risk of reporting inaccurate data in FY 2023;
- Cross-checking data between databases to identify and remedy errors on a semi-annual basis; and
- Establishing a desk guide in December 2022 for staff to follow when reviewing applications.

Although SBA has drafted standard operating procedures for application reviews, SBA managers determined they would not implement OIG's recommendations to review documentation to verify that applicants meet small business size standards. SBA disagreed with OIG's interpretation that the 2015 National Defense Authorization Act required SBA to verify that the business was small in addition to the requirement that the business be owned and controlled by a woman. We alerted the Audit Follow-up Official of our concerns in accordance with our policy. The Audit Follow-Up official decided the agency would continue to allow applicants to self-certify that the business met size standards. While OIG believes that removing self-certification from the WOSB program is essential to reducing the risk, OIG will not take further action and has closed the recommendation.



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

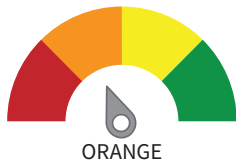
Why This Is a Challenge

The inherent risks and related internal controls related to this challenge are included on the Government Accountability Office's (GAO) 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 uses third-party providers to provide application processing services for multiple assistance programs, including veteran assistance and loan processing. 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. Commercial software development requires transparency, ability to resist attack, and controls to prevent tampering by malicious actors. Moreover, SBA needs to implement rigorous and predictable programs to monitor supply chain security over this software.

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



Effective IT system design and development improve business processes and reduces the cost of providing essential government services. SBA must establish effective IT investment controls to ensure the agency meets performance metrics, projected schedules, and estimated costs.

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, also known as the Information Technology Management Reform Act. It 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. This oversight is critical to ensure systems are delivered in a cost-effective manner and that SBA's technical infrastructure is designed and maintained properly.

The BTIC met in September 2022 to start a re-design of its oversight controls. These controls will address project investment cost, schedule, and performance. The re-design will provide improved oversight of project schedules and costs.

Standard Operation Procedure (SOP) 90 82, Procedure for Managing SBA IT Investments Investment Review Board, requires an investment control framework to integrate investment planning and execution. This policy specifically requires reviews be conducted on an annual basis to determine the overall health of an existing investment, approve project level requests, and assign project resources if needed. SBA's SOP 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

After reviewing February 2023 SBA BTIC meeting minutes, we found many investment controls previously identified as missing in the FY 2020-2022 timeframe, were still not in place. We found the BTIC did not consistently report on the performance of previous IT investments or provide the basis of its acceptance or continuation of new and existing investments.

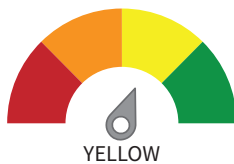
Until this process is implemented there will be little oversight over SBA's IT investments. The agency made progress in designing a new investment oversight framework, but preliminary implementation of this re-design is not planned until the second quarter of FY 2024.

SBA can improve in these specific areas:

- Full adherence to preliminary design criteria and agency SOPs, which includes approval by the BTIC and Architectural Review Board.
- Effective project baseline management, which allows planned results to be assessed against investment performance and then actions taken to improve performance.
- Ongoing quality assurance reviews to assess development progress, improvement, baseline management policy controls.
- Periodic analysis of investment performance throughout the project lifecycle to identify improvement areas.

Full implementation of the above controls will allow senior agency leaders, Congress, and other stakeholders to better gauge SBA's IT oversight and performance. These controls will deter fraud and better protect the identity of taxpayers who have received SBA assistance.

ISSUE: EXISTING SYSTEM DEVELOPMENT AND MONITORING CONTROLS NEED TO REFLECT CHANGING IT DESIGN RISKS



Our past audit work identified multiple areas in system development and monitoring controls requiring improvement. Through our FISMA evaluations and monitoring of open recommendations, we found the agency made progress in these areas. SBA updated its policy for System and Organization Controls (SOC) 1 Type 2 reports. Yet we found these issues with SBA's system development methodology and system acceptance controls. Many of the control areas identified below will be tested in our ongoing audits and evaluations.

Communication and Mitigation of Privacy Risks

In the last 3 years, OIG has identified potential privacy and identity internal control weaknesses. In *COVID-19 and Disaster Assistance Information Systems Security Controls* ([Report 22-19](#)), we recommended that a process be established to communicate identified privacy and identity risks. FISMA criteria recommends the development of performance metrics to monitor the effectiveness of SBA's privacy internal controls. The agency has revised its privacy impact assessment process to address this issue.

Coordination of System Contracts and Data Management Oversight

In our Report 22-19, we also found SBA managers did not fully implement controls to show that external service providers adhered to federal cybersecurity and supply chain risk management requirements. Also, SBA management did not document assessment and review of the supply chain-related risks as required by FISMA guidance.

We recommended that SBA enforce the requirement to establish and implement internal controls to ensure program officials perform and document contract reviews. This will ensure that information security is addressed in the contract language, as required by OMB Circular A-130 and SBA SOP 90 47 6.

FISMA guidance requires continuous monitoring of third-party software security controls. SBA officials stated they would revise their IT Governance Framework to ensure contracts are updated with the appropriate security language.

Monitoring of Third-Party Systems

In our Report 22-19, we recommended SBA fully update its policy to provide 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.

In response to Report 22-19, SBA plans to revise the agency's SBA System Development Methodology and provide procedural guidance over supply chain risk management practices including applications with high-value asset system designation.

Updated System and Organization Controls Reports

In the *Independent Auditors' Report on SBA's Fiscal Year 2022 Financial Statements* ([Report 23-02](#)), the 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. The SOC 1 Type 2 report provides assurance that reported financial data is complete and reliable.

SBA has updated its policies to ensure that prior to issuing a contract, SOC 1 has been reviewed and impact assessed on SBA internal controls as well as modify ongoing contracts where a SOC 1 may be necessary.

System Acceptance Controls and Monitoring to Limit Risk

In our Report 22-19, we recommended SBA meet federal guidance in delivering program funds to eligible taxpayers. Testing protocols must be fully implemented, even within limited timeframes, and then independently tested to ensure they operate as designed. Acceptance criteria must also specify the minimum desired functionality acceptable for a system to be put into operation.

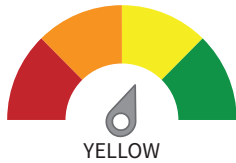
Agency Progress

Through our FISMA evaluations and monitoring of open recommendations, we found the agency made progress updating its policies to ensure that prior to issuing a contract, security controls have been reviewed and impact assessed and modifying ongoing contracts where a SOC 1 may be necessary.

In response to OIG Report 22-19, SBA plans to revise the agency's System Development Methodology; and provide procedural guidance over supply chain risk management practices, including applications with high-value asset system designation.

The agency stated it will update policy to require that all systems include an assessment of security risk management activities via the Cyber Risk Management Platform by July 31, 2024.

ISSUE: ADDITIONAL PROGRESS NEEDED IN IT SECURITY CONTROLS



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.

For FY 2023, the scope of the FISMA evaluation included a core set of 20 metrics and a supplemental set of an additional 23 metrics. The maturity model criteria places SBA at an overall level of “not effective.”

Agency Progress

The current benchmark for an effective program within the context of the maturity model is managed and measurable. SBA quickly responds to identified vulnerabilities but continues to experience reoccurring control challenges in the areas of user access, configuration management, and security training and risk management.

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

Why This Is a Challenge

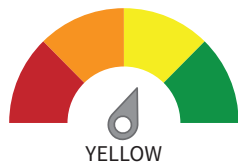
SBA's Office of Credit Risk Management manages credit risk for the agency's loan portfolio of approximately \$173 billion (as of December 2022), and this includes the remaining outstanding loans made through the Paycheck Protection Program (PPP). As discussed in Management Challenge 1, SBA's lack of internal controls led to significant fraud risk and vulnerabilities. Additionally, we found SBA did not have an organizational structure with clearly defined roles, responsibilities, and processes to manage and handle potentially fraudulent PPP loans. As of December 2022, SBA has made forgiveness payments exceeding \$750 billion to over 4,700 PPP lenders, which the SBA Office of Credit Risk Management has the responsibility to oversee. PPP loans were 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 2024.

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 our *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



The risks inherent in delegated lending require effective oversight to monitor compliance with SBA policies and procedures and corrective actions to address noncompliance. However, in Report 20-03, we found that the SBA Office of Credit Risk Management did not always effectively oversee high-risk lenders to identify and mitigate risks. Specifically, 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, and
- 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 and, in FY 2021, improved its ability to oversee high-risk lenders by:

- Issuing the Final 7(a) Lending Oversight Rule and publication of Standard Operating Procedure (SOP) 50 53 (2) on supervision and enforcement,
- Realigning the organizational structure of the Office of Credit Risk Management to strengthen lender oversight and add resources to the review teams for effective oversight, and
- Implementing quarterly meetings to ensure adequate oversight of lenders with elevated risk profiles.

In FY 2023, SBA continues to revise SOP 51 00 2, On-Site Lender Reviews/Examinations, and document the process for on-site lender reviews and examinations, which is planned to be finalized by the agency in December. This revision will include the communications protocol that was developed by SBA to document deficiencies identified during loan file reviews and to then share this information with SBA loan centers and other internal stakeholders.

In FY 2023, SBA took additional actions to improve its ability to oversee high-risk lenders by issuing SOP 50 56, Lender Participation Requirements. The agency increased frequency of review activities for 7(a) Lenders with portfolios of \$350 million or greater and SBA Supervised Lenders. It increased review activity with the Office of Performance and Systems Management and Fiscal and Transfer Agent to assist lenders with loan reporting compliance.

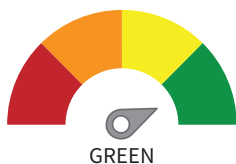
The agency implemented a scaled down review for 7(a) lenders with delegated authority and 7(a) loan portfolios between \$1 million and \$10 million to review between one and three recently disbursed loans. It implemented quarterly reviews where the sample is taken from high-dollar loans coded as early defaults. SBA formalized quarterly high-risk lender meetings where lenders with an elevated risk profile are discussed and SBA leaders ensure that oversight activity is adequate.

Although SBA has made substantive progress, it has not addressed the remaining three recommendations in Report 20-03. Agency management has indicated it needs time to finalize and implement oversight policies and procedures, including SOP 51 00 2. Agency managers need to obtain additional information to confirm that identified deficiencies have been corrected.

While SBA has made substantial progress in its oversight of high-risk lending participants, in [Report 23-05](#), *White Paper: 7(a) Loan Program During SBA's Response to the COVID-19 Pandemic*, we found oversight staffing levels in the Office of Credit Risk Management decreased from 42 to 26 employees, or by 38 percent. This staff reduction could affect SBA's FY 2023 goal for oversight reviews, which help ensure lender compliance with program requirements and sustain the progress SBA has achieved addressing this issue. The report indicated that to ensure 7(a) loan program integrity and reduce the risk of financial loss, SBA should consider potential risks related to staffing shortages in its 7(a) risk strategy. Since Report 23-05 was issued, SBA stated that the Office of Credit Risk Management has been successful in recruiting additional staff and utilizing staff from other departments and contract personnel.

OIG will continue to monitor SBA's ongoing efforts to address open recommendations in this report, 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



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.

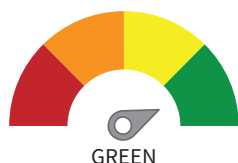
Agency Progress

SBA's oversight of loan agents has been a long-standing challenge that the agency has made great progress in resolving. SBA took actions to improve the information collected on loan agents by enhancing Form 159, which improved its ability to oversee loan agents. The improvements included:

- Requiring lenders to electronically submit Form 159s through the Capital Access Financial System,
- Developing application and follow-up controls to ensure critical fields on each form are completed,
- Aggregating and reporting on loan agent activity to analyze lender portfolios, and
- Considering the loan agent activity for lenders under review and regularly reporting on risks associated with loan agents across the 7(a) portfolio.

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



In August 2021, an SBA OIG investigation resulted in the conviction of five people on all charges in a 13-year conspiracy to defraud SBA in connection with programs to guarantee loans made to small businesses.

The five people fraudulently obtained guarantees for loans SBA deemed ineligible. They 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. They 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. The limited oversight capacity within the Office of Credit Risk Management to oversee its lenders also may challenge its ability to monitor the Lender Service Providers operating on behalf of these lenders.

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. Specifically, SBA:

- Established a method to track lender service provider involvement at the loan level;
- Established procedures to assess provider activities and oversight, as part of lender risk-based reviews that include file inspection; and
- Worked with a contractor to aggregate lender usage of lender service providers and to develop a performance analysis for lender service provider portfolios to identify any high-risk providers and identify the lender with whom they are aligned.

SBA's analyses since 2021 have indicated that loans with a lender service provider generally performed worse than those without provider involvement in both guaranty purchase and early default rates.

It remains critically important for SBA to continue to evaluate performance and act when necessary to effectively reduce the incurred risks. We will continue to assess risks and conduct further audits and reviews as necessary.

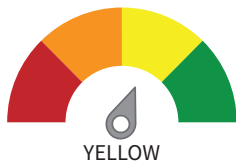
Challenge 5: SBA's Management and Monitoring of the 8(a) Business Development Program Needs Improvement

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. In looking ahead to how courts are weighing in on the aspect of social disadvantage, we anticipate effects to several of SBA's certification programs like the 8(a) program. A review of SBA's process for determining eligibility will be planned in the future. The agency continues to address the challenges in providing effective business development assistance, as well as measuring and reporting the outcomes of the program.

ISSUE: SBA CONTINUES TO ADDRESS ITS ABILITY TO DEVELOP FIRMS IN THE 8(a) PROGRAM AND MEASURE RESULTS



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, a volunteer mentor network composed of retired executives and entrepreneurs, Women's Business Centers, Veterans Business Outreach Centers, and affiliate Apex Accelerators (formerly known as Procurement Technical Assistance Centers).

Despite this, SBA has not fully established an information technology 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.

SBA has not finalized next steps for IT development that would facilitate tracking, measuring, and monitoring individual business progress. To bridge the gap in the interim, SBA in FY 2020 revised the Business Opportunity Specialist Annual Review Workbook. The specialist uses this Excel workbook for each firm during annual reviews to evaluate business development, competitive business mix of 8(a) and non-8(a) revenue, and financial condition. The specialist also reviews other business proficiencies, such as marketing and government contracting goals.

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 report *SBA's Business Development Assistance to 8(a) Program Participants* ([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 of 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

Notwithstanding the issues noted above, SBA has made substantial progress to improve its ability to develop firms in the 8(a) program and measure results. The agency has completed these things:

- Implemented a standard process to ensure initial business plans are monitored and annual reviews capture the 8(a) participant's business plan updates;
- Issued Procedural Notice 6000-836899 (effective August 2022), which standardized 8(a) business processes and required all district offices to ensure that 8(a) firms obtain their business plan approval prior to the first contract being awarded; and
- Mandated the use of the updated Business Opportunity Specialist Annual Review Workbook that track development of firms throughout the 9-year program, across all district offices when conducting annual reviews.

Officials added sections for capturing data on a firm's competencies in marketing, human resources, financial condition, sales trends, management experience, and government contracting goals. The agency is initiating plans to include a business proficiency matrix in the workbook so the specialist can use stated metrics to evaluate a firm's skill level in each competency and make referrals to resource partners or training available through SBA's 7(j) Management and Technical program, in line with the firm's business development needs.

The enhancements to the workbook will allow SBA to aggregate and analyze the data to identify trends at the 8(a) program level, which will improve SBA's ability to provide timely and accurate results of program measures and outcomes for an annual congressional report. SBA is developing a long-term strategic plan that aims to provide all 8(a) certified firms throughout the country with equitable business development assistance. When fully implemented, the enhanced processes could help emphasize business development rather than solely focusing on eligibility and annual compliance.



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

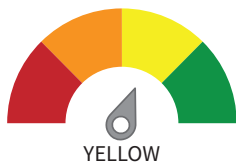
Why This Is a Challenge

OIG audits and reviews have identified 7(a) loans that were made to ineligible borrowers, 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 2022, the dollar amount of SBA's 7(a) loan approvals totaled \$25.9 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.

About 9 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 program 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 to meet its objectives for the program.

ISSUE: IMPROVEMENTS NEEDED TO ENSURE HIGH-RISK 7(a) LOAN REVIEWS REDUCE THE RISK OF LOSSES



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 used an internal scoring system to prioritize loans for review by level of risk. This evaluation included 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.

In May 2023, we reported that SBA did not demonstrate improvements to payment integrity for 7(a) loan guaranty purchases as the improper payment estimate increased between FYs 2021 and 2022, as detailed in the Independent Auditors' Report on *SBA's Fiscal Year 2022 Compliance with the Payment Integrity Information Act of 2019* ([Report 23-07](#)).

Agency Progress

Despite the issues identified in the May 2023 report, we noted that SBA has made progress in addressing the identification of improper payments in the 7(a) program since FY 2020, including:

- Allowing loan specialists more time to review complex early defaulted loans;
- Improving its review of loans;
- Training loan specialists and updating the loan review checklist;

- Providing regular feedback to loan center management and staff regarding improper payments, root causes, and corrective actions;
- Internally evaluating 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;
- Conducting a training session at the loan center focused on the requirements and SBA review of documentation related to the source of funds used for equity injection; and
- Providing training at lender conferences on the most common root causes of the improper payments.

SBA revised and issued SOP 50 57 3, 7(a) Loan Servicing and Liquidation Standard Operating Procedure, in August 2023. SBA will provide training to staff and lenders on the new SOP.

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

SBA contributes to disaster recovery 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 survivors in the immediate aftermath of a disaster 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.

ISSUE: RESERVE STAFF NEED TRAINING TO SUSTAIN PRODUCTIVITY DURING MOBILIZATION



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.

Effective July 3, 2022, the agency reorganized its Office of Disaster Assistance. SBA moved the entire disaster lending program from the Office of Disaster Assistance to the Office of Capital Access. The Office of Disaster Recovery and Resilience manages the agency's non-lending aspects of the disaster program (such as the immediate response group).

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 was increased nearly 10 times.

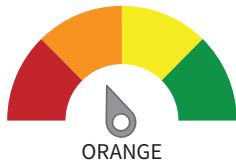
Agency Progress

SBA management made good progress on this long-term issue during the pandemic. SBA implemented a cross-functional training plan, as well as online and automated tutorials, a change that resulted from a previous report. The COVID-19 pandemic required SBA to train and mobilize the largest number of new employees ever in its history.

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, 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 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. The strain of the pandemic response effort made these concerns more evident. This is significant because SBA is developing a new computer system to process disaster loan applications. SBA is currently running a test of its Unified Lending Platform, with full implementation planned to roll out in late 2023.

ISSUE: IMPROPER PAYMENT QUALITY ASSURANCE PROCESS NEEDS STRENGTHENING



SBA received a historic number of loan applications during FY 2020 through FY 2022 when COVID-19 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 also is large, which has highlighted issues in SBA's improper payment process. As a result, providing an accurate estimate of the improper payment poses a significant challenge to the disaster program.

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). While not every improper payment is fraudulent; every fraud is an improper payment. This highlights the need to ensure internal controls result in eligible recipients gaining access to programs.

In our *Audit of the Office of Disaster Assistance Improper Payment Appeal Process* ([Report 20-07](#)), we found the improper payments appeal process effectively assessed improper payments, but the initial review process was inefficient.

Our *Independent Auditors' Report on SBA's Fiscal Year 2022 Compliance with the Payment Integrity Information Act of 2019* ([Report 23-07](#)) found the sampling and estimation methodology plans were not statistically acceptable for SBA disaster assistance loans, COVID-19 Economic Injury Disaster Loans, and Economic Injury Disaster Loan Targeted advanced programs and activities. The population of outlays reported in the agency financial report were not reconciled to the general ledger and were not complete. Consequently, certain transactions were omitted from the population and excluded from SBA's review procedures. As a result, these programs and activities did not comply with the requirement of the Payment Integrity Information Act of 2019 to publish improper and unknown payment rates of less than 10 percent.

The Payment Integrity Information Act of 2019 requires agencies to publish improper payments information within an agency financial report or performance accountability report for each fiscal year. To be in compliance with the act, SBA must report an estimated gross improper payment rate of less than 10 percent for each program.

Agency Progress

While SBA had previously made significant progress to improve the quality assurance process, the results of our report regarding SBA's compliance with the Payment Integrity Information Act for FY 2022 indicate that issues continue to exist in the improper payment estimation process. To address the findings of that report, SBA entered into a contract with an independent statistician in December 2022, who has:

- Developed a statistically valid sampling and estimation plan. The plan for FY 2023 has been developed with sufficient documentation to support the methodology identified in the plan.
- Performed monthly reconciliements of the agency's outlays for the disaster assistance loan program. The contractor will continue to perform monthly reconciliements for the upcoming fiscal year. This action has been completed for FY 2023 and is ongoing for FY 2024.
- Developed a statistically valid sample of outlays in the disaster assistance loan program. This action has been completed for FY 2023 and is ongoing for FY 2024.
- Plans to develop statistical estimates of improper and unknown payment rates. This action will be completed to report rate estimates in the agency's annual financial report, as of September 2023.

Overall, while SBA has stated that it took actions to address our recent findings, it is too early to assess the agency's progress. OIG will perform its annual audit of the agency's compliance with the Payment Integrity Information Act for FY 2023. We will assess, at that time, whether the actions taken above addressed our concerns. At this time, we consider the agency to have made limited progress.

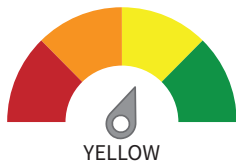
Challenge 8: SBA Needs Robust Grants Management Oversight

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 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. This remains a challenge because SBA must ensure more than 111,000 grant recipients used the funds appropriately and measure the performance results of the pandemic grant programs. SBA administers grants to organizations that aid in counseling and training small business owners and emerging entrepreneurs. These entrepreneurial development programs are part of SBA's core mission to support and grow small businesses.

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



Previous OIG reports have found SBA used an inefficient and error-prone system to manage its grant awards. The grant management system 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. Our advisory memorandum *Improvement Needed in the Accuracy of SBA Data Reported on USASpending.gov* ([Report 18-15](#)) detailed material weaknesses identified by an independent accounting firm in SBA's controls over the accuracy of grant award data reported on [USASpending.gov](#).

Immediately after our alert was issued, program officials requested a review of the internal controls 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 deficiencies.

The grant management system was not completely integrated with SBA's financial system and required additional manual entry to obligate funds and authorize payments to grant recipients. Without a fully integrated system, the agency must continue manual and burdensome processes to manage compliance requirements. Manual workarounds were the main cause for the errors in the data reported on USASpending.gov. 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 over the last 5 years. It entered into an interagency agreement in 2019 with the U.S. Department of Health and Human Services for transition analysis, infrastructure setup, and training services to launch GrantSolutions.gov. SBA spent \$2.5 million to implement the system to help the agency do these things:

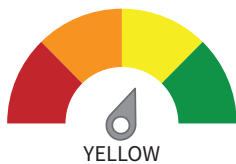
- Improve funding management, award of grants, and process payments and closeouts;
- Enhance ability to develop accurate performance metrics reporting;
- Reduce compliance violations; and
- Increase auditability, accountability, and transparency.

The SBA Office of Grants Management implemented the GrantSolutions system for program office use, providing training to program officials on how to use the system during FY 2023. The office also works with each program office to identify program-specific system customizations that ensure the agency complies with federal and SBA policies.

As of FY 2023, the GrantSolutions management system is used by all grant making program offices, excluding those offices issuing pandemic related grants. The Shuttered Venue Operators Grant (SVOG) program opted to use a contracted customer relationship management system to manage its grants. 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. 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 grant management system that they used prior to GrantSolutions, which was also not completely integrated with SBA's financial system. It 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, reporting deficiencies.

ISSUE: BETTER PERFORMANCE MEASUREMENTS NEEDED TO MONITOR GRANT PROGRAM ACHIEVEMENTS



Our management alert on *Serious Concerns About SBA's Control Environment and the Tracking of Performance Results in the Shuttered Venue Operators Grant Program* ([Report 21-13](#)) found SBA did not establish performance goals and measurements for the grant recipients before disbursing \$14.6 billion in SVOG funds.

After our management alert, SBA created a logic model in March 2021. The model helped identify outputs and outcomes to assess whether the program successfully aided small businesses in the live arts and entertainment industry.

We found in our *Evaluation of SBA's Award Procedures for the CARES Act Entrepreneurial Development Cooperative Agreements* ([Report 21-11](#)) that the agency did not establish clearly defined goals with targets for the award recipients. Because of this, SBA cannot effectively measure and accurately report performance results to assess whether the award 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.

GAO 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](#)). Our audit report on *SBA's Oversight of Restaurant Revitalization Fund Recipients* ([Report 23-15](#)) found that as of June 2023, 20 percent of all recipients, with awards totaling \$3.5 billion, had not yet filed the required report.

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. Our evaluation *SBA's Oversight of the Grant Recipient's Implementation of the CARES Act Resource Partners Training Portal* ([Report 22-07](#)) found 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. We reported the portal did not serve as a major source for COVID-19 information. 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 information hub served as a major source of COVID-19 related resources for small businesses and a training portal for resource partner counselors and mentors.

Agency Progress

SBA has made substantial progress in 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 our *Evaluation of SBA's Award Procedures for the Coronavirus Aid, Relief, and Economic Security Act Entrepreneurial Development Cooperative Agreements* ([Report 21-11](#)). The office 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. The Office of Entrepreneurial Development enforced its procedures by requiring clearly defined performance goals. The office included performance targets in all future Small Business Development Centers and Women's Business Centers cooperative agreements to objectively measure performance results.

In June 2021, SVOG program officials finalized a program evaluation framework. This framework examined venue survival and other outcomes across industry, geographic location, and business owner demographics. Additionally, program officials implemented SVOG performance metrics, such as revenue dollars earned, a shuttered entity's capacity to continue operation, and planned versus actual expenditures. This information will be collected as part of the close-out process.

SVOG program officials developed a customer experience and award outcomes survey. As of June 5, 2023, nearly 9,000 award recipients have received invitations to complete the survey. SBA expects a final report of the survey results and program evaluation by the end of FY 2024.

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



In our management alert on *Serious Concerns About SBA's Control Environment and the Tracking of Performance Results in the Shuttered Venue Operators Grant Program* ([Report 21-13](#)), we alerted management to concerns about SBA's initial plans for assessing applicant risk and setting payment disbursements.

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 Recovery and Resilience 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.

In our inspection *SBA's Award and Payment Practices in the Shuttered Venue Operators Grant Program* ([Report 22-15](#)), 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. 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.

Some of the issues we identified in SVOG were also identified in the Restaurant Revitalization Fund program. In FY 2022, GAO reported that SBA had emphasized putting pre-award controls in place to manage risk but identified weaknesses in the design and operation of the internal controls ([GAO-22-105442](#)). As a result, the agency did not effectively prevent systemic control weaknesses throughout the award process.

Our inspection *SBA's Administrative Process to Address Potentially Fraudulent Restaurant Revitalization Fund Awards* ([Report 23-10](#)) found SBA designed the RRF application validation and approval processes using the GAO's *A Framework for Managing Fraud Risks in Federal Programs*. However, 3,790 applications submitted through a point-of-sale partner were processed without verifying gross sales, a key control designed to prevent ineligible entities from receiving awards.

In our recent audit of *SBA's Oversight of Restaurant Revitalization Fund Recipients* ([Report 23-15](#)), OIG identified issues with SBA's post-award process for the RRF program. The Office of Capital Access developed a post award report process to monitor the use of funds by awardees. All RRF awardees are expected to submit a post-award report to SBA itemizing the use of funds.

SBA is also performing a manual audit of approximately 10 percent of the 10,000 awards to confirm eligibility, award calculation, and use of funds. Although SBA developed a plan for monitoring and auditing RRF recipients, program officials did not implement the process as planned.

OIG found program officials did not obtain sufficient information to monitor the RRF program to ensure funds were used as intended. RRF recipients were required to submit their final use of funds report to SBA by April 30, 2023. As of June 2023, 20 percent of all recipients, with awards totaling \$3.5 billion, had not yet filed the required report.

In addition, program officials selected 10 percent of the awards to review; however, they did not select all awards considered to be potentially fraudulent or ineligible, as originally planned. We identified 210 awards with indicators of potential fraud or ineligibility were not included in SBA's sample selection plan. We also found program officials did not implement procedures for recipients to return unused or improperly awarded funds to Treasury.



Agency Progress

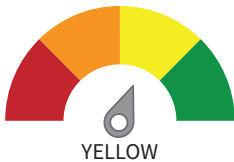
SBA has made progress in its oversight of the SVOG and RRF programs. For the SVOG program, agency officials accomplished these things:

- Finalized a revised oversight plan and established procedures to monitor, audit, and close out awards;
- Drafted standard operating procedures to identify and recover improper payments;
- Modified the SVOG budget form to include constraints on budget submissions for certain cost categories to help recipients comply with program requirements;
- Contracted with a firm to help develop the strategy and oversight plan;
- Trained staff and SVOG grant recipients on audit and grant management policies and procedures; and
- Established a plan to audit a statistically significant sample of low, moderate, and high-risk level SVOG recipients.

For the RRF program, agency officials accomplished these things:

- Approved the RRF Award Recovery Plan in May 2023, which detailed the process for notifying awardees when funds must be returned;
- Developed an outreach strategy to notify awardees who did not file the final financial report to comply or return funds. SBA alerted awardees through all known contact information.
- Initiated plans with the RRF platform developers to identify the most efficient way to implement the plan and begin notifying awardees of the intent to recover funds.

ISSUE: LEVERAGING SBA'S WORKFORCE TO ENSURE EFFECTIVE ADMINISTRATION OF NEW AND SIGNIFICANTLY EXPANDED GRANT PROGRAMS TO AID SMALL BUSINESSES



SBA will need to leverage and maintain a skilled workforce to meet the demands of ongoing grant management and administration of awards. SBA did not have enough staff to handle the new and significantly expanded grant programs to aid and assist small businesses during the pandemic. When SBA began implementing the SVOG program, it had only one official and a few temporary staff to start the program. Once implemented, SBA had to onboard and train a substantial workforce to review and approve applications. SBA awarded 13,011 grants, totaling \$14.6 billion. With more than 13,000 grants to service through monitoring, audit, and closeout.

To oversee the RRF program, SBA selected 10,050 RRF recipients, or 10 percent, to manually verify that awarded funds were used for allowable costs. In our audit *SBA's Oversight of Restaurant Revitalization Fund Recipients* ([Report 23-15](#)), we found that SBA was not on track to review awards in a prompt manner. We identified imbalances in the number of personnel assigned to review a single award, leading to an inefficient review process that will need to be addressed in the near term. The agency assigned a team of 22 reviewers and 6 approvers to complete the 10,050 reviews. As of August 2023, program officials have completed over 1,400 reviews. At this rate of review, we estimate it will take nearly 5 years to complete the remaining reviews, which raises concerns because the reviews would extend beyond the required timeframe for retaining award records.

Agency Progress

SBA had made the following progress on ensuring the SVOG had staff to support grant monitoring activities in FY 2023:

- SVOG realigned its workforce to better use the workforce strengths and skills and provided opportunities for staff members to participate in cross-functional training and knowledge sharing.
- Program officials 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.

For the RRF program, SBA made the following progress:

- SBA increased the staff assigned to conduct the 10,050 planned post-award reviews.
- SBA plans to maintain current staffing levels of 40 employees to complete post-award reviews through Q1 FY 2025.
- As of August 2023, SBA completed over 1,400 or 14 percent of the planned post-award reviews.

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 2024

The SBA scaled to historic levels to meet the critical financial needs of America's small businesses during the COVID-19 pandemic and, as a result, has implemented an unprecedented response to strengthening its management, operations, and performance to protect both special and core program integrity. I thank the Office of Inspector General (OIG) for its collaboration with our teams and its efforts to identify the top management and performance challenges facing the U.S. Small Business Administration (SBA or Agency) in Fiscal Year 2024 (2024 Management Challenge [MC] Report). The OIG's investigation and analysis provides important insights on the threats, strengths, weaknesses, and opportunities facing our enterprise objectives.

SBA's substantial progress, resolution, and/or appropriate reduction on 17 of the 21 issues identified in the 2024 MC Report is attributable to our continued communication, collaboration, and coordination with the OIG leadership and staff. We appreciate the OIG's recognition of these successes as well as further suggestions. We remain dedicated to resolving the remaining four issues, and I have directed 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 direct resources and oversight efforts.

The SBA believes the public will benefit from having more context and direct management insights on several issues. Although not an exhaustive list, SBA would like to highlight the following:

1. \$28 Billion in Likely Fraud in the COVID-19 EIDL Portfolio. OIG reports an estimated \$136 Billion in COVID-19 EIDL program grants and loans that require further investigation. SBA has clearly articulated in its anti-fraud report, [Protecting the Integrity of the Pandemic Relief Programs | U.S. Small Business Administration \(sba.gov\)](#) that \$28 billion represents likely fraud in this portfolio after screening 36.7 million entities and flagging three million of them for additional review and referral to OIG for further investigation and possible legal action. SBA's anti-fraud report highlighted the Agency's actions to prevent, detect, and respond to fraud. Additionally, the report sought to support public understanding of SBA's work as well as provide an estimate of likely fraud across pandemic programs with significant detail on the methodology used to develop the estimate. The OIG conducted its review simply "to provide a comprehensive estimate of the potential fraud in the U.S. Small Business Administration's (SBA) pandemic assistance loan programs."

The SBA has expressed its concerns with the methodology used by OIG to achieve its estimates and is very open to continued dialogue with OIG about the methodologies used. The SBA also looks forward to the results of the Government Accountability Office's work to establish a uniform methodology for estimating fraud in federal programs.

2. SBA's Continued Work to Collect on Fraudulent COVID-EIDL Borrowers. The SBA is not terminating collection efforts on its COVID-EIDL portfolio, and especially not on loans identified as fraudulent COVID-EIDL loans. As noted by OIG, the SBA is required to conduct collection activities on fraudulent, false, or misrepresented claims. Once OIG provides the data on the loans that it believes are potentially fraudulent and need to be remedied, the SBA would be able to take appropriate actions.



3. 99.85% of Shuttered Venue Operators Grants (SVOG) Were Issued with Performance Measures and Goals in Place. The SBA only disbursed 0.15% or \$21.2M to 74 SVOG recipients before the finalization of the program evaluation framework in June of 2021, and those measures applied retroactively. OIG incorrectly reported that the SBA disbursed \$14 Billion to grant recipients without performances goals and measures in place.
4. General Services Administration (GSA) is responsible for addressing concerns with SAM.gov, not the SBA. The SBA does not own, control, or manage SAM.gov and has repeatedly requested that OIG exclude GSA's OIG report in SBA's MC Reports. The GSA's OIG report identified issues related to the management of the Federal Procurement Data System – Next Generation (FPDS-NG) system and their oversight of contracting offices across the government. Notable, these issues are not within the purview of the SBA to check and verify, and the SBA cannot make changes to the system entries. GSA owns and is responsible for the SAM.gov system.

Consequently, the MC report unfairly and inaccurately presents this issue as a problem relating to SBA's oversight and management of 8(a) and HUBZone Programs, when the SBA does not have control or even an ability to change the system without any authority to address limitations in the system. The SBA can only continue to request that GSA take appropriate action to update its system.

5. Women-Owned Small Business (WOSB) current certification process addresses the risks raised by OIG. SBA's WOSB certification process allows for certain eligibility requirements to be met at the time of initial application, and others to be met prior to the aware of a set-aside contract. Although the OIG recommends that the SBA review documentation to verify that applicants meet small business size standards at the time of initial application, this is not unambiguously required by the National Defense Authorization Act (NDAA) of 2015. Specifically, the 2015 NDAA does not plainly require a size determination as part of determining eligibility for the WOSB program and does not directly make any revisions to the Small Business Act with respect to size determinations. A size determination for a WOSB (whether it is small or not small) is made prior to the WOSB receiving an individual procurement action, which allows the SBA to determine whether it is small in the relevant North American Industry Classification System (NAICS) code for that action. Consequently, a WOSB cannot "self-certify" as owned and controlled by a woman to benefit from those set-aside contracts.

This matter was adjudicated, and the resolution agreed to by the SBA and OIG. Moreover, both SBA and OIG agree that this matter has been resolved. The risks raised by OIG have been addressed and the WOSB certification process should no longer be presented as a top management challenge for the SBA in this report.

The SBA is dedicated to fully addressing its outstanding audit recommendations, many of which are closely tied to the issues identified in the 2024 MC Report. The SBA's efforts and progress have already produced benefits that will allow the SBA to better protect its program and stakeholders. In Fiscal Year 2023, the SBA successfully implemented and closed 101 OIG audit recommendations. As noted by OMB Circular No. A-123, the SBA continues to exercise the best practice of reviewing and considering our auditors' perspective and recommendations from this and other reports when evaluating the enterprise risks. As a result, SBA's skilled workforce and committed leadership have worked diligently and effectively to advance improvements to our program and operational integrity and internal controls.

I look forward to the continued strengthening of SBA's collaboration with the OIG in our endeavor to innovate, institutionalize continuous improvement, and facilitate strategic collaboration with our stakeholders to ensure the SBA is well-positioned to deliver against its mission of serving America's small businesses and innovative startups.

Sincerely,



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 it 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) (hereafter referred to as “Appendix C”), 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 2023 AFR can be found on [PaymentAccuracy.gov](https://www.paymentaccuracy.gov).

The SBA improper payment reviews include 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 2023, the SBA reviewed eight programs and activities that were deemed susceptible to significant improper payments. Of the eight programs reviewed, four programs are major credit programs mandated by OMB, and four programs are programs that were created as a result of the pandemic response. The eight 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);
- Paycheck Protection Program (PPP) Loan Guaranty Purchases; and
- Paycheck Protection Program (PPP) Loan Forgiveness.

The SBA conducts risk assessments on a 3-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 2023, the SBA updated the qualitative risk assessment template used to identify programs susceptible to significant improper payments. The updated qualitative risk assessment applies an individual risk weight to each risk factor to account for the variability in potential risk that each risk factor could impose on a program. This year, the SBA performed one risk assessment on the Congressional Grants program using the revised qualitative risk assessment and concluded that the program was not susceptible to significant improper payments.

The next sections discuss SBA 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 2022			FY 2023 Summary							FY 2023 Breakdown								FY 2024 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) % ³	Underpayments % ³	Technically Improper Payments % ³	Overpayments (Outside Agency Control) \$	Overpayments (Within Agency Control) \$	Underpayments \$	Technically Improper Payment \$	
7(a) Loan Guaranty Approvals	29,717.21	1.00	298.07	20,110.22	98.69%	1.31%	0.00%	19,847.48	262.74	-	0.00%	0.00%	0.00%	1.31%	-	-	-	262.74	1.00%
7(a) Loan Guaranty Purchases	706.87	4.15	29.32	793.65	93.85%	6.15%	0.00%	744.84	48.81	-	0.00%	4.76%	1.39%	0.00%	-	37.75	11.06	-	6.05%
504 Certified Development Loan Approvals	10,020.79	1.99	198.96	7,150.24	96.86%	2.75%	0.39%	6,925.83	196.70	27.71	0.00%	0.00%	0.00%	2.75%	-	-	-	196.70	2.65%
Disaster Assistance Loans	1,133.59	3.06	34.68	871.64	96.07%	3.93%	0.00%	837.35	34.29	-	0.00%	3.80%	0.13%	0.00%	-	33.13	1.16	-	3.83%
COVID-Economic Injury Disaster Loan (EIDL)	153,811.64	4.50	6,916.71	38,931.71	91.85%	8.15%	0.00%	35,759.94	3,171.77	-	0.00%	6.52%	1.63%	0.00%	-	2,537.39	634.38	-	N/A ⁴
Economic Injury Disaster Loan Emergency Assistance (Advance)	7,849.84	9.76	766.34	74.53	93.20%	6.81%	0.00%	69.46	5.07	-	0.00%	6.80%	0.00%	0.00%	-	5.07	-	-	N/A ⁴
Paycheck Protection Program (PPP) Loan Forgiveness	N/A ³	N/A ³	N/A ³	46,280.99	59.49%	1.94%	38.56%	27,532.73	896.04	17,852.22	0.00%	1.89%	0.05%	0.00%	-	873.93	22.12	-	1.84%
Paycheck Protection Program (PPP) Loan Guaranty Purchases	N/A ³	N/A ³	N/A ³	8,274.20	50.85%	1.52%	47.63%	4,207.71	125.77	3,940.71	0.00%	1.52%	0.00%	0.00%	-	125.77	-	-	1.42%
Total	203,239.94		8,244.08	122,972.28				95,925.34	4,741.19	21,820.64					0.07	3,613.04	668.72	459.44	

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 guaranteed loans. Outlays for 7(a) loan guaranty approvals are the amount of new guaranty approvals by banks and other SBA lending partners. Outlays for 504 CDC loans guaranteed are approvals irrespective of disbursement, net of approval increases, decreases, reinstatements and cancellations for the current year. Outlays for disaster loans are loan disbursements on current year approvals.
 3 Prior year data for the program is not available as FY 2023 is the first year program is reporting improper payment data.
 4 An FY 2024 reduction target was not established for this program. The program will not have any disbursements in the FY 2024 reporting period.

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

To provide more clarity for the reader, this section is organized by the eight 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. The SBA does not make loans directly to borrowers; the SBA provides a guaranty to a lender which makes the loan to a borrower. The SBA delegates authority to certain lenders to process, close, service, and liquidate certain 7(a) loans without prior SBA review. Approximately 80 percent of 7(a) loans are approved by lenders under their delegated authority. At the time of loan approval, no monies are disbursed. Improper payments identified during loan review result in no monetary loss to the government. During the loan guaranty approval review process, the SBA reviews the 7(a) loan for calculation accuracy to ensure that lenders issued the 7(a) loans to eligible borrowers and that loans are made within statutory, regulatory, and SBA-issued guidelines.

Statistical Sampling

For the 7(a) Loan Guaranty Approval review, the sample cases were chosen using PPS Sampling, with replacement from all loan guaranties approved during the 12-month period ended March 31, 2023. The approval population was divided into two strata based on whether the loan was SBA Express or not. The SBA determined the appropriate total sample size to be 270 loans from the population. The sample included net guaranteed approvals of \$392,359,586 and improper payments of \$3,672,356 within the sample. Using the Hansen-Hurwitz estimation method, the estimated improper payments rate for the annual period ending March 31, 2023, was calculated as 1.31 percent, with an estimated improper payment dollar amount of \$262,740,596. In FY 2023, the SBA did not identify any unknown payments.

For FY 2024, the SBA established a reduction target of 1.00 percent for the 7(a) Loan Guaranty Approvals program. This FY 2024 reduction target is the same as the FY 2023 reduction target. The FY 2023 improper payment rate estimate of 1.31 percent for the 7(a) Loan Guaranty Approval program is slightly higher than the target reduction rate of 1.00 percent established for FY 2023. To improve payment integrity, the SBA has revised its Standard Operating Procedure (SOP) 50 10, Lender and Development Company Loan Programs, and has provided training on the new SOP to lenders in July and August 2023.

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 the SBA, Standard Operating Procedures, Loan Authorizations, and official SBA notices and forms applicable to the 7(a) loan program. The reviews were conducted in order to determine if lenders (1) originated the loan in a prudent and commercially 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. All 7(a) loans are reviewed at the time of approval; these loans are generally made to the right recipient for the right amount, but the approval process failed to follow all statutes and regulations. In these cases there is no amount that needs to be recovered. However, because the lender failed to adhere to all applicable statutes, the guaranty is considered technically improper.

Root Cause and Corrective Action

Approximately 80 percent of all 7(a) Loan Guaranty 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 2023.

In two of the three loans in the sample identified with improper payments, the lender failed to document or determine adequate debt service coverage, based on SOP requirements. In the remaining loan identified as an improper payment, the lender failed to meet loan refinancing requirements as stated in the SOP. Because the improper payments for these 7(a) approvals are technically improper, the OMB root cause is identified as Statutory Requirements of Program Were Not Met.

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 program centers. Specific corrective actions are determined based upon the primary reason for the error, with the purpose of both remedying the error and preventing 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) shares the loan level and lender deficiencies identified during the reviews with OCRM and OFA and will continue its efforts throughout the upcoming fiscal year to ensure that lender deficiencies are monitored and recommended to be incorporated into OCRM's Risk Based Reviews and OFA's policy rewrites and updates.

Corrective actions for specific loans are tracked at the loan level through a centralized database. The Quality Control Specialist for 7(a) Loan Guaranty Approvals monitors errors from identification through completion of the corrective actions. OFPO management provides oversight to ensure that milestones are met. Improper payments identified as a result of the FY 2023 PIIA reviews have been resolved through recommendations to reduce or cancel the loan guaranty, additional documentation, and/or referral to other offices. Corrective actions are initiated within 120 days and 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 (also called "honor") the guaranty on a defaulted SBA loan.

Statistical Sampling

For 7(a) Loan Guaranty Purchase reviews, the sample cases were chosen using PPS Sampling, with replacement from all purchases approved during the 12-month period ending March 31, 2023. The purchase population was divided into four strata based on the following factors: (1) which servicing office processed the purchase, and (2) whether the loan was considered an early default, regardless of servicing office. The SBA determined the appropriate total sample size to be 284 loans from the population. The sample included aggregate purchase outlays of \$251,468,403 and an absolute value of improper payments of \$27,101,525 within the sample. Using the Hansen-Hurwitz estimation method, the estimated improper payment rate for the 7(a) Loan Guaranty Purchase population is 6.15 percent, with an estimated improper payment amount of \$48,808,949 for the annual period ending March 31, 2023. In FY 2023, the SBA did not identify any unknown payments.

For FY 2024, the SBA established a reduction target of 6.05 percent for the 7(a) Loan Guaranty Purchases program. The FY 2023 improper payment rate estimate of 6.15 percent for the 7(a) Loan Guaranty Purchase program is higher than the target reduction rate of 4.05 percent established for FY 2023. To improve payment integrity, the SBA has revised its Standard Operating Procedure (SOP) 50 57, 7(a) Loan Servicing and Liquidation, its Guaranty Purchase guidance, and provided training on the new SOP to lenders in July and August 2023. The SBA is also developing a "Universal 327," a transaction record wherein legal and finance staff analyze and address relevant transactions and issues related to the guaranty purchase process.

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.

Root Cause and 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 during the evaluating, processing, closing, disbursing, servicing, liquidating, or litigating of an SBA guaranteed loan.

The primary reasons for 7(a) Loan Guaranty Purchase improper payments included:

- Reimbursement of lender liquidation expenses were ineligible, not fully justified, or not approved by the 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 guaranty purchase or denial, ensuring that liquidation expenses are appropriate and/or approved, verifying the documentation and accuracy of calculations, ensuring that documentation for account reconciliation is complete, and verifying the proper use of proceeds and reviewing expenses for eligibility of reimbursement.
- Recovery of lender expenses that were withheld from recovery proceeds or paid but were 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) Loan Guaranty Purchase centers monitor errors from identification through completion of the corrective action. Headquarters management provides oversight to ensure that milestones are met. Improper payments identified as a result of the FY 2023 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: nonprofit 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. During the loan approval process, the SBA reviews the 504 loan for accuracy to ensure that the CDC lender issued the 504 loan to an eligible borrower and that the loan was made within statutory, regulatory, and SBA-issued guidelines.

Statistical Sampling

For 504 CDC approval reviews, the sample cases were chosen using PPS Sampling with replacement from all loan guaranties approved during the 12-month period ended March 31, 2023. The approval population was not stratified. The SBA determined the appropriate total sample size to be 258 loans from the population. The sample included net approval outlays of \$533,949,000 and improper payments of \$19,010,918 within the sample.

Using the Hansen-Hurwitz estimation method, the estimated improper payments rate for the annual period ending March 31, 2023, was calculated as 2.75, with an estimated improper payment amount of \$196,703,368. For instances in which the SBA was unable to determine whether a payment was proper or improper at the time of review, the SBA categorized these payments as "Unknown." In FY 2023, one 504 loan was identified as an unknown payment in the amount of \$1,462,000, which translated to an Unknown Payment

rate of 0.39 percent. The unknown payment identified in FY 2022, in the amount of \$116,781, was resolved in FY 2023 and determined to be proper.

For FY 2024, the SBA established a reduction target of 2.65 percent for the 504 Certified Development Loans program. The FY 2023 improper payment rate estimate of 2.75 percent for the 504 Certified Development Loans program is higher than the target reduction rate of 1.89 percent established for FY 2023. The increase in the rate can be attributed to the number of CDCs with delegated authority causing improper payments. In FY2023, 64 percent of the improper payment debenture amount in the sample was from CDCs with delegated authority. To improve payment integrity, the SBA has revised its Standard Operating Procedure (SOP) 50 10, Lender and Development Company Loan Programs, adding several 504 Loan Program specific requirements. SBA has also provided training on the new SOP to lenders in July and August 2023.

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.

Root Cause and Corrective Action

504 loans are reviewed at the time of approval. 504 loans are available through Certified Development Companies (CDCs), SBA's community-based partners who regulate nonprofits and promote economic development within their communities. CDCs are certified and regulated by the SBA. Loans may be disbursed up to 4 years after the original approval date. These loans are generally made to the right recipient for the right amount, but the approval process failed to follow all statutes and regulation. In these cases, there is no amount that needs to be recovered. However, because the CDC lender failed to adhere to all applicable statutes, the loan is considered technically improper. At the time of loan approval, no monies are disbursed. Improper payments identified during loan review result in no monetary loss to the government.

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 most prevalent root cause stemmed from the CDC's failure to authenticate compliance with loan program requirements at origination. Because the improper payments for these 504 approvals are technically improper, the OMB root cause is identified as Statutory Requirements of Program Were Not Met.

The primary reasons for 504 approval improper payments in FY 2023 included:

- Lender's failure to determine proper amount or source of equity injection;
- Lender's failure to adequately determine proper use of proceeds; and
- Lender's failure to properly determine borrower's overall eligibility given SBA Size Standards.

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 that 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 that appropriate documentation is obtained and analyzed prior to loan approval 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 that CDC deficiencies are monitored and incorporated into lenders' Risk Based Reviews. External training will be provided in FY 2024.

Because 504 loans are usually 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 that milestones are met. All improper payments identified as a result of the FY 2023 PIIA reviews have been resolved through obtaining additional documentation, loan modification, or cancellation of the loan authorization. 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

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.

Improper payments for disaster loans are identified through a review of a statistical sample of disbursements for a 12-month period ending March 31, 2023. The disbursements are reviewed by the SBA Disaster Internal Control Division (DICD) team for compliance in accordance with Appendix C's definition of an Improper Payment: (1) basic eligibility (right person) and (2) disbursement of payments in accordance with relevant statutory, regulatory, and operating procedures (right amount).

A probability sampling procedure called "Stratification" was employed to select samples monthly for each program. Each loan was assigned to a group and the stratification tool in R software was used to select a sample from each group with an unequal probability based on loan dollar amount. The sample size was adequate for a 97 percent confidence and a design precision of 3 percent. To facilitate the random selection of loans, the Stratified Sampling package in R software and the stratification procedure was used to select the sample within each stratum. For loans with multiple transaction lines, one transaction to test was randomly selected. This approach creates a two-stage sampling approach with the first stage sampling at the loan level and the second stage sampling at the disbursement level among cases with more than one disbursement. The sample size and probabilities of selections were calculated using classical stratification formulas, specifically the Neyman optimization formula.

A total of 26,017 loans were approved during the improper payment year, with a total loan outlay of approximately \$872 million. The SBA determined the appropriate total sample size to be 315 loans from the population, with net loan outlays of \$33,874,786. The improper payments rate for the annual period ending March 31, 2023, was estimated as 3.93 percent, and the improper payment amount was estimated as \$34,292,950.

For FY 2024, the SBA established a reduction target of 3.83 percent for the Disaster Assistance Loan program. The FY 2023 improper payment rate estimate for this program is 3.93 percent, which is slightly higher than the target reduction rate of 2.96 percent established for FY 2023. This minor increase has been addressed through reorganization and transitioning the Disaster program to the Office of Capital Access. Steps to improve payment integrity include the development and piloting of a new loan processing system, Unified Lending Platform, which is vastly automating the system and has third party verifications built in to address eligibility concerns and verification of loan amount. The SBA is also in the process of updating Standard Operating Procedure (SOP) 50 30, Disaster Assistance Program to streamline the disaster lending process. The automation plus the updated SOP will specifically address improper payment issues and will establish business rules and have third party verification for eligible borrower and correct the loan amount.

Root Cause and 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 of improper payments in the Disaster Assistance Loan Program was Failure to Access Data/Information. The most prevalent causes of improper payments stemmed from improper accounting of verified losses on disaster-damaged property, duplication of benefits not adequately addressed, misallocation of loan funds, and improper calculation of economic injury.

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, the SBA provides quarterly training to loan approval staff on the causes of and prevention of improper payments.

COVID-ECONOMIC INJURY DISASTER LOAN (EIDL) (COVID-19 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 COVID-19 to be a disaster, thus allowing the SBA to make EIDL loans available to small businesses and nonprofit organizations suffering substantial economic injury as a result of the COVID-19 pandemic.

Statistical Sampling

A probability sampling procedure called “Stratification” was employed to select samples monthly for each program. Each loan was assigned to a group and the stratification tool in R software was used to select a sample from each group with an unequal probability based on loan dollar amount. The SBA’s sampling methodology is a statistically valid and rigorous plan, with a 97 percent confidence interval, plus or minus a 3 percent margin of error, the upper and lower bounds of the confidence interval. The sample size was adequate for a 97 percent confidence and a design precision of 3 percent. To facilitate the random selection of loans, the Stratified Sampling package in R software and the stratification procedure was used to select the sample within each stratum. For loans with multiple transaction lines, one transaction to test was randomly selected. This approach creates a two-stage

sampling approach with the first stage sampling at the loan level and the second stage sampling at the disbursement level among cases with more than one disbursement. The sample size and probabilities of selections were calculated using classical stratification formulas, specifically the Neyman optimization formula.

Improper payments for COVID-19 EIDLs are identified through a review of a statistical sample of disbursements for a 12-month period ending March 31, 2023. The disbursements are reviewed by the SBA DICD Team for compliance in accordance with Appendix C’s definition of an Improper Payment: (1) basic eligibility (right person) and (2) disbursement of payments in accordance with relevant statutory, regulatory, and operating procedures (right amount).

COVID-19 EIDL improper payments reviews included an examination of disaster loans to determine whether the SBA originated the loans and subsequently disbursed loan funds to eligible borrowers for a correct amount in material compliance with the Loan Authorization and Agreement, SBA regulations, state and federal laws, Standard Operating Procedures (SOPs), COVID-19 EIDL program guidelines, and other applicable SBA guidance.

A total of 220,060 loans were approved, with a total outlay of approximately \$39 billion. The SBA determined the appropriate total sample size to be 340 loans from the population, with net loan outlays of \$219,304,341. The improper payments rate for the annual period ending March 31, 2023, was estimated as 8.15 percent, and the improper payment amount was estimated as \$3,171,771,259. SBA did not identify any unknown payments for the COVID-19 EIDL program in FY 2023.

The FY 2023 improper payment rate estimate for this program is 8.15 percent, which is higher than the target reduction rate of 4.40 percent established for FY 2023. The increase in the improper payment rate can be attributed to new personnel at the newly established COVID-19 EIDL Servicing Center. The increase in the improper payment rate has been addressed through additional staff training and mentoring. In addition, the Disaster Lending Program is in the process of piloting a new loan processing system, Unified Lending Platform, which is vastly automating the system and has third party verifications built in to address eligibility concerns and verification of loan amount.

The COVID-19 EIDL program ended as of December 31, 2021 and the FY 2023 improper payment estimates only consisted of re-disbursements of previously rejected disbursements or loan increases and reconsiderations disbursed after March 31, 2022. As such, there is no new funding for this program in FY 2024 and no reduction target was established for FY 2024.

Root Cause and Corrective Action

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, SBA provides quarterly training to loan approval staff on the causes of and prevention of improper payments.

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 COVID-19 EIDL improper payments was Failure to Access Data/Information. The most prevalent cause stemmed from missing verification of business ownership.

The SBA provides quarterly training to staff on the causes and prevention of improper payments. The DICD no longer conducts quality assurance reviews for COVID-19 EIDLs as the program has ended and the SBA is no longer originating loans nor disbursing newly approved funds under this program.

ECONOMIC INJURY DISASTER LOAN EMERGENCY ASSISTANCE (ADVANCE) (EIDL ADVANCE)

The EIDL Advance Program provided funding to help small businesses recover from the economic impacts of the COVID-19 pandemic and are awarded to existing COVID-19 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 provided up to \$10,000 to eligible low-income applicants that met specific program eligibility criteria. Supplemental Targeted Advance provided \$5,000 to eligible low-income applicants that met specific program eligibility criteria.

Statistical Sampling

A probability sampling procedure called “Stratification” was employed to select samples monthly for each program. Each loan was assigned to a group and the stratification tool in R software was used to select a sample from each group with an unequal probability based on loan dollar amount. The sample size was adequate for a 97 percent confidence and a design precision of 3 percent. To facilitate the random selection of loans, the Stratified Sampling package in R software and the stratification procedure was used to select the sample within each stratum. For loans with multiple transaction lines, one transaction to test was randomly selected. This approach creates a two-stage sampling approach with the first stage sampling at the loan level and the second stage sampling at the disbursement level among cases with more than one disbursement. The sample size and probabilities of selections were calculated using classical stratification formulas, specifically the Neyman optimization formula.

A total of 11,136 EIDL Advances were awarded in FY 2023, with total program outlays of \$74,531,673. The SBA determined the appropriate total sample size to be 131 EIDL Advances from the population, with net outlays of \$1,026,000. The improper payment rate for the annual period ending March 31, 2023, was estimated as 6.81 percent, and the improper payment amount was estimated as \$5,072,502. SBA did not identify any Unknown Payments for the EIDL Advance program in FY 2023.

The FY 2023 improper payment rate estimate of 6.81 percent for EIDL Advance is lower than the target reduction rate of 9.66 percent established for FY 2023. Therefore, the EIDL Advance program is considered to have met its reduction target in accordance with Appendix C. The EIDL Advance program ended as of December 31, 2021 and the FY 2023 improper payment estimates consisted solely of re-disbursements of previously rejected disbursements disbursed after March 31, 2022. As such, there is no new funding for this program in FY 2024 and no reduction target was established for FY 2024.

Root Cause and Corrective Action

Improper payments for EIDL Advances are identified through a review of a statistical sample of disbursements for a 12-month period ending March 31, 2023. The disbursements are reviewed by the SBA DICD Team for compliance in accordance with Appendix C’s definition of an Improper Payment: (1) basic eligibility (right person) and (2) disbursement of payments in accordance with relevant statutory, regulatory, and operating procedures (right amount).

EIDL Advance improper payments reviews included an examination of advances to determine whether the SBA originated the advances and subsequently disbursed advance funds to eligible borrowers for a correct amount in material compliance with SBA regulations, state and federal laws, Standard Operating Procedures (SOPs), COVID-19 EIDL program guidelines, and other applicable SBA guidance.

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 Failure to Access Data/Information. The most prevalent cause stemmed from borrowers failing to document the required income reduction in order to qualify. Additional causes for improper payments included borrowers failing to document citizenship, existence of the business, or that the business was located in a low-income area.

Corrective actions may include but are not limited to obtaining supporting documentation from the borrower, completing a loan modification, and/or adding clarifying comments to a file. Corrective actions are to be completed within 15 days of the final improper payment decision. The SBA provides quarterly training to PDC staff on the causes and prevention of, improper payments. The DICD no longer conducts quality assurance reviews for EIDL Advance as the program has ended and SBA is no longer originating advances or disbursing newly approved funds under this program.

PAYCHECK PROTECTION PROGRAM (PPP) LOAN APPROVALS

The CARES Act established the Paycheck Protection Program (PPP) loans 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.

Funding for PPP loans ended in May 2021. There have been no new loan approvals since that time. Consequently, the SBA did not conduct improper payment reviews of PPP loan approvals in FY 2023 (April 1, 2022 through March 31, 2023).

In FY 2022, SBA reported an Unknown Payment rate of 2.41 percent. There were 2,608 loans in the FY 2022 sample for which SBA had insufficient information to

make a determination as to whether the loan was proper or improper. SBA has determined that 1,359 of those sample loans identified as Unknown payments were Proper; 1,226 loans were Improper; and 23 loans remain Unknown and are currently under review or the SBA is awaiting documentation.

PAYCHECK PROTECTION PROGRAM (PPP) LOAN FORGIVENESS

The CARES Act established the Paycheck Protection Program (PPP) loans 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. A borrower can apply for forgiveness once all loan proceeds for which the borrower is requesting forgiveness have been used. Borrowers can apply for forgiveness any time up to the maturity date of the loan. If borrowers do not apply for forgiveness within 10 months after the last day of the covered period, then PPP loan payments are no longer deferred, and borrowers will begin making loan payments to their PPP lender.

In response to the FY 2023 PIIA Compliance Audit conducted by OIG, the SBA separated PPP into three payment integrity reporting categories – PPP Approvals, PPP Forgiveness, and PPP Purchases, and subsequently initiated the improper payments review process shortly after. The SBA generated the loan sample and requested supporting documentation from lenders. In many instances, PPP loans forgiveness requests were submitted via SBA's forgiveness platform and, although the lenders and borrowers were required to retain supporting documentation, they were not required to submit that documentation to the SBA. For several of the PPP loans reviewed as part of the forgiveness sample, lenders had to request documents from borrowers. The SBA asked lenders to submit their documents as soon as possible. As a result of the compressed time between documentation requests and reporting improper payment rates, many borrowers and lenders were unable to provide complete documentation. Those PPP loans with documentation requests outstanding were categorized as "Unknown" payments since the SBA did not have sufficient supporting documentation to make a determination as to whether the forgiveness payment was proper or improper.

Statistical Sampling

For Paycheck Protection Program (PPP) Forgiveness reviews, the sample cases were chosen using PPS Sampling with replacement from all forgiveness outlays processed during the 12-month period ended March 31, 2023. The forgiveness population was divided into three strata based on the lender type: (1) Bank lender, (2) State Regulated Finance Company lender, and (3) All Other lender types. The SBA determined the appropriate total sample size to be 385 loans from the population. Sampling with replacement means that a loan is eligible to be sampled more than once. For PPP forgiveness, there were three loans that were sampled twice. Hence, while the SBA only needed to review 382 loans, the true sample size was 385 loans. The sample included aggregate forgiveness outlays of \$415,506,532 and an absolute value of improper payments of \$5,500,542 within the sample. Using the Hansen-Hurwitz estimation method, the estimated improper payment rate for the PPP Forgiveness population is 1.94 percent for the annual period ending March 31, 2023, and an estimated improper payment amount of \$896,044,467.

The SBA is awaiting lender documentation for all of its PPP Forgiveness payments categorized as “Unknown.” In the forgiveness sample of 382 loans, lenders did not return sufficient supporting documentation for 193 loans. The inability to assess whether these loans were proper or improper required the SBA to categorize these loans as “Unknown” payments. The unknown payment rate for FY 2023 for PPP Forgiveness was 38.56 percent.

For FY 2024, the SBA established a reduction target of 1.84 percent for the PPP Forgiveness program. As this is the first year reporting improper payment estimates for PPP Forgiveness, a reduction target rate was not established for FY 2023.

Root Cause and Corrective Action

The SBA reviewed the forgiveness applications from lenders. SBA compared the loan amount disbursed to the amount of loan forgiveness requested. 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 for these forgiveness denials 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, only that portion of the loan forgiven was determined to be proper. The remaining unforgiven portion was determined to be improper.

The SBA reviewed the forgiveness applications and documentation from lenders. If the SBA determined that the loan is not eligible for forgiveness (in whole or in part), the payment is considered to be improper; the PPP loan is no longer deferred; and, the borrower must begin paying principal and interest.

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 PPP Forgiveness improper payments was Failure to Access Data/Information. The most prevalent root cause for PPP Forgiveness Unknown payments was Unable to Determine Whether Proper or Improper. The most prevalent cause stemmed from missing verification of business ownership.

Corrective actions to address the improper payments identified may include, but are not limited to the following: (1) implementing a quality control review process, (2) internally escalate the loan review of a loan for a loan review decision, and/or (3) engage an outside contractor to conduct quality control reviews of a sample of the loan review files to ensure the SBA’s loan review process is complete and accurate.

PAYCHECK PROTECTION PROGRAM (PPP) LOAN GUARANTY PURCHASES

The CARES Act established the Paycheck Protection Program (PPP) loans 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. If the loan is not forgiven, the SBA may purchase (honor) all or part of the PPP loan guaranty. Lenders may request that the SBA purchase the guaranty of a PPP loan in the event of a default or other qualifying event.



A lender must have made certain certifications about the loan and supporting information. The SBA reviews the lenders' requests for guaranty purchase and charge-off in accordance with PPP Loan Program Requirements. The SBA will honor its guaranty and purchased 100 percent of the outstanding balance of the loan provided that the lender has complied with all PPP Loan Program Requirements. The SBA reviewed a sample of those PPP loan guaranty purchases for improper payments.

Statistical Sampling

For Paycheck Protection Program (PPP) Purchase reviews, the sample cases were chosen using PPS Sampling with replacement from all purchases processed during the 12-month period ended March 31, 2023. The purchase population was divided into three strata based on the lender type: (1) Bank lender, (2) State Regulated Finance Company lender, and (3) All Other lender types. The SBA determined the appropriate total sample size to be 385 loans from the population. Nine loans were sampled twice for PPP guaranty purchase: although the SBA reviewed 376 loans, the true sample size was 385 loans. The sample included aggregate purchase outlays of \$117,921,324 and an absolute value of improper payments of \$407,736 within the sample. Using the Hansen-Hurwitz estimation method, the estimated improper payment rate for the PPP Purchase population is 1.52% for the annual period ending March 31, 2023.

In response to the FY 2023 PIIA Compliance Audit conducted by OIG, the SBA separated PPP into three payment integrity reporting categories – PPP Approvals, PPP Forgiveness, and PPP Purchases, and subsequently initiated the improper payments review process shortly after. The SBA generated the loan sample and requested supporting documentation from lenders. In many instances, PPP loans guaranty purchase requests were submitted via SBA's PPP platform and, although the lenders were required to retain supporting documentation, they were not required to submit that documentation to the SBA. The SBA requested documentation from lenders for those guaranty purchases that were a part of the sample, with the added instruction to submit the documentation as soon as possible. As a result of the compressed time between documentation requests and reporting improper payment rates, many lenders were unable to provide complete documentation. Those PPP loans with documentation requests outstanding were categorized as "Unknown" payments since the SBA did not have sufficient supporting documentation to make a determination as to whether the guaranty purchase payments were proper or improper. The SBA is awaiting lender documentation for

all of its PPP Guaranty Purchase payments categorized as "Unknown." The sample of 376 loans, included 176 loans, where lenders did not return sufficient documentation for the SBA to assess whether the payments were proper or improper. These loans were categorized as "Unknown" payments. The unknown payment rate for PPP guaranty purchases was 47.63 percent.

For FY 2024, the SBA established a reduction target of 1.42 percent for the PPP Forgiveness program. As this is the first year reporting improper payment estimates for PPP Forgiveness, a reduction target rate was not established for FY 2023.

Root Cause and Corrective Action

The SBA will review a Lender's request for guaranty purchase in accordance with all PPP Loan Program Requirements, including the Lenders' underwriting requirements and the document collection and retention requirements described in the Lender application forms.

The SBA reviews documentation to determine the following:

- The submission accurately reflects the Lender's records for the PPP loan;
- The official transcript of account provided by the Lender is true and accurate;
- The data reported by the Lender as reflected in E-Tran as of the date of this certification, including the loan status and the outstanding balance of the loan, is true and accurate;
- The Lender has made, closed, and serviced the loan in accordance with the PPP Loan Program Requirements;
- The PPP loan has not been cancelled, repaid in full or forgiven by the SBA in full; and,
- The PPP loan is evidenced by a legally enforceable promissory note executed by an authorized borrower representative, and the promissory note and any modification(s) were made in accordance with the PPP Loan Program Requirements.

The root cause of PPP Guaranty Purchase Improper Payments was Failure to Access Data/Information. Improper payments stemmed primarily from lenders' failure to verify the eligibility of the borrower.

In the upcoming fiscal year, the SBA will work with lenders to gather and obtain documentation required to reduce the number of unknown payments in FY 2023. Early in the FY 2024 fiscal year, the SBA will work with lenders to collect

documentation to prevent unknown payments in FY 2024. In addition to recover guaranty purchase improper payments, The SBA will use processes similar to the process used for its 7(a) guaranty purchase portfolio, which begin with demanding repayment from the lender.

RESTAURANT REVITALIZATION FUND (RRF)

The RRF program was created as a temporary relief program in response to the COVID-19 pandemic with most of the disbursements made within the first year. Based on guidance from OMB and Appendix C guidance limitations, which is written for programs with multiple years of disbursements, the SBA is committing to working with OMB to perform an improper payment review of a sample population reflective of the total programmatic outlays for RRF and will report on the results from that improper payment review.

SHUTTERED VENUE OPERATORS GRANT PROGRAM (SVOG)

The SVOG program was created as a temporary relief program in response to the COVID-19 pandemic with most of the disbursements made within the first year. Based on guidance from OMB and Appendix C guidance limitations, which is written for programs with multiple years of disbursements, the SBA is committing to working with OMB to perform an improper payment review of a sample population reflective of the total programmatic outlays for SVOG and will report on the results from that improper payment review.

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 efforts to recapture improper payments are discussed by program or activity below.

7(a) LOAN GUARANTY 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 Review 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 section above for corrective action plans to prevent future improper payments.

7(a) LOAN GUARANTY APPROVALS AND 504 CERTIFIED DEVELOPMENT LOANS APPROVALS

Overpayments recaptured outside payment recapture audits are not applicable to 7(a) loan guaranty approvals and 504 certified development loans approvals as no payments are made at the time of approval. Improper payments identified through the annual improper payment reviews for the 7(a) loan guaranty approvals program and 504 certified development loans approvals program are resolved through obtaining additional documentation, loan modification, or cancellation of the loan. Improper payments identified as a result of the FY 2023 PIIA reviews have been resolved through obtaining additional documentation, or cancellation or reduction of the loan guaranty and/or referral to other offices within the Office of Capital Access, as appropriate. Determination of a course of action is made on a case-by-case basis, which varies substantially depending on the circumstances of the loan approval and lender's authority.

DISASTER DIRECT LOAN PROGRAM

Overpayments are the result of the borrower receiving both an SBA loan and insurance payments or other benefits as a result of the disaster. If the duplication of benefit is recognized prior to the final disbursement, the loan amount is modified to reflect a lower amount and no repayment is required. If the duplication of benefit is identified after the final disbursement of the loan, then the borrower is given 30 days to provide evidence to prove that the disaster loan was not over-disbursed. For example, the borrower can provide documentation demonstrating that insurance funds received did not duplicate the disaster loan purpose. If the borrower has not provided the appropriate evidence within the 30-day period, a demand is made for the over-disbursed funds. Collection efforts continue at the Disaster loan servicing centers, but if these efforts fail, the borrower will still be liable for the over-disbursed amount in the form of monthly payments in accordance with the loan agreement. Thus, any actual loss is the cost of funds related to the over disbursement.



COVID-ECONOMIC INJURY DISASTER LOAN (EIDL) (COVID-19 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 OIG's Division of Investigations, or providing supporting documentation where appropriate.

PAYCHECK PROTECTION PROGRAM LOAN APPROVALS

Overpayments are the result of the borrower 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.

PAYCHECK PROTECTION PROGRAM LOAN FORGIVENESS

If the SBA determines that the borrower was ineligible for the loan amount or used PPP loan proceeds for unauthorized uses, the SBA may seek repayment of part or all of the outstanding PPP loan balance or pursue other available remedies. If the SBA uncovers information that indicates that the borrower made a material misstatement of fact or provided a false certification, before or after the SBA remits a forgiveness payment to the lender, the SBA may seek repayment of the outstanding PPP loan balance, refer the borrower to the SBA Office of Inspector General (OIG), or pursue other available remedies. Further, 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.

PAYCHECK PROTECTION PROGRAM LOAN GUARANTY PURCHASES

If the SBA determines that the guaranty purchase was not in accordance with PPP Loan Program Requirements, the SBA will request that the lender repay the guaranty purchase funds. In some instances, the loan may be referred to the Guaranty Review 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.

PAYMENT RECAPTURE AUDITS

On September 15, 2011, the SBA submitted a Payment Recapture Audit Cost-Effective Analysis to the Office of Management and Budget. The analysis discussed the 7(a) Business Loan Guaranty Program, the 504 Certified Development Company Loan Guaranty Program, the Disaster Direct Loan Program, Disbursements for Goods and Services, the Small Business Investment Company Financing Guaranty Program, the Surety Bond Guaranty Program, and Grants, which included all grant programs. The analysis described the program, the controls over financial disbursements, and the size of the program and concluded for each program that recapture audits would not be cost effective due to low error rates, complexity of the program, or limited amount of outlays. A subsequent cost analysis for the 7(a) loan guaranty purchase program was submitted to OMB on September 13, 2017, to include the results of a payment recapture audit performed in 2015, which again concluded that such an audit is not cost effective. In FY 2022, 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.

In FY 2023, the SBA did not conduct any recovery audits. As mentioned above, in prior years, the SBA has conducted cost-benefit analyses on programs subject to payment recapture audit, and deemed the costs to perform a payment recapture audit outweighed the benefits of the audit.



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	0	N/A	1
Controls over COVID-19 EIDLs	1	0	0	N/A	1
Controls over Subsidy Re-estimates	1	0	0	1	0
Controls over Financial Reporting for Subsidy Re-estimates and Recoveries	0	1	0	N/A	1
Controls over the Evaluation of Service Organizations	1	0	0	N/A	1
Entity Level Controls	1	0	0	N/A	1
Controls over Restaurant Revitalization and Shuttered Venues	1	0	0	N/A	1
Total Material Weaknesses	6	1	0	1	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
Control over COVID-19 EIDLs	1	0	0	N/A	N/A	1
Controls over Subsidy Re-estimates	1	0	0	1	N/A	0
Controls over Financial Reporting for Subsidy Re-estimates and Recoveries	0	1	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	1	0	1	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.					
Material Weaknesses	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)		
	Agency	Auditor
1. Federal Financial Management System Requirements	Lack of compliance noted	Lack of compliance noted
2. Applicable Federal Accounting Standards	Lack of compliance noted	Lack of compliance noted
3. USSGL at Transaction Level	No lack of compliance noted	No lack of compliance noted



Grants Programs

Category	2-3 Years	3-5 Years	More than 5 Years
Number of Grants/Cooperative Agreements with Zero Dollar Balances	210	460	0
Number of Grants/Cooperative Agreements with Undisbursed Balances	186	229	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, and 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 that 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 that 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	2023	\$314	Office of Investment and Innovation	88 F.R. 50003 (8/1/23)
Small Business Act, 15 USC 650(j)(1)	Failing to File Report Timely for a Small Business Lending Company (SBLC)	2004	2023	\$7,805	Office of Capital Access	88 F.R. 50003 (8/1/23)
Small Business Act, 15 USC 657t(e)(2)(B)	Types of Formal Enforcement Actions	2020	2023	\$289,504	Office of Credit Risk Management	88 F.R. 50003 (8/1/23)
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	2023	\$13,508	Multiple offices	88 F.R. 50004 (8/1/23)
Small Business Act, 15 USC 634(b)(6) and Program Fraud Civil Remedies Act 31 USC 1352	Penalty for Violation of Lobbying Restrictions	1990	2023	not less than \$23,727 and not more than \$237,268	Multiple offices	88 F.R. 50004 (8/1/23)





Appendices (Unaudited)

SECTION 4

APPENDIX 1 – Contact SBA: Useful Websites and Phone 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
Business Guide	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
CONTRACTING	
Government Contracting	www.sba.gov/federal-contracting
Register as a Contractor	www.sam.gov
Contracting Certifications	certify.sba.gov
COUNSELING	
SBA Learning Center	learn.sba.gov
Small Business Development Centers	www.sba.gov/sbdc
Women's Business Centers	www.sba.gov/wbc
SCORE	www.sba.gov/score
Veterans Business Outreach Centers	www.sba.gov/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
X (formerly Twitter)	www.x.com/sbagov
YouTube	www.youtube.com/sba
Blogs	www.sba.gov/blogs
Instagram	www.instagram.com/sbagov



APPENDIX 2 – Glossary

504 Loan	<p>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.</p>	APR	<p>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.</p>
7(a)	<p>7(a) Loan Guaranty Program The SBA's primary loan program; it provides general loan financing for a wide variety of purposes.</p>	ARP(A)	<p>American Rescue Plan (Act) A law that provides relief to individuals and businesses affected by the COVID-19 pandemic.</p>
7(j)	<p>7(j) Management and Technical Assistance Program Provides specialized assistance to underserved small businesses.</p>	B2B	<p>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.</p>
7(m)	<p>7(m) Microloan Program Provides small, short-term loans to small businesses and certain types of nonprofit childcare centers.</p>	BATF	<p>Business Assistance Trust Fund A revolving trust fund in which all donated funds are to be deposited.</p>
8(a)	<p>8(a) Business Development Program Assists firms owned and controlled by socially and economically disadvantaged individuals compete for federal contracts.</p>	BLIF	<p>Business Loan and Investment Fund Assists eligible small businesses through various loan programs.</p>
A-123	<p>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.</p>	CAP Goals	<p>Cross-Agency Priority Goals A limited number of Presidential priority areas where implementation requires active collaboration among multiple agencies.</p>
AFR	<p>Agency Financial Report An annual report that provides to OMB, Congress, and the public an overview of the Agency's financial and performance data.</p>	CARES Act	<p>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.</p>
AGA	<p>Association of Government Accountants The member organization for government financial management professionals.</p>	CJ	<p>Congressional Justification A federal agency's annual budget request to Congress.</p>
APG	<p>Agency Priority Goal A set of 2-year goals required by GPRAMA that reflect the highest priorities of a federal agency's leadership.</p>	CDC	<p>Certified Development Company Nonprofit corporations, certified and regulated by the SBA, that work with participating lenders to provide financing to small businesses.</p>

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.	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."
CNPP	Community Navigator Pilot Program Engages in targeted outreach to underserved communities through states, local governments, resource partners, and non-profit organizations.	EDP	Entrepreneurial Development Program An account that reports entrepreneurial development expenses.
COVID-19	Coronavirus Disease, 2019 Highly contagious respiratory disease caused by the SARS-CoV-2 virus.	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.
DATA Act	The Digital Accountability and Transparency Act A law that aims to make information on federal expenditures more easily accessible and transparent.	ERM	Enterprise Risk Management Provides a framework to manage risks and seize opportunities related to the achievement of their objectives.
DCMS	Disaster Credit Management System Electronic system used to process loan applications for all new disaster declarations.	FAST	Federal and State Technology (FAST) Grants One year funding opportunity to help increase the number of SBIR and STTR proposals.
DLF	Disaster Loan Fund Assists eligible small businesses impacted by disasters.	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.
DNP	Do Not Pay Initiative Established by IPERIA to support federal agencies with their efforts to prevent and detect improper payments.	FEMA	Federal Emergency Management Agency Coordinates the response to a disaster that has occurred in the United States.
DO	District Office SBA offices that are responsible for the delivery of the SBA's many programs and services throughout the country.	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.
DOD	Department of Defense The federal agency charged with coordinating national security and the armed services.		

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.	FY	Fiscal Year The Federal Government fiscal year begins October 1 and ends the following September 30.
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.	GAAP	Generally Accepted Accounting Principles The standard framework of guidelines for financial accounting generally known as accounting standards or standard accounting practice.
FITARA	Federal Information Technology Acquisition Reform Act Legislation to improve the acquisition and management of federal information technology assets.	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.
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.	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.
FR	Financial Report of the U.S. Government Record of the United States government's financial activities.	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.
FRMB	Fraud Risk Management Board Anti-fraud entity responsible for the oversight and coordination of the SBA's fraud risk activities.	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.
FTA	Fiscal Transfer Agent The central registry for all guaranteed individual loan and SBA pool certificate interests.	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.
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.		

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.	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.
ICD	Internal Controls Division Ensures managers comply with internal control standards.	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.
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.	MAT	Modification Adjustment Transfer A transfer made between the financing account as the general fund.
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.	MRA	Master Reserve Account The SBA's fiscal agent maintains this escrow fund to facilitate the operation of the Certified Development Company program.
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.	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.
IPIA	Improper Payment Information Act A law enacted in 2002 to identify and reduce erroneous payments in the government's programs and activities.	OBD	Office of Business Development Assists small, disadvantaged businesses to gain access to federal and private procurement markets.
ISS	Industrial Specialists for Size Specialists who perform size determinations for protests.	OCA	Office of Capital Access Manages small business loans, lender oversight, and the Surety Bond Guaranty program.
IT	Information Technology Refers to matters concerned with the design, development, installation, and implementation of information systems and applications.	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.	OIG	Office of Inspector General Conducts and supervises audits, inspections, and investigations relating to SBA programs and operations.
OCRM	Office of Credit Risk Management Manages program credit risk, monitors lender performance, and enforces lending program requirements.	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.
OCORM	Office of Continuous Operations and Risk Management Ensures enterprise-wide disaster planning, readiness, and implementation of ERM best practices for the SBA.	OPM	U.S. Office of Personnel Management The Federal Government's human resources agency.
ODR&R	Office of Disaster Recovery & Resilience Promotes economic recovery in disaster-ravaged areas and assists survivors with accessing SBA disaster loans. Disaster loans are the Agency's primary form of federal assistance for non-farm, private sector disaster losses for individuals and businesses.	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.
OFA	Office of Financial Assistance Oversees the SBA's credit programs that provide capital alternatives for small businesses not adequately served by conventional lending.	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.
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.	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.
OGC	Office of General Counsel Provides comprehensive legal services to the Administrator and all Agency offices.	PPP	Paycheck Protection Program A loan designed to provide a direct incentive for small businesses to keep their workers on the payroll.
OGCBD	Office of General 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.	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.	SBLC	Small Business Lending Company Non-depository small business lending companies listed by the SBA Office of Capital Access.
RRF	Restaurant Revitalization Fund A COVID-19 relief program authorized under the American Rescue Plan.	SE	Salaries and Expenses Operating expenses of the Agency.
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.	SMC	Senior Management Council Established by the Administrator to ensure the SBA has an effective system of internal controls.
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.	SOP	Standard Operating Procedure The primary source of the Agency's internal control.
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.	STEP	State Trade Expansion Program Makes matching fund awards to states to help small businesses enter and succeed in the internal marketplace.
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.	SVOG	Shuttered Venues Operator Grant COVID-19 relief program authorized under the American Rescue Plan.
SBIC	Small Business Investment Company Provides long-term loans, debt-equity investments, and management assistance to small businesses, particularly during their growth stages.	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.
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.	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.



APPENDIX 3 – OIG Audit Follow-Up Activity

Throughout the year, the Office of Inspector General conducts audits of SBA's processes, procedures, and programs, and makes recommendations for improvement. Many of these recommendations are not material, relative to their dollar impact on SBA's financial and administrative operation but are beneficial to SBA's management. If SBA management disagrees with an OIG recommendation, the OIG may revise the recommendation or refer the issue to a higher level of SBA management. When both SBA management and the OIG agree on the recommendation, SBA management develops a corrective action plan, including a target date for completion. This recommendation is identified as having a "Management Decision." When the corrective action plan is implemented and the recommendation has been fully addressed, the recommendation is identified as having a "Final Action."

The SBA maintains a database to track the recommendations through to the conclusion, or Final Action. During FY 2023 there were 100 final actions, resulting from 6 monetary and 95 non-monetary recommendations.

The following tables depict the SBA's Final Action activity for FY 2023 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, 2022 – September 30, 2023**

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.	16	\$ 4,663,086,471
B. Recommendations on which management decisions were made during the period.	5	\$ 315,658
C. Total recommendations pending final action during period.	21	\$ 4,663,402,129
D. Recommendations on which final action was taken during the period.		
1. Recoveries:	1	\$ 1,367,417
a. Collections and Offsets		
b. Property		
c. Other		
2. Write-Offs	5	\$ 160,933,093
3. Total	6	\$ 162,300,510
E. Recommendations needing final action at the end of the period.	11	\$ 4,868,703,005

TABLE II
Final Action on Audit Recommendations with Funds Put to Better Use
October 1, 2022 - September 30, 2023

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, 2023

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: 6 Recommendations.

Recommendation 1 – OCRM has requested more time to review the recently implemented program changes that took effect 8/1/2023. Estimated completion date is 12/31/2023. Recommendation 2 - OCRM is working with OPSM to develop a database/workflow management tool to more effectively manage the oversight of high-risk Lenders. It is currently in development. Final action target date 12/31/2023. Recommendation 3 – Closed by OIG. Recommendation 4 – Closed by OIG. Recommendation 5 - OCRM is reviewing the recently implemented program changes that took effect 8/31/2023. Estimated completion date is 12/31/2023. Recommendation 6 - Closed by OIG.



REPORT # 20-20 COMPLIANCE WITH THE DEBT COLLECTION ACT**Program:** OCA**Date Issued:** 9/30/2020**Management Decision Date:** 9/30/2020**Explanation:** 10 Recommendations.

Recommendations 2, 3, 8, and 9 are currently tied to a memorandum that is being approved by OFPO leadership. Recommendations 2, 3, and 9 have a deadline for 10/31/23 and Recommendation 8 is due 12/22/2023. Recommendation 1 is due 11/17, and Recommendations 5, 6, 7, and 10 are due 12/15/2023. For Recommendation 1, OFPO is currently revising documentation to submit for closure.

REPORT # 21-07 INSPECTION OF SBA'S PAYCHECK PROTECTION PROGRAM**Program:** OCA**Date Issued:** 1/14/2021**Management Decision Date:** 2/14/2022**Explanation:** 1 Recommendation

OFPO reviewing loan documentation to support closure documents for this recommendation. Extension request to 10/31/2023 has been granted. Submitted for to OIG for closure on 10/25/2023.

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:** 3 Recommendations.

Recommendations 1 and 2 – OFPO is currently working with OIG to establish a clear path toward closure and will meet both internally and with OIG to determine what documentation is required for the closure package. Requested extension to 12/22/2023. Recommendation 3 – OFPO Final Action Target Date to close this recommendation is 12/15/2023.

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:** 4 Recommendations.

Recommendation 1 – OFPO held a meeting on 10/11/2023 with OIG and OPSM to discussion path to closure and documentation needed, and extension approved to 3/29/2024. Recommendations 2, 3, 4 – Closed by OIG.

REPORT # 21-14 SBA'S OVERSIGHT OF WOMEN'S BUSINESS CENTER COOPERATIVE AGREEMENTS**Program:** OED**Date Issued:** 5/04/2021**Management Decision Date:** 5/04/2021**Explanation:** 8 Recommendations.

Recommendations 1,4,5,6 and 8 – OWBO has developed specific practices to address oversight procedures and incorporated it into its draft Standard Operating Procedure. 10/31/2023, is the target date for the final SOP draft for internal review. In early November 2023, will re-route the SOP in the clearance system for the Administrator's signature. Recommendations 2,3 and 7 – OWBO is on track to meet the Final Action Target date of 9/29/2024.

REPORT # 22-01 SBA'S EMERGENCY ECONOMIC INJURY DISASTER LOAN GRANTS TO SOLE PROPRIETORS AND INDEPENDENT CONTRACTORS**Program:** OCA**Date Issued:** 10/07/2021**Management Decision Date:** 8/22/2022**Explanation:** 1 Recommendation.

Recommendation 1 – Remediation work with the customer is ongoing and taking longer than expected. Implementation of the process and procedure to close out the work has been time lined and is an ongoing project for the OCA. Extension approved for final action date 12/15/2023.

REPORT # 22-08 SBA'S BUSINESS DEVELOPMENT ASSISTANCE TO 8(a) PROGRAM PARTICIPANTS**Program:** GCBD**Date Issued:** 2/14/2022**Management Decision Date:** 11/10/2022**Explanation:** 8 Recommendations.

Recommendation 1,2,3,5,and 6 – GCBD issued new Procedural Notice 6000-836899, a BOS Analysis Workbook, and is updating the SOP and Desk Guide to clarify business plan review requirements. Final action target date 12/29/2023. Recommendations 4,7, and 8 – Closed by OIG.

REPORT # 22-22 FOLLOW-UP INSPECTION OF SBA'S INTERNAL CONTROLS TO PREVENT COVID-19 EIDLs TO INELIGIBLE APPLICANTS**Program:** OCA**Date Issued:** 9/29/2022**Management Decision Date:** 11/9/2022**Explanation:** 2 Recommendations.

Recommendations 1 and 2 – OCA offices are working with offices in the SBA to use data analytics to propose a sampling of the remediation done for these recommendations. Extension approved for final action date 12/29/2023.

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U.S. Small Business
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