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REDUCING MISMANAGEMENT: GAO RECOMMENDATIONS FOR IMPROVING THE SBA

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BEFORE THE

COMMITTEE ON SMALL BUSINESS
UNITED STATES
HOUSE OF REPRESENTATIVES

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WEDNESDAY, MARCH 6, 2024

HOUSE OF REPRESENTATIVES,
COMMITTEE ON SMALL BUSINESS,
Washington, DC.

The Committee met, pursuant to call, at 10:02 a.m., in Room 2360, Rayburn House Office Building, Hon. Roger Williams [chairman of the Committee] presiding.

Present: Williams, Meuser, Alford, Crane, Maloy, Velázquez, McGarvey, Scholten, Thanedar, and Davids.

Chairman WILLIAMS. Before we get started I would like to recognize Congressman Mr. McGarvey from the great state of Kentucky to lead us in the prayer and the pledge. Stand please.

Mr. MCGARVEY. Our Father we thank you for allowing us to gather here today. And ask that you be with us as we seek to serve the people in the way that you see fit with mercy, justice, with compassion for all. Amen.

Chairman WILLIAMS. Amen.

Mr. MCGARVEY. I pledge allegiance to the Flag of the United States of America, and to the Republic for which it stands, one nation, under God, indivisible, with liberty and justice for all.

Chairman WILLIAMS. Good morning, everyone. I now call the Committee on Small Business to order. Without objection, the Chair is authorized to declare the recess of the Committee at any time. I now recognize myself for an opening statement.

Welcome to today's hearing, which will focus on examining the Government Accountability Office's recommendations for reducing mismanagement at the SBA. I would like to start off by thanking our witnesses for joining us today, thank you very much, and your attendance is greatly appreciated and we value your input we will receive.

The SBA was thrust in the national spotlight during the COVID-19 pandemic. They took an oversized role in the delivery of pandemic assistance when American entrepreneurs were in great need. Now that that pandemic is over we have been seeing all the after action reports on how the agency did during those stressful days. Unfortunately, the inspector general and other government watchdogs discovered there were hundreds of billions of taxpayer dollars stolen by fraudsters. It became abundantly clear to this Committee, that the COVID-19 pandemic broke the SBA, and it is time to open the hood and fix what has failed American taxpayers.

At the start of each Congress, the GAO releases a high-risk list of programs with significant problems that have high vulnerability

to waste, fraud, abuse, and mismanagement, unfortunately the SBA still has many outstanding recommendations on this list that we are going it to hear about in more detail this morning.

It is imperative that this Committee evaluates not just how the SBA handled the previous pandemic, but also, what role they should play in the future. So given their poor track record with detecting fraud on the front end, I am very skeptical that this agency should ever be charged with delivering such quantities of taxpayer dollars ever again. Additionally, since we were so much fraud that we saw that took place, I would hope that more of the GAO's recommendations would have been completed by now, since many of them discuss the integrity and the fraud controls within the programs. The SBA's inability to address the open GAO recommendations is a concern over its ability to aid our nation's job creators. When businesses have operational issue changes are quickly made to ensure it does not happen again.

This same entrepreneur spirit does not seem to exist at this agency which seems to be weighed down by slow-moving bureaucracy. So look no further than the agency's work from home policy. Even though the Biden administration's been pushing hard to get employees back in the offices, the SBA is still only utilizing around 10 percent of their office space. This is not only a slap in the face to small business owners that get dressed and go to work every day, but also undoubtedly reducing the quality of work from people who might be able to focus on walking their dog or doing laundry than helping an entrepreneur in need.

It is my hope that today's conversation can point us in the right direction regarding what needs to change at the SBA. Our Committee's job is to be main street's voice at the table and we will continue to do our best on their behalf.

I now would like to recognize—once again, thank our witnesses for being here with us and I am very much looking forward to our conversation.

And with that, I yield to our distinguished Ranking Member from New York, Ms. Velázquez.

Ms. VELAZQUEZ. Thank you, Chairman Williams, and thanks to our witnesses for your willingness to testify before our Committee today. I always look forward to hearing testimony from GAO, because the information provided is fact-based, nonpartisan, and focused on improving government services.

Today, I hope we can set aside partisanship, learn more about your findings and discuss ways to improve the delivery of services to small businesses. Beginning with the pandemic relief programs, SBA executed 14 years of lending in 14 days, to help keep small businesses afloat during the pandemic. These programs helped millions of businesses across the country. Unsurprisingly, there were bumps in the road with the implementation of these new programs. We have learned through reports that the potential fraud ranges from $36 billion to $200 billion.

While we may never know the full extent of that fraud, we do know for certain that the majority of that fraud took place in the first 9 months of the pandemic. We took that seriously then, which is why this Committee held a number of oversight hearings. Due to the work of GAO and the IG we were able to put internal con-

trols in place to prevent fraud in the PPP and EIDL programs. And let me tell you, it wasn't easy.

Congress and our nonpartisan agencies like GAO and the IG had an incredibly difficult time getting basic information from the Trump administration and the agency was less than forthcoming with documentation and access to data.

When Administrator Guzman was confirmed, that all changed. In testimony before the Committee on April 20, 2021, GAO testified that the new administration was more forthcoming with information. GAO's May 15, 2023, letter to SBA which delineates priority open recommendations validates Administrator Guzman's commitment to implementing GAO's recommendations. In fact, their 4-year implementation rate was 100 percent for the past 3 years, well above the 77 percent rate government wide. I hope to learn more about the agency's progress in implementing the remaining 36 open recommendations, which include 10 priority recommendations.

In 2021, and at the beginning of the 117th Congress, SBA was added to GAO's high-risk list due to its mishandling of the pandemic relief program. Hearing more about SBA's progress in addressing the areas that left the agency susceptible to fraud will be useful. Looking to the future, I hope to hear GAO's perspective on SBA efforts to stand up the Fraud Risk Management Board to prevent fraud and other challenges facing the agency.

GAO's priority recommendations can offer a blueprint for the Committee's oversight work. Through hard work and a true commitment to bipartisanship, we can confront these challenges together and improve the effectiveness of the SBA.

Thank you, Mr. Chairman. I yield back.

Chairman WILLIAMS. Yields back.

I will now introduce our witnesses. Our first witness here with us today is Dr. Courtney LaFountain. Dr. LaFountain is the acting director of financial markets in community investments at the U.S. Government Accountability Office right here in Washington, D.C. At the GAO she has launched the emerging risk task force to support the agency's ability to provide Congress with reliable, high-quality information and emerging risks.

She also had led teams that examine the effects of the U.S. Government's pandemic response, and has been instrumental in the GAO's work on financial market resilience and stability, social safety net program design and public finance.

Prior to working at the GAO Dr. LaFountain was an assistant professor at the University of Texas in Arlington. That is in my district. Home of the Mavericks.

Ms. LAFOUNTAIN. That is right.

Chairman WILLIAMS. And Dr. LaFountain earned a bachelor of arts degree in mathematics from Washington University in St. Louis, and went on to earn her Ph.D. in economics also from Washington University. She is recipient of the 2022 Arthur S. Flemming award recognizing outstanding federal employees. I thank you for joining us today and we look forward to our conversation.

Our next witness here with us today is Johana Ayers. Ms. Ayers is the managing director of the forensic audits and investigative service team at the U.S. Government Accountability Office here in

Washington, D.C. At the GAO, Ms. Ayers leads and oversees efforts to provide Congress with high quality forensic audits and investigation fraud, waste, and abuse, other special investigations and security vulnerability assessments. Prior to being named managing director, Ms. Ayers served as director in GAO's defense capabilities and management team. Ms. Ayers earned her bachelor of arts degree in international relations and affairs from the American University and went on to earn her master of arts in international relations and affairs from George Washington University. Thank you for joining us today and we look forward to the conversation we are going to have.

And before we recognize the witnesses, I would like to remind them that their whole testimony is restricted to 5 minutes in length. If you see the light turn red in front of you it means your 5 minutes have concluded and you should wrap up your testimony. And periodically you may, if you go over you will hear this, and that is to remind you to wind it up, okay?

I now recognize Dr. LaFountain for her 5-minute opening remarks.

STATEMENT OF DR. COURTNEY LAFOUNTAIN, ACTING DIRECTOR, U.S. GOVERNMENT ACCOUNTABILITY OFFICE, FINANCIAL MARKETS AND COMMUNITY INVESTMENTS, ACCOMPANIED BY JOHANA AYERS, MANAGING DIRECTOR, U.S. GOVERNMENT ACCOUNTABILITY OFFICE, FORENSIC AUDITS, AND INVESTIGATIVE SERVICES

STATEMENT OF DR. COURTNEY LAFOUNTAIN

Ms. LAFOUNTAIN. Thank you, Chairman Williams, Ranking Member Velázquez, and Members of the Committee. Thank you for the opportunity to discuss GAO's work on Small Business Administration programs.

SBA's mission is to help Americans start, build, and grow businesses and help communities recover from disasters. Based on our work, I would like to highlight three areas where SBA can improve program management and more effectively meet that mission in the future.

The first area, as you have alluded to, is SBA's pandemic relief programs. SBA quickly set up programs to respond to the unprecedented economic shock of the pandemic, and altogether, it made or guaranteed more than $1 trillion in loans and grants and assisted more than 10 million small businesses.

However, quick loan approvals came at the expense of oversight and Fraud Risk Management, especially early in the pandemic. Our work uncovered a number of weaknesses, such as reliance on inefficient pay and chase approaches instead of up-front prevention of fraud and other improper payments. These early decisions also affected the reliability of SBA's financial reporting, and its independent financial auditor has repeatedly identified weaknesses and its ability to support the numbers on its balance sheet.

Where SBA has addressed our recommendations, it has significantly strengthened oversight and management of fraud risks. For example, it put controls in place to prevent funding for potentially fraudulent or ineligible applications, and monitor forgiveness of

certain loans. As a of fiscal year 2023, we estimated that taking these steps saved the government at least $12 billion.

So, we think SBA should keep going. It should continue to build out data analytics for preventing and detecting fraud and fully addresses the weaknesses in its financial statements. With a robust system of internal controls and Fraud Risk Management, SBA will be better placed to support small businesses in future emergencies, and in normal operations while also ensuring that taxpayer dollars are going where they should.

The second area I will highlight is SBA's disaster loan program, which offers low-interest loans to small businesses and households after disaster. For example, SBA made over $7 billion in loans to those affected by hurricanes Harvey, Irma, and Maria in 2017.

Our reviews of this program uncovered obstacles to those providing and obtaining disaster recovery assistance. We found that SBA struggled to operate effectively after the 2017 hurricanes where the power was out, or the phone lines were down, and especially in rural areas. We also found issues with clear communication and an uneven playing field for accessing federal disaster assistance in general.

So, SBA has made a start here. It has improved disaster-specific action planning and started looking at its operating risks. But we would urge SBA to take further action. We recommended that SBA review its lending standards and see if it can reduce barriers while still managing its credit risk.

We also think SBA should continue working with other federal agencies to level the playing field for access to disaster assistance. These steps can improve how communities recover in the future.

The last area I will highlight cuts across multiple SBA activities. Our reviews of SBA's 8(a) program, its oversight of small business research programs, and its efforts to support veteran-owned small businesses all revealed that SBA wasn't providing required reports to Congress in a timely or complete manner. These reports contain key data elements describing program participation and funding amounts and various outcomes, and fully addressing our recommendations in this area would improve SBA's capacity to deliver reports on time, completely, and provide information needed for effective oversight for small business programs.

So, this concludes my opening remarks. Thank you again for the opportunity to speak here today. And my colleague and I would be glad to take your questions.

Chairman WILLIAMS. Thank you. And we will now move to the Member questions under the 5-minute rule we talked about. I recognize myself now for 5 minutes.

The COVID-19 pandemic showed some serious weaknesses within the SBA which we have already heard. The agency's inspector general estimates there was over $200 billion in fraudulent pandemic dollars stolen by criminals. This is unacceptable and it is a high number, and I am proud of the creative solutions coming out of this Committee to get some of these funds returned to the taxpayers. However, I don't want everything we do to be backwards looking. If there is ever another time where the SBA needs to deliver funds quickly, I am extremely concerned that they have yet

to institute the proper guardrails to prevent and detect fraud within these programs.

So, the GAO has also highlighted some outstanding concerns on this issue. So, I am going to open the floor to either one of you, both of you: What is the single most important fraud control measure that the SBA could implement to fix the remaining vulnerabilities. Johana?

Ms. AYERS. So thank you for that question. I think the key control that SBA does need to put in place is what you alluded to, and that is, focusing on prevention. So if I could ask for one thing for SBA to do, it is to end the reliance on self-certification. And I will take a second to make a pitch for data analytics so that SBA can appropriately screen applications as they come in, flag those that look suspicious, and quickly take actions to resolve them. And if the fraudster does happen to receive money, have those analytics in place so that SBA can readily detect when fraud has occurred. But the number one thing would be to end self-certification.

Chairman WILLIAMS. You want to add to that?

Ms. LAFOUNTAIN. No, nothing to add, sir.

Chairman WILLIAMS. Okay. All right.

Ms. LAFOUNTAIN. Thank you.

Chairman WILLIAMS. So, one of the high-risk recommendations has been identified as a major issue for the agency is their weakness in the audited financial statements. For any small business owner, complete and accurate financial statements are necessary to stay in business. They have to be able to track all the money coming in and out of their businesses. So can, again, either of you discuss in greater detail some of why this recommendation remains on the SBA's priority list and what the agency has yet to do to it.

Ms. LAFOUNTAIN. So, this is a really important issue that you are raising. As you mentioned, to operate effectively and efficiently as possible, we need to understand the, you know, status of the balance sheet, what is happening in SBA. So, what SBA's financial auditors found were a number of material weaknesses related to the pandemic relief programs, that basically boiled down to a lack of documentation and being able to just support where the numbers on its balance sheet came from. There are a lot of details to dig into there but that is the main issue.

Some driving factors that led to this situation were the, you know, the speed and the size and the newness of the programs, but what we see here is a real opportunity for SBA to address the weaknesses in its internal controls around these programs so that, you know, going forward, they will have a stronger financial management system.

Chairman WILLIAMS. Just do what they are told, that always works.

I have a little time left here, can either of you summarize a recent GAO report on the SBIR programs so this Committee can ensure it is receiving all the pertinent information on the program before it expires in a few years.

Ms. LAFOUNTAIN. So, this is another important issue, the small business research programs. So, SBA's role in the Small Business Innovation Research is an oversight role, and kind of a central body for communicating and policymaking, and then also

producing a report to Congress on various outcomes related to the Small Business Research Programs. Some of the challenges we have highlighted with those programs are staffing at SBA, and resource constraints, but also, there's a lot of variety in the federal agencies from whom SBA is trying to collect information. But we think there is some opportunities here for SBA to improve that process, to fully document, you know, a plan and some policies and procedures to improving the timeliness with which it can produce that information.

Chairman WILLIAMS. Well, they require so much from the borrower. They probably need to do the same thing they require the borrower to do; fill the right paperwork out and fill all the blanks in and do what they are asked to do.

I now recognize the Ranking Member for 5 minutes of questions.

Ms. VELAZQUEZ. Thank you, Mr. Chairman. Administrator Guzman has said that she takes GAO's recommendations seriously. In your view, is SBA cooperating with ongoing audits and working to implement the open recommendations in a timely manner?

Ms. LAFOUNTAIN. So, there is a couple of indicators we can look at to shed some light on SBA's responsiveness and get a sense of how seriously they are taking GAO's recommendations. One is their 4-year implementation rate. In the past few years that has been high at 100 percent, I think for the past 3 years. And then for a handful of years prior to that, it was mostly at or higher than the government average of about 77 percent. So, they are on the high end of the distribution there.

Ms. VELAZQUEZ. Thank you.

Ms. Ayers, could you share your experience with the current administration, and then discuss the difficulties you face in obtaining PPP and EIDL data from the previous administration?

Ms. AYERS. Yes, thank you for that question. I think I will answer it in a little bit reverse order. So throughout 2020, as SBA was designing and implementing the pandemic relief programs, we did, as you alluded to in your statement, encounter significant challenges and delays in receiving the data and documentation that we needed to help support congressional oversight of these programs. And those delays and challenges certainly hindered accountability and transparency in those programs.

In 2021, we did start to receive large volumes of the data and documentation that we needed for oversight of those particular programs. And I think on the whole, we have continued to see cooperation and responsiveness from SBA officials at all levels in response to our request, not only on the pandemic relief programs, but across the range of programs that SBA is responsible for.

Ms. VELAZQUEZ. Thank you, thank you.

Ms. Ayers, in 2015 GAO developed a Fraud Risk Framework to help agencies manage their risk both in normal operations and in emergencies. In 2016, the Fraud Reduction and Data Analytics Act required the Office of Management and Budget to incorporate these leading practices into guidelines for agencies. What steps did the Trump administration's SBA take to implement these practices?

Ms. AYERS. So unfortunately between 2015 when we released the Fraud Risk Framework and its leading practices, and 2020, at the start of the pandemic, SBA had not taken action to implement

the various controls outlined in the Fraud Risk Framework for preventing, detecting and responding to fraud in a strategic manner. And as a result, when the pandemic began, SBA was not well-positioned to manage the heightened fraud risk that emerged.

Ms. VELAZQUEZ. Would you say that if these practices were in place could some of that fraud have been prevented?

Ms. AYERS. Yes.

Ms. VELAZQUEZ. Okay. What steps has the Biden SBA under the leadership of Administrator Guzman taken to implement this recommendation?

Ms. AYERS. SBA has taken a number of actions that are in alignment with the Fraud Risk Framework. For example, it has designated an entity to lead its antifraud efforts, the Fraud Risk Management Board. It has also begun conducting fraud risk assessments in alignment with leading practices. And it has also developed antifraud strategies for some of programs, and that can serve as a blueprint for going forward.

Ms. VELAZQUEZ. Thank you. Are there areas where SBA can improve?

Ms. AYERS. I certainly think there is always room for improvement. I think in the fraud risk management space, specifically what SBA has done to date does represent important steps forward. But SBA needs to build on those in terms of broadening across the range of programs that SBA is responsible for administering, and then ensuring that Fraud Risk Management culture is engrained throughout the agency. From not only the administrator, but to the lowest-level employee and also to the contractors and service providers that SBA works with.

Ms. VELAZQUEZ. Thank you. In the fiscal year 2024 budget, President Biden recommended $47 million for the Office of Inspector General. Unfortunately, we have been operating under a continuing resolution that provides level funding. How does underfunding the inspector general hinder their ability to recover fraudulent money?

Ms. AYERS. So I believe IG Ware has testified before this Committee on the importance of his office receiving full funding so that it can carry out the necessary investigations and audits, not only related to the pandemic relief programs and the fraud that occurred there, but across the range of SBA programs.

Ms. VELAZQUEZ. Thank you. I yield back.

Chairman WILLIAMS. Lady yields back.

I now recognize Representative Crane from the great State of Arizona for 5 minutes.

Mr. CRANE. Thank you, Mr. Chairman and thank you for holding this hearing today. So am I correct that there was about $200 billion worth of fraud that we have—that we have calculated with the PPP loans? Is that correct?

Ms. AYERS. So the SBA inspector general has estimated that fraud in the PPP and COVID-19 EIDL programs was $200 billion, yes.

Mr. CRANE. Okay. Are we going after any of that money? Is the SBA going after any of that trying to recuperate any of it?

Ms. AYERS. So I will start off by saying the SBA OIG under Inspector Ware's direction has an aggressive effort to conduct inves-

tigations and refer cases for prosecution. SBA has also taken steps to review previously approved loans under the pandemic relief programs and to flag those that are potentially fraudulent and refer those to the SBA OIG for further investigation.

Mr. CRANE. Ms. Ayers, you said that one of the things you'd recommend in a future crisis is prevention mechanisms. Is that correct?

Ms. AYERS. Yes.

Mr. CRANE. To make sure that vetting was done on the front end?

Ms. AYERS. Yes.

Mr. CRANE. Is that correct?

Ms. AYERS. Yes.

Mr. CRANE. Do you think that that is happening right now at the SBA?

Ms. AYERS. So in terms of pandemic relief programs. Obviously at this point, the funds have been distributed and we did see numerous indicators early in the pandemic that the proper vetting was not being done. And as a result, fraudsters did get money that they should not have.

Mr. CRANE. That is not the question I asked, ma'am.

Ms. AYERS. In terms of the current programs——

Mr. CRANE. Yeah, has anybody been fired, ma'am, to your knowledge?

Ms. AYERS. Not to my knowledge, no.

Mr. CRANE. So why would any of these prevention mechanisms be put in place if nobody's been held accountable?

Ms. AYERS. We have seen, based on our discussions as well as information that SBA has provided to us, we do see several indications that preventative measures are being put in place and that SBA has an understanding that these measures do need to be in place, you know, not only looking back at the pandemic relief programs, but also looking towards, for example, the regular programs it has such as the 7(a) and the regular EIDL program. So they are recognizing the importance of having preventative controls put in place.

Mr. CRANE. Okay. So you are saying that they are putting measures in place, but still, you acknowledge that nobody yet has been held accountable at SBA. Is that accurate?

Ms. AYERS. I would say, again, to my knowledge, I am not aware of anyone being fired.

Mr. CRANE. Do you think that is a problem, Ms. Ayers? I mean, we are talking about $200 billion, right?

Ms. AYERS. Yes. I believe what was experienced at SBA was a systemic issue. As I discussed previously, there were not, across the agency, a range of mechanisms that had been put in place to manage the fraud risk. So it really very much was a systemic issue as opposed to the fault of one or two individuals.

Mr. CRANE. Thank you. Is it true that SBA only utilizes about 10 percent of their office space? Either one of you.

Ms. LAFOUNTAIN. I am not aware that we have looked at that.

Mr. CRANE. Okay. All right, moving on.

Can you repeat the issues you found with SBA's failure to support our veteran business community? I think that was you, Ms. LaFountain.

Ms. LAFOUNTAIN. Thank you. So, this recent work identified two issues: One is that SBA is required by statute to give special consideration in its lending programs to veteran-owned small businesses.

Mr. CRANE. Are they doing that, ma'am?

Ms. LAFOUNTAIN. They pointed to some areas where they—where veterans are benefiting from some of their lending programs, but they couldn't point to how SBA is giving them special consideration, no.

Mr. CRANE. So by statute, they are required to do that and they are not doing that?

Ms. LAFOUNTAIN. That's right.

Mr. CRANE. Why do you think that is, ma'am? Do you think this current administrator doesn't care about veterans or statute? If you had to take a guess, why aren't they, by statute, doing what they are supposed to to help veteran small business owners?

Ms. LAFOUNTAIN. That is an important question. When we had talked to them, they cited a lack of awareness. And so one thing that we would look SBA to do to remedy this situation is put policies and procedures in place so that doesn't happen in the future.

Mr. CRANE. A lack of awareness?

Ms. LAFOUNTAIN. Yes, sir.

Mr. CRANE. I yield back.

Chairman WILLIAMS. The gentleman yields back.

I now recognize Representative Davids from the great State of Kansas for 5 minutes.

Ms. DAVIDS. Thank you, Chairman Williams. And thank you to you and the Ranking Member both for holding this hearing today. Thank you to our witnesses from the Government Accountability Office. I definitely appreciate the work that you all do. I just want to touch on a couple of things here.

In August of 2022, GAO published a report on Tribal economic development. And since coming to Congress, I have definitely been diligently working to improve access to capital and entrepreneurship opportunities in general for Native communities. And I, of course, am very excited and thrilled that we just passed out of the House my bill to improve the Office of Native American Affairs at the Small Business Administration. And actually, I got the chance to work with my colleague, Mr. Crane, on that bill. So with that in mind, I am curious if you could speak to the recommendation that you made regarding SBA and the analysis to improve their Tribal economic development assistance, and what progress you've seen made to date or additional issues that I need to be aware of?

Ms. LAFOUNTAIN. I apologize, I do not know those details. So, we would be glad to connect with our experts and follow up with you on those topics.

Ms. DAVIDS. Okay. Thank you. We will also follow up with probably some additional written questions to get into more specifics. We don't get a ton of time with 5 minutes here.

So the second thing I was hoping to touch on is GAO's review of the disaster recovery activities that happen at—at various agen-

cies and at SBA specifically. I know that your office recently released a report about the SBA disaster assistance in rural communities. And certainly in Kansas, we are absolutely facing a number of unique challenges. On the eastern side of the State, folks are often hit with severe storms and flooding that can have just a devastating impact on our entrepreneurs. And then on the western side of the State we are dealing with drought and, you know, that is threatening crop yields and this sort of thing, which we are seeing rising costs at grocery stores.

So I am just curious if you have a chance to expand on your recommendations that you made to SBA regarding the disaster assistance outreach, and then the challenges that that program is facing with regard to the rural communities that they are trying to serve.

Ms. LAFOUNTAIN. So, this is a really important issue. So one thing we observed in our work on the disaster loan program is that SBA doesn't have—doesn't fully have a grasp on some of its operating risks for doing business in areas after a disaster, like, physically, in areas after a disaster, especially in rural areas it can run into things like downed power lines or poor cell phone service that can just inhibit its ability to deliver the services that its providing or that it should be providing. So, one thing we have recommended is that they take a look at their operational risks and come up with plans for mitigating those risks, including in rural areas.

Ms. DAVIDS. Did you want to add anything?

All right, thank you so much. And we will follow up with a few written questions regarding a Tribal economic development activities. Thank you and I yield back.

Chairman WILLIAMS. Yields back.

I now recognize Representative Meuser from the great State of Pennsylvania for 5 minutes.

Mr. MEUSER. Thank you very much, Mr. Chairman. I appreciate being here. Thank you to or witnesses very much.

So I want to continue with the Chairman again speaking about earlier related to fraud issues, billions and billions from, as you well know EIDL and the PPP, and not assigning any blame, but we certainly want to avoid this in the future. So what is the GAO looking at? What have you determined? What have you assessed, and have you offered any—I apologize I haven't seen them—written ideas for solutions to keep this from happening again in the future?

Ms. AYERS. Yes, thank you for that question. So we have a body of work going back to, you know, the early days of the pandemic where we made a number of recommendations to SBA to enhance controls related to the various pandemic relief programs. And many of those recommendations are tied to our Fraud Risk Framework that we issued in 2015 that outlines leading practices for managing fraud risk. And as I previously noted, prior to the pandemic, SBA had not been acting on those leading practices. I am very pleased that in recent years, SBA has started taking action to implement those leading practices. And going forward, as we think about future programs, SBA needs to continue implementing the leading practices from the Fraud Risk Framework so that it is better positioned to manage its fraud risk during normal times, and certainly during emergencies when risks are heightened.

Mr. MEUSER. So I said I am not assigning blame, you are kind of assigning blame to the previous SBA. And if you look at the numbers, there was just as much fraud in the PPP and the EIDL from this administration as the previous administration. So what has been done? Back to my question. Okay, if you write a paper, that is wonderful. That is a wonderful bureaucratic action to take, was that followed up, was there any improvements actually done, such as new IT systems? New procedures? Bringing in people from the private sector? Credit card companies that are so much better at detecting and keeping fraud, because it's their money that they are losing? It is not, you know, the American taxpayer dollars which sometimes doesn't get the respect that it deserves. Okay, does the GAO actually do anything besides write reports?

Ms. AYERS. So we have evaluated the actions that SBA did take to address fraud as it emerged during the pandemic, and we did find that the controls that were added such as data analytics, enhanced screening of applications as they came in, and then doing post award reviews did help prevent fraud and help more readily detect it.

I do think it is fair to say based on our work as well as the work of the inspector general that while there was progress made, there were, at times, plans that SBA put into place that weren't always followed. For example, SBA, for a period of time, had not been running applications through Treasury's Do Not Pay system to flag people—applicants—with potential problems. SBA then began running applications through the Do Not Pay system. But in some cases, for reasons that are not necessarily clear to us or the IG they made decisions not to run all of the applications through that portal.

Mr. MEUSER. Thank you. Could we see some of the ideas and the plan that you have to improve? Do you have that in outline form or, in some way, an action plan for minimizing fraud?

Ms. AYERS. So we have outlined the steps that we think SBA does need to take and that is outlined in the Fraud Risk Framework. It is up to SBA to develop that action plan to see how it will carry it out. And we have seen action plans that SBA has developed related to Fraud Risk Management and we will continue to follow up with them to see the status of the implementation, to make sure that it isn't just a plan on the shelf gathering dust, but it is resulting in real change.

Mr. MEUSER. That is great. I yield back, Mr. Chairman.

Chairman WILLIAMS. The gentleman yields back. And we are going to kind of go into a little mini second round here, we haven't asked all of our questions.

This Committee has been investigating the SBA's Community Navigator's pilot program. Now this program essentially is a duplicative of existing SBA programs such as Small Business Development Centers. However, it is much less effective. This leads to a waste of taxpayers' dollars. So, can you all discuss how the GAO is looking at this program and what you are finding?

Ms. LAFOUNTAIN. So, these are important issues that you are raising and we do have ongoing work looking at the Community Navigator program. Because it is ongoing work, we don't have any

findings to share at this time, but we would be glad to when that work is completed.

Chairman WILLIAMS. When do you think it will be completed?

Ms. LAFOUNTAIN. I think our goal is to complete it later this fall but let me double-check that detail.

Chairman WILLIAMS. Yeah, we need to follow through so we can see what you have found, okay?

All right. Next go back to Congressman Meuser for his second round of questions——

Mr. MEUSER. Thank you again, Mr. Chairman. Thanks again for being with us.

So during a GAO review, agencies seem to, don't know for sure, appease the GAO recommendation, and turn around and revert back to the old ways of implementing the recommendations in an inadequate manner. It is imperative that, in this case, the SBA, commits to addressing the GAO's concerns in a lasting and effective way. However, audits of internal SBA controls and processes paint a picture that the agency struggles with developing such adequate processes that protect taxpayer dollars. With that in mind, how does the GAO look at the long-term effectiveness of the SBA's actions in closing out these recommendations, and how can that improve?

Ms. LAFOUNTAIN. So, this is another important issue that you are raising. We do have a robust recommendation follow-up procedure. As agencies are trying to address our recommendations, we are applying the same scrutiny and evidentiary standards and professional skepticism that we apply when we write the original reports. After a recommendation has been closed, then we rely on working with our congressional partners to see if additional follow up needs to happen, and we need to open another audit.

Mr. MEUSER. Okay. You don't have an easy job, I can see that, but it can also be an extremely important job that can really make a difference.

Let me ask you if I can about the Community Navigator. Is this a point of focus for the GAO? Are you aware of some of the discrepancies and problems that some small businesses have brought to our attention regarding not being part of a targeted group, and therefore not receiving some of the benefits or access? Is this something that your—something you are looking at?

Ms. LAFOUNTAIN. So, we do have ongoing work looking at the Community Navigator program. And like I said, because it is ongoing work, we don't have findings yet to share with you, but you are raising some important issues and we—you know, we would be glad to work with the Committee to look into them further.

Mr. MEUSER. Great, yeah. My understanding is it is very important and it probably doesn't need a lot to necessarily improve in the manner it was designed to perform.

We—I will just ask, is the SBA prepared, in your view, the next major national disaster in dealing with the various responsibilities they have in such a situation?

Ms. AYERS. I certainly think it is fair to say that they are better prepared today than they were in 2020. But I do think there is more action that they can and should take. This includes implementing our open recommendations related to Fraud Risk Manage-

ment generally, and then also the recommendations we have related to the disaster programs, as well as recommendations from the inspector general. So there are actions that they should continually be taking to improve and be better prepared in this area.

Mr. MEUSER. Okay. Do you have a team at the GAO that focuses on, or a couple of people anyway, that focuses on the SBA exclusively?

Ms. LAFOUNTAIN. So, the Financial Markets and Community Investment Team where I am currently situated, we do a lot of reviews of various SBA programs. But other teams across the agency have also looked at what SBA is doing, and yeah, in various aspects of its operations.

Mr. MEUSER. Can you point to one area that you got involved, showed them how it could be improved and it actually did get improved?

Ms. LAFOUNTAIN. An area that springs to mind is the oversight of the PPP and EIDL programs. We had some recommendations for them to develop and implement an oversight plan, and they did that.

Mr. MEUSER. Okay. Thank you. I yield back, Mr. Chairman.

Chairman WILLIAMS. The gentleman yields back.

I now recognize Representative Scholten from the great State of Michigan for 5 minutes.

Ms. SCHOLTEN. Thank you so much, Mr. Chair. Thank you to our witnesses for being here today. Though our numbers might be a little bit sparse, your testimony is critical for the work that we do every single day.

One positive trend I observed is that the SBA's 4-year implementation rate for GAO recommendations since 2021 is 100 percent. It is no surprise that the SBA met their goals under the leadership of Administrator Guzman who I have had the pleasure of hosting twice now in our district, as well as in conjunction with a visit by Vice President Harris just a couple weeks ago. This question is for both Dr. LaFountain and Ms. Ayers: With Administrator Guzman coming to testify in the next couple of weeks, what component of what we have discussed here today would you like us to share with the Administrator?

Ms. LAFOUNTAIN. I can start. I think what is really important is for SBA to keep going where it has made significant progress and addressing our recommendations related to the pandemic relief programs, so there is more work to be done, and we would like to see them move forward there. And also, move forward with the work they are doing on the disaster loan program, and leveling out the playing field for disaster recovery assistance.

Ms. AYERS. And I would simply add to that that we hope and expect that SBA continues to broaden and deepen its Fraud Risk Management efforts across the agency implementing the lessons learned and the experiences that it had during the pandemic so that it continues to be better positioned for the next disaster as well as its everyday operations.

Ms. SCHOLTEN. So continuing to keep going on the programs that are successful and that are delivering, but also broadening and deepening areas of need. What elements do you think are es-

sential from us as Members of Congress to ensure that those things can happen?

Ms. AYERS. Well, I think events like today's hearing and the continued oversight. And the one aspect I would mention is that stressing to agencies like SBA that it is not just enough to deliver the funds quickly. I know at various times, that is the appropriate focus, but it also needs to be stressed that when you are delivering funds quickly, it is not an either/or. You can manage fraud risk; you can protect taxpayer interest while also delivering funds quickly. And that is the message that I believe SBA is starting to understand in a way it did not before. But I think that pressure and that message needs to stay on SBA, as well as any number of other federal agencies.

Ms. SCHOLTEN. Yeah. Thank you. Anything to add on that?

Ms. LAFOUNTAIN. I would just add that there are some themes in our recommendations that we highlighted today. And so not just focusing on addressing a single recommendation for a single program. But if there are lessons learned that can have positive spillovers across the agency, that seems like a great opportunity.

Ms. SCHOLTEN. Yeah. My second question, the SBA's delivered over $1 trillion to small businesses through economic relief programs during the pandemic, as we have talked about. Part of this Committee's role is to exercise oversight. You referenced that in your response, Ms. Ayers, of the SBA and ensuring the agency is being a good steward of those taxpayers' hard-earned dollars. If there were to be another crisis, like the pandemic in 2020, is the SBA better prepared to handle it today than it was 4 years ago? And is it in any better position to combat fraud?

Ms. AYERS. I would say yes to both questions.

Ms. SCHOLTEN. What specifically do you think puts it in that position?

Ms. AYERS. So SBA has, in the last couple of years, taken actions that implement controls for better managing fraud risk to prevent, detect, and respond to fraud in a strategic way. It had been either not paying sufficient attention to fraud or handling it in an ad hoc manner. It is now better positioned to do so strategically and that is, again, where I believe it does need to broaden and deepen those efforts across the range of programs. It may be a completely different program that is called on next time to provide assistance and relief. And that program needs to build on what SBA has done to date and not start over, as we saw PPP and COVID EIDL having to do.

Ms. SCHOLTEN. Yeah, that is very helpful. Thank you very much. I yield back.

Chairman WILLIAMS. Lady yields back.

And I now recognize Representative Maloy from the great State of Utah for 5 minutes.

Ms. MALOY. Thank you, Mr. Chairman. Thank you both for being here. One of the nice things about being a really new Member of Congress is I get to go last on these things and back clean up. So I get to ask the fun questions.

I read through the report and I read through the materials for the hearing and some of the things that GAO's finding in your report are very upsetting. And I know that you are part of the execu-

tive branch and you have a responsibility for making sure that the SBA is accountable, but we as the legislative branch also have a responsibility to hold the executive branch accountable and clean up waste, fraud, and abuse. And it looks like you are working with us to do that, and I appreciate that. But one of the things I noticed is that these SBA programs are failing to help some of the groups they are supposed to help, like Veterans, Women Owned Small Businesses, or WOSBs, and rural areas in the wake of disasters.

Rep. Scholten, who just asked questions, and I have a bill to try to address some of the loopholes in the WOSB program and make it cleaner, more accountable and more transparent. I want more accountability, you want more accountability. What have you not had a chance to talk about today that this Committee, or Congress can do, to help make SBA more accountable, more transparent and make sure the dollars we are spending are actually helping small businesses in America?

Ms. LAFOUNTAIN. Well, a thing that springs to mind, and thank you for the question, is having a hearing like this where we get to talk about how the issues that we are finding at SBA, how they have an effect, again where they have made progress, but where they really need to keep going.

Ms. MALOY. So we have your report, is there anything other than your report that we can use to help make sure that happens?

Ms. LAFOUNTAIN. It is a great question. In addition to the report we have provided, we have—we would welcome or actually we would welcome talking to you all about what your interests and priorities are and seeing where we can do work on those topics. Actually, that would probably be my answer to that question. Thank you.

Ms. MALOY. Okay. Thank you. I am going to have my staff reach out, because I would like to work with you on how we can make these programs work better for veterans, women-owned small businesses, and rural communities. Those are really important constituencies for me. Ms. Ayers?

Ms. AYERS. So I would echo what my colleague said. And, while the focus of my work has largely been on fraud and Fraud Risk Management, the programs you mentioned are ones that, you know, we can talk to you about as well through that lens. And so, we are here to support you as a legislative body, and in fact, I will mention that we actually are part of the legislative branch ourselves.

Ms. MALOY. Thank you for that correction.

Ms. AYERS. And we are happy to support you and your colleagues in your oversight role in a nonpartisan, non-ideological, fact-based way. And so, yes, we have the reports that we issue, but we also have a wealth of knowledge and expertise that goes behind that. And we are always happy to meet with you or your staff to discuss issues of interest.

Ms. MALOY. Okay, I am going to have any staff reach out to you as well because I am also interested in reducing fraud. I mean, that is something that is nonpartisan that we all want to get under control so work with us on that, let's come up with some ideas to close these loopholes and accountability.

With that, Mr. Chairman, I yield back the remainder of my time.

Chairman WILLIAMS. Yields back.

I now recognize Representative Thanedar from Michigan, the great State of Michigan for 5 minutes.

Mr. THANEDAR. I think I am going to pass.

Chairman WILLIAMS. Okay. I next recognize Representative Alford from the great State of Missouri for 5 minutes.

Mr. ALFORD. Thank you, Mr. Chair, I appreciate it. Thank you for our witnesses being here today. This is a very important meeting. You know, one of the core duties of Congress, I don't have to tell you, is to conduct oversight of the executive branch. We have to make sure that the agencies are using their budget sufficiently to complete their duties for the American people. A key tool of Congress center oversight of the executive branch is the Government Accountability Office, an independent nonpartisan government agency with the legislative branch.

Right now, the SBA has a staggering 41 open recommendations from the GAO leading to the conclusion on the high-risk list. One glaring recommendation the SBA has not adopted is to meet reporting requirements in a timely manner. And right now, many of the SBA's Veterans' business outreach centers are not submitting their quarterly or yearly reports, and the SBA does not even have a process to make sure it happens.

Another major problem is the SBA's minimal return-to-work policy. When we tried to visit the Small Business Administration just down the street here to conduct congressional oversight, our request was repeatedly denied. Sitting Members of Congress were not allowed in the building. This is why we introduced the Congressional Access to Bureaucratic Office, or the CABO Act. The CABO Act would require any agency headquarters to allow sitting Members of Congress and their staff in their buildings.

As a result of introducing the CABO Act, we were finally allowed in, and led a delegation with Chairman Williams to the SBA and met with the Administrator Guzman. We were later told, however, that the administration had condensed the staff to two floors that we were allowed on to make it appear that the workplaces were active, and it still looked meager. Rows and rows of empty desks. Look, we need bureaucrats to get back to work. It is time, COVID is over. Let's get back to work for the American people.

Dr. LaFountain, how often do you work from home or phone it in?

Ms. LAFOUNTAIN. I make sure I am in the office——

Mr. ALFORD. Why is that?

Ms. LAFOUNTAIN.—as needed.

Mr. ALFORD. Why do you feel a need to be in the office?

Ms. LAFOUNTAIN. So, this question about telework and work from home is actually—it is a really important issue. There is a lot of open questions about the effect of telework.

Mr. ALFORD. Just answer the question, why do you feel a need to be in the office?

Ms. LAFOUNTAIN. I—for some of my work tasks it is good to be in person——

Mr. ALFORD. Why?

Ms. LAFOUNTAIN.—to interact with my colleagues in person.

Mr. ALFORD. To interact, to build camaraderie, to get things done. Ms. Ayers, how about you?

Ms. AYERS. Yes, I similarly am in the office as needed for in-person meetings. And with my colleagues to help build culture and camaraderie.

Mr. ALFORD. Culture and camaraderie. You know the federal government operates more than half a billion square feet of offices space. It has cost taxpayers $7 billion to operate. According to a September 2023 study, 17 of the 24 federal agencies uses an estimated average of 25 percent or less of their capacity. The SBA is estimated at 10 percent of their office space. This is a waste of taxpayer money. Down at the Department of Ag, 2 million square feet, they won't let us in either. We are getting in there. They have about 11 percent of the people showing up for work.

This is my schedule today. I am running ragged but I'm here working for the American people earning my pay, 16 appointments I have today. I can't do this from home. Why are people in the federal government not at their desk working for the American people? Doctor.

Ms. LAFOUNTAIN. So, we have looked at the effects of telework and work-from-home policies in a recent report. And its—the effects of telework are really uncertain on productivity.

Mr. ALFORD. Well, if it is uncertain, then let's go with what we know works, get them back to the office. Let's start this community of workers together so we can have this camaraderie and collective thought and practice and get something done. Why are we waiting on studies to figure out if this works as continued telehealth—telework?

Ms. LAFOUNTAIN. You are raising some really important and timely issues, and we would be glad to work with you to find a way to look into this further.

Mr. ALFORD. Well, thank you. I know that is a bit of a rant. But I am really upset that we even had to file this act that sitting Members of Congress cannot go down to the offices that we have oversight. And then when we get down there, it is staged to make it look like an act of workforce is down there. I look forward to Administrator Guzman coming here and answering some of these questions. Thank you for being here. I appreciate your service to our nation. With that, I yield back, Mr. Chairman.

Chairman WILLIAMS. The gentleman yields back. I now recognize Representative Thanedar from the great State of Michigan for 5 minutes.

Mr. THANEDAR. Thank you, Chairman. I appreciate your consideration here. I appreciate both your organization and how bipartisan it is. And in this partisan environment, it is refreshing to see that. You know, I am a small business owner. I have owned small businesses for 25 years, and I have had some really good luck with SBA, able to get things like 504 loan programs so that can help my business succeed.

I also had some frustrations with the red tape and the paperwork and getting things approved. What immediate steps can SBA take, in your mind? Maybe give me two, three things that they could do to improve its effectiveness and ability to serve the business community?

Ms. LAFOUNTAIN. So, one perspective on this based on our recent work is that SBA could improve its capacity to turn in some of its required reports in a timely manner. There are some themes there where SBA has, for a variety of reasons, faced some obstacles providing outcome information about its programs. And we think that if it addresses our recommendations in this area, it would provide more information to Congress and others who want to effectively oversee how its programs are performing.

Mr. THANEDAR. Thank you. And, particularly, I represent Detroit, Michigan, a 78 percent African American city, we have some amazing entrepreneurs very, very successful. But many of my small businesses are struggling. They are struggling. They don't have the time to go through the paperwork and be able to access SBA services. Often, they are unaware of what is available. Now, SBA has indicated they want to work with your organization. But are there any else where there is disagreement between your organization and SBA, and if so, what are those?

Ms. LAFOUNTAIN. So, SBA has generally agreed with the recommendations that we have made, particularly, the ones we have highlighted today. Yeah, there may be a detail here and there that they push back. However, we have found that they are willing to take steps to address our recommendations and are doing that. Yeah.

Mr. THANEDAR. Any disagreement? Is there total agreement, 100 percent, or can you identify any areas where you are struggling?

Ms. LAFOUNTAIN. I think what I would say here is that some of the things we have asked SBA to do are not easy. And the recommendations will take time to address, and may need some sustained attention. So as an example, we have asked SBA to work with other agencies on improving access to federal disaster assistance. And that, you know, looking to see, is the playing field uneven? Do you have the right data and analytics to look into this issue? If you find a gap, do you have the right structures in place to address it? And that is a big thing to do. It is also an extremely important thing to do. So, we understand that it takes time to address the issues we have raised, but we see them—we do see them trying.

Mr. THANEDAR. All right. Thank you. And in terms of—under the Biden administration, I see there is a lot more—Latino ownership has increased. African American ownership of small businesses have increased. We have seen more women-owned businesses flourishing. But we still need to do more to help, especially the Black and Brown community in terms of, you know, being able to—their ability to achieve the American Dream. What specific steps would you recommend to SBA to help improve access for the minority businessowners?

Ms. LAFOUNTAIN. So here I will just say that you are raising some really important questions, and we would love an opportunity to work with you and the Committee to look into them further.

Mr. THANEDAR. All right. Thank you, and my time is up.

Chairman WILLIAMS. The gentleman yields back. And I would like to thank our witnesses today for your testimony and for appearing before us.

Without objection, the Members have five legislative days to submit additional materials and written questions for the witnesses to the Chair, which will be forwarded to the witnesses. I ask the witnesses to please respond promptly. And if there is no further business, without objection, the Committee is adjourned.

[Whereupon, at 11:14 a.m., the Committee was adjourned.]

APPENDIX

United States Government Accountability Office

GAO

Testimony
Before the Committee on Small Business, House of Representatives

For Release on Delivery
Expected at 10:00 a.m. ET
Wednesday, March 6, 2024

SMALL BUSINESS ADMINISTRATION

Progress and Work Remaining to Implement Key Management Improvements

Statement of Courtney LaFountain, Acting Director, Financial Markets and Community Investment

GAO-24-107395

GAO Highlights

Highlights of GAO-24-107395, a testimony before the Committee on Small Business, House of Representatives

March 6, 2024

SMALL BUSINESS ADMINISTRATION

Progress and Work Remaining to Implement Key Management Improvements

Why GAO Did This Study

Since spring 2020, SBA has administered four pandemic relief programs, including PPP and COVID-19 EIDL. PPP provides potentially forgivable loans to small businesses. COVID-19 EIDL provides low-interest loans of up to $2 million for operating and other expenses, as well as advances (grants).

Concerns about SBA's implementation of PPP and COVID-19 EIDL led GAO to include emergency loans for small businesses on its High-Risk List in March 2021. SBA made or guaranteed more than $1 trillion in loans and grants and assisted more than 10 million small businesses through its relief programs. In addition, SBA has continued to make loans under its Disaster Loan Program.

Among other things, this testimony focuses on the status of selected recommendations GAO has made to SBA on its pandemic relief and disaster loan programs, and on issues related to SBA's financial accounting. This testimony is based largely on the reports GAO issued since February 2020 containing the 23 key recommendations. For those reports, GAO reviewed SBA documentation, analyzed program data, and interviewed officials from SBA and other federal agencies. GAO also reviewed the opinions of SBA's independent financial statement auditor.

View GAO-24-107395. For more information, contact Courtney LaFountain at (202) 512-8678 or lafountainc@gao.gov.

What GAO Found

In response to the economic downturn caused by the COVID-19 pandemic, the Small Business Administration (SBA) quickly set up the Paycheck Protection Program (PPP), COVID-19 Economic Injury Disaster Loan (COVID-19 EIDL) program, and other relief programs. SBA also administers a Disaster Loan Program that helps small businesses and others recover after natural disasters.

Since February 2020, GAO has made recommendations to improve SBA programs, including 23 key recommendations. SBA fully addressed 10 of the key recommendations, including the following:

- **PPP oversight.** Because SBA initially had limited safeguards, GAO recommended in June 2020 that it implement plans to respond to PPP risks, help ensure program integrity, and address potential fraud. In response, SBA developed a loan review process in December 2020. As of the end of fiscal year 2023, GAO estimated that SBA's use of additional safeguards in PPP and other COVID programs had resulted in more than $12 billion in savings.
- **Assessment of fraud risks.** SBA did not conduct a formal fraud risk assessment before implementing PPP or COVID-19 EIDL. In March 2021, GAO recommended that SBA conduct a formal assessment and develop a strategy to manage fraud risks for each program. SBA completed these steps in August 2023.

SBA has not yet fully addressed 13 of these recommendations, including the following:

- **Enhancing data analytics.** In May 2023, GAO recommended that SBA identify data that could help verify applicant information and detect potential fraud. GAO also recommended that SBA develop cross-program data analytics that would better identify applicants who tried to defraud multiple programs. According to SBA, to begin addressing these recommendations, it has procured third-party services to help validate customer identity and has begun a comprehensive review of its data analytics.
- **Addressing access barriers.** GAO found in December 2021 that SBA's Disaster Loan Program and five other federal programs did not have key information for examining barriers to access and disparate recovery outcomes among various socioeconomic and demographic groups. GAO recommended SBA work with two other agencies to implement an interagency plan to address these equity issues. SBA officials said the agencies are in the process of developing such a plan.

In addition, SBA's independent financial statement auditor has issued four consecutive disclaimers of opinion on SBA's consolidated financial statements since fiscal year 2020. SBA was unable to support a significant number of transactions and account balances related to PPP and COVID-19 EIDL. The auditor identified six material weaknesses in internal controls over financial accounting, including in controls for PPP and COVID-19 EIDL. GAO supports the auditor's recommendations to address these weaknesses and encourages SBA to develop and implement a corrective action plan to address them.

Chairman Williams, Ranking Member Velázquez, and Members of the Committee:

Thank you for the opportunity to be here today to discuss the status of selected recommendations we have made to the Small Business Administration (SBA) and concerns related to its financial accounting.

Since spring 2020, SBA has done much to help small businesses adversely affected by the COVID-19 pandemic. SBA made or guaranteed more than $1 trillion in loans and grants and assisted more than 10 million small businesses, primarily through the Paycheck Protection Program (PPP) and COVID-19 Economic Injury Disaster Loan (COVID-19 EIDL) program. SBA also continued to operate programs providing small businesses with access to capital, help with federal contracting opportunities, and aid in disaster recoveries.

Although SBA helped millions of small businesses with its pandemic relief programs, our concerns about its implementation of PPP and COVID-19 EIDL led us to include emergency loans for small businesses on our High-Risk List in March 2021.[1] We identified significant program integrity risks, potential for fraud, and the need for improved management and oversight.

We also have issued a number of reports with recommendations to improve a range of non-pandemic-related efforts at SBA. These include SBA's Disaster Loan Program, 8(a) Business Development Program, Small Business Innovation Research (SBIR) and Small Business Technology Transfer (STTR) programs, and support for veteran-owned small businesses. In May 2023, we identified seven non-pandemic-related recommendations as high priorities for SBA.[2]

[1]GAO, *High-Risk Series: Dedicated Leadership Needed to Address Limited Progress in Most High-Risk Areas*, GAO-21-119SP (Washington, D.C.: Mar. 2, 2021). We provided an update on this high-risk area in April 2023. See *High-Risk Series: Efforts Made to Achieve Progress Need to Be Maintained and Expanded to Fully Address All Areas*, GAO-23-106203 (Washington, D.C.: Apr. 20, 2023).

[2]GAO, *Priority Open Recommendations: Small Business Administration*, GAO-23-106377 (Washington, D.C.: May 15, 2023). Priority recommendations are those that GAO believes warrant priority attention from heads of key departments or agencies. They are highlighted because, upon implementation, they may significantly improve government operations, for example, by realizing large dollar savings; eliminating mismanagement, fraud, and abuse; or making progress toward addressing a high-risk or duplication issue.

SBA has made progress over the years improving its programs in response to our recommendations. Overall, as of February 28, 2024, SBA had fully addressed about 84 percent of the 397 recommendations we have made since 2000, including about 57 percent of those made from 2020 through 2023.

In this statement, I will discuss the status of 23 key recommendations made to SBA in the following three areas: (1) pandemic relief programs, including PPP and COVID-19 EIDL; (2) the Disaster Loan Program; and (3) the 8(a) Business Development Program, SBIR and STTR programs, and veteran-owned business support.[3] I will also discuss concerns identified by SBA's independent financial statement auditor.

For this statement, we relied primarily on our body of work issued from June 2020 through May 2023 on SBA's implementation of four pandemic relief programs.[4] We also relied on work issued from February 2020 through December 2023 on SBA's Disaster Loan Program, SBIR and

[3]We have designated 18 of these recommendations as a priority for SBA. We made the remaining five since the most recent high priority designation in May 2023.

[4]These programs are PPP, COVID-19 EIDL, the Restaurant Revitalization Fund, and Shuttered Venue Operators Grants. GAO, *COVID-19: Opportunities to Improve Federal Response and Recovery Efforts*, GAO-20-625 (Washington, D.C.: June 25, 2020); *COVID-19: Urgent Actions Needed to Better Ensure an Effective Federal Response*, GAO-21-191 (Washington, D.C.: Nov. 30, 2020); *COVID-19: Critical Vaccine Distribution, Supply Chain, Program Integrity, and Other Challenges Require Focused Federal Attention*, GAO-21-265 (Washington, D.C.: Jan. 28, 2021); *COVID-19: Sustained Federal Action Is Crucial as Pandemic Enters Its Second Year*, GAO-21-387 (Washington, D.C.: Mar. 31, 2021); *Economic Injury Disaster Loan Program: Additional Actions Needed to Improve Communication with Applicants and Address Fraud Risks*, GAO-21-589 (Washington, D.C.: July 30, 2021); *COVID-19: Current and Future Federal Preparedness Requires Fixes to Improve Health Data and Address Improper Payments*, GAO-22-105397 (Washington, D.C.: Apr. 27, 2022); *Restaurant Revitalization Fund: Opportunities Exist to Improve Oversight*, GAO-22-105442 (Washington, D.C.: July 14, 2022); *COVID Relief: SBA Could Improve Communications and Fraud Risk Monitoring for Its Arts and Entertainment Venues Grant Program*, GAO-23-105199 (Washington, D.C.: Oct. 11, 2022); and *COVID Relief: Fraud Schemes and Indicators in SBA Pandemic Programs*, GAO-23-105331 (Washington, D.C.: May 18, 2023).

STTR programs, and support for veteran-owned small businesses.[5] For those reports, we reviewed SBA documentation and analyzed program data, and interviewed officials from SBA and other federal agencies, such as the Department of the Treasury. For this statement, we also updated the status of agency efforts to implement recommendations made in our prior work. We also reviewed the opinions of SBA's independent financial statement auditor. More detailed information on our scope and methodology can be found in the individual reports we cite.

We conducted the work on which this statement is based in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

SBA's Pandemic Relief Programs

Paycheck Protection Program. Congress established PPP in the CARES Act to help small businesses affected by the COVID-19 pandemic.[6] In total, Congress provided approximately $814 billion in commitment authority for PPP.[7] PPP loans were made by lenders and guaranteed 100 percent by SBA. The loans were low interest (1 percent) and fully forgivable if certain conditions were met. For example, at least 60 percent of the loan forgiveness amount had to be for payroll expenses to qualify for full loan forgiveness.

[5]GAO, *Small Business Administration: Disaster Loan Processing Was Timelier, but Planning Improvements and Pilot Program Evaluation Needed*, GAO-20-168 (Washington, D.C.: Feb. 7, 2020); *Disaster Recovery: Additional Actions Needed to Identify and Address Potential Recovery Barriers*, GAO-22-104039 (Washington, D.C.: Dec. 15, 2021); *Disaster Loan Program: SBA Should Include Key Issues in Its Review of How the Program Affects Underserved Communities*, GAO-24-106682 (Washington, D.C.: Nov. 30, 2023); *Small Business Administration: Recent Changes to the 8(a) Program's Financial Thresholds Need Evaluation*, GAO-22-104512 (Washington, D.C.: Aug. 30, 2022); *Small Business Research Programs: Reporting on Award Timeliness Could Be* Enhanced, GAO-23-105591 (Washington, D.C.: Oct. 12, 2022); and *Small Business Administration: Procedures for Reporting on Veteran-Owned Businesses Need Improvement*, GAO-24-106071 (Washington, D.C.: Dec. 21, 2023).

[6]The CARES Act established PPP as part of SBA's 7(a) lending program.

[7]American Rescue Plan Act of 2021, Pub. L. No. 117-2, § 5001(d), 135 Stat. 4, 85.

According to SBA, as of May 31, 2021 (when SBA stopped accepting new applications), lenders had made about 11.8 million PPP loans totaling about $800 billion.[8]

COVID-19 Economic Injury Disaster Loan Program. Congress temporarily expanded eligibility for SBA's EIDL program, which provides low-interest loans of up to $2 million for expenses that cannot be met because of a disaster. It also created emergency EIDL advances, a new program component.[9] In total, Congress appropriated $50 billion in loan credit subsidies for the cost of COVID-19 EIDL loans and $55 billion for advances.[10] The $50 billion in credit subsidies would enable SBA to provide about $470 billion in COVID-19 EIDL loans.[11]

[8]Totals exclude canceled loans. According to SBA, canceled loans may include, but are not limited to, duplicative loans, loans not closed for any reason, and loans fully paid off.

[9]CARES Act, Pub. L. No. 116-136, §§ 1107(a)(6), 1110, 134 Stat. 281, 302, 306. The advances could be used toward payroll, sick leave, and other business obligations. Borrowers did not have to repay them, even if they were subsequently denied the COVID-19 EIDL loan.

[10]SBA provided advances using the $10 billion that Congress appropriated under the CARES Act. On April 16, 2020, SBA announced that the lending authority for COVID-19 EIDL loans and the funding for EIDL advances had been exhausted. Under the Paycheck Protection Program and Health Care Enhancement Act, Congress appropriated another $10 billion for advances and $50 billion in loan credit subsidy for COVID-19 EIDL loans. Additionally, Congress made agricultural enterprises eligible for COVID-19 EIDL loans and advances. SBA began accepting new applications from only agricultural enterprises on May 4, 2020. On June 15, 2020, SBA reopened the application portal to all eligible applicants. In the Consolidated Appropriations Act, 2021, Congress appropriated an additional $20 billion for targeted EIDL advances to eligible entities located in low-income communities with 300 or fewer employees that experienced an economic loss of greater than 30 percent. Qualifying entities could receive up to $10,000 in targeted advances. The American Rescue Plan Act of 2021 appropriated an additional $10 billion for the targeted EIDL advances. It also appropriated $5 billion for a newly created EIDL advance program that provided up to $5,000 to business entities that qualified for the targeted EIDL advances but also met smaller (employs less than 10 employees) and more economically harmed (economic loss greater than 50 percent) criteria than the original targeted EIDL advances. The act also appropriated $70 million for COVID-19 EIDL loans.

[11]The distributed amount for COVID-19 EIDL is higher than the net appropriated funding due to the COVID-19 EIDL loan credit subsidy. The loan credit subsidy covers the government's cost of extending or guaranteeing credit and represents the estimated long-term cost of providing loans and takes into account expected future performance, including loan repayments, prepayments, and defaults. The loan credit subsidy amount was about one-seventh of the cost of each disaster loan in fiscal year 2020 and one-eleventh in fiscal year 2021.

As of April 2022, SBA had approved about 3.9 million loans totaling about $378 billion. SBA also approved about 6.8 million advances totaling about $27.5 billion.

Restaurant Revitalization Fund. The Restaurant Revitalization Fund (RRF) provided awards (which did not need to be repaid) to assist small businesses in the food service industry affected by the pandemic.[12] Recipients could use the awards on eligible expenses such as payroll, business debt, maintenance, or construction of outdoor seating. RRF accepted applications from May 3, 2021, through June 30, 2021.[13]

As of June 30, 2021, RRF had provided $28.6 billion in awards to assist about 101,000 small businesses.

Shuttered Venue Operators Grants. The Shuttered Venue Operators Grant (SVOG) program provided grants to small businesses in the live performing arts and entertainment industry affected by the pandemic.[14] Recipients could use the funds for eligible expenses such as payroll, rent or mortgage, and utility payments. SVOG accepted applications from April 26, 2021, through August 20, 2021.[15]

As of July 5, 2022, SVOG had provided about $14.6 billion in grants to about 23,000 small businesses.

Disaster Loan Program

SBA's Disaster Loan Program generally offers low-interest loans for physical and economic damage to businesses, nonprofits, homeowners, and renters to help repair, rebuild, and recover from economic losses after a declared natural disaster. Most of these loans are made to individuals and households to help repair and replace homes and personal property.

[12]Pub. L. No. 117-2, § 5003, 135 Stat. 4, 85.

[13]According to SBA, the application portal remained open until July 14, 2021, to allow applicants to check their status, address payment corrections, or ask questions.

[14]Consolidated Appropriations Act, 2021, Pub. L. No. 116-260, § 324, 134 Stat. 1182, 2022.

[15]The application portal initially opened on April 8, 2021, but shut down the same day because of a software problem, reopening on April 26, 2021.

Small Business Innovation Research and Small Business Technology Transfer Programs	The SBIR and STTR programs were established to enable federal agencies to support research and development (R&D) projects carried out by small businesses.[16] Pursuant to the Small Business Act, federal agencies with an extramural budget for research or R&D in excess of $100 million are required to participate in the SBIR program. Those with such obligations of $1 billion or more are required to participate in the STTR program.[17] According to SBA, which oversees the programs, 11 federal agencies and their components participate in the SBIR program or in both the SBIR and STTR programs.
8(a) Business Development Program	The 8(a) Business Development Program supports small businesses owned and controlled by socially and economically disadvantaged individuals and entities. The program is SBA's largest program to support contracting. It generally provides up to 9 years of developmental support, such as business counseling and mentoring, contracting guidance, and access to capital and surety bond guarantees.[18] The program also sets aside federal contracting opportunities for participants.
Veteran-Owned Small Business Support	SBA is statutorily required to give special consideration to veterans in carrying out its lending programs.[19] In addition, SBA offers training and counseling to veterans interested in starting or growing a small business through its Veterans Business Outreach Center program. For example, these centers work with military installations to conduct Boots to Business

[16]The Small Business Innovation Development Act of 1982 established the SBIR program. Pub. L. No. 97-219, 96 Stat. 217 (1982). This act amended section 9 of the Small Business Act, Pub. L. No. 85-536, 72 Stat. 384 (1958), codified as amended at 15 U.S.C. § 638. The Small Business Technology Transfer Act of 1992 established the STTR program. Pub. L. No. 102-564, tit. II, 106 Stat. 4249, 4256 (1992). This act made additional amendments to section 9 of the Small Business Act.

[17]15 U.S.C. § 638(f)(1), (n)(1)(A). Agencies' R&D programs generally include funding for two types of R&D: intramural and extramural. Intramural R&D is conducted by employees of a federal agency in or through government-owned, government-operated facilities. Extramural R&D is generally conducted by nonfederal employees outside of federal facilities.

[18]To assist small businesses adversely affected by the COVID-19 pandemic, Congress allowed businesses in the 8(a) program on or before September 9, 2020, the option to extend their participation in the program for 1 year.

[19]The Small Business Act requires SBA to give special consideration to veterans of the Armed Forces of the United States and their survivors or dependents in carrying out the programs administered by SBA, including its loan and loan guarantee functions. 15 U.S.C. § 633(b)(1).

entrepreneurial training courses for transitioning service members and military spouses.

SBA Improved Its Oversight of Pandemic Relief Programs, but Additional Work Remains

SBA quickly set up its pandemic relief programs—particularly PPP and COVID-19 EIDL—to be able to rapidly respond to the adverse economic conditions small businesses faced. However, this was done at the expense of appropriate financial and other safeguards, which left SBA susceptible to improper payments and fraud.[20] As the programs matured and SBA implemented our recommendations, SBA improved its oversight and incorporated lessons learned from PPP and COVID-19 EIDL into its other relief programs, RRF and SVOG. However, SBA still has opportunities to advance its efforts to prevent and detect fraud using data analytics and to address material weaknesses in internal controls reported by its financial statement auditor.

SBA Implemented Most of Our Fraud Risk-Related Recommendations

SBA has implemented most of our recommendations related to identifying pandemic relief improper payments and managing fraud risks. However, it is still in the process of implementing some of our recommendations, particularly those related to enhancing the use of data analytics to prevent and detect fraud.

Incorporating oversight plans—implemented. SBA officials said they put limited initial safeguards in place when launching PPP to expedite the loan approval process. This was consistent with a mandate from Congress, reinforced by Treasury, to provide rapid support for small businesses. In June 2020, we found that SBA had not provided details on how it would review loans of more than $2 million and did not have plans for reviewing loans of less than $2 million.[21] Therefore, we recommended SBA develop and implement plans to identify and respond to risks in PPP to ensure program integrity, achieve program effectiveness, and address potential fraud.

Consistent with our recommendation, in December 2020, SBA put in place an oversight plan with multiple layers of review. It also hired a contractor with expertise in fraud detection to help implement the reviews. SBA incorporated controls from this plan when it launched RRF and SVOG. As of the end of fiscal year 2023, we had estimated that SBA's

[20]Improper payments are any payments that should not have been made or that were made in an incorrect amount, which can stem from various causes, including fraud. Fraud involves obtaining something of value through willful misrepresentation.

[21]GAO-20-625.

controls to monitor PPP loan forgiveness and prevent funding potentially fraudulent PPP and RRF applications saved the government more than $12 billion.

Similarly, because SBA did not have a plan for responding to COVID-19 EIDL risks, we recommended in March 2021 that SBA implement a comprehensive oversight plan to identify and respond to risks in the COVID-19 EIDL program to help ensure program integrity, achieve program effectiveness, and address potential fraud.[22] In August 2022, SBA provided an oversight plan for the EIDL program that identified controls SBA had implemented or planned to implement for COVID-19 EIDL loans.

Estimating improper payments—implemented. The lack of initial safeguards for PPP contributed to the increased risk of improper payments. Developing reliable improper payment estimates is essential for understanding and addressing financial vulnerabilities. Because of concerns about the timely reporting of improper payments, we recommended in November 2020 that SBA expeditiously estimate improper payments and report estimates and error rates for PPP.[23]

In response to our recommendation, SBA began reporting an estimated improper payment rate and amount for PPP in its Fiscal Year 2022 Agency Financial Report. For that year, SBA reported total estimated improper and unknown payments of about $29 billion for PPP loan approvals.[24]

[22]GAO-21-387.

[23]GAO-21-191. In contrast, SBA had historically reported improper payment rates for its EIDL program upon which COVID-19 EIDL was based. Agencies are required to treat as improper any payments whose propriety cannot be determined due to lacking or insufficient documentation. Office of Management and Budget guidance refers to such payments as unknown payments and instructs agencies to report the portion of their improper payment estimates attributable to unknown payments separately.

[24]For fiscal year 2022, SBA reported estimated improper payments of about $7.7 billion for COVID-19 EIDL (loans and advances). For fiscal year 2023, SBA reported total estimated improper and unknown payments of about $22.8 billion for PPP loan forgiveness and loan guarantee purchases and improper payments of about $3.2 billion for COVID-19 EIDL (loans and advances). Guarantee purchases occur when lenders ask SBA to honor its guarantee by purchasing the loan if the borrower's business ceases operations or the borrower defaults.

We have ongoing work examining SBA's process for identifying and recovering PPP and COVID-19 EIDL overpayments (a type of improper payment) and on the effectiveness of these efforts.

Assessing fraud risks—implemented. Conducting a fraud risk assessment is a leading practice in strategically managing fraud risks.[25] Such assessments can, for example, help program officials determine whether certain controls are effectively designed and implemented to reduce the likelihood or impact of a fraud risk to a tolerable level. They also can help agencies prioritize risks and allocate resources. Because SBA officials moved quickly to establish PPP and COVID-19 EIDL, they did not conduct formal risk assessments for either program. Consequently, we made two recommendations in March 2021 that SBA conduct a comprehensive fraud risk assessment for each program.[26]

In response, SBA hired a contractor to conduct a fraud risk assessment for both PPP and COVID-19 EIDL in October 2021. The assessment found that SBA implemented additional fraud prevention controls over the course of the programs. These controls included cross-referencing applicant information with Treasury's Do Not Pay List and introducing a set of automated screening rules.[27] However, the assessment also noted that the programs continued to be susceptible to fraud risks that required enhancements to the current mitigation strategies. The contractor identified 25 active fraud risks in PPP and 21 in COVID-19 EIDL. It made four recommendations to SBA to aid the agency in establishing a fraud governance process and inform the agency's fraud tolerance approach.

In addition, we reported in March 2021 that SBA had not designated a dedicated entity to lead fraud risk management activities, which contributed to the lack of a timely fraud risk assessment of the

[25]GAO, *A Framework for Managing Fraud Risks in Federal Programs*, GAO-15-593SP (Washington, D.C.: July 28, 2015). The Fraud Risk Framework provides a comprehensive set of leading practices that serve as a guide for agency managers to use when developing efforts to combat fraud.

[26]GAO-21-387.

[27]Treasury's Do Not Pay service is an analytics tool that helps federal agencies detect and prevent improper payments made to vendors, grantees, loan recipients, and beneficiaries. Agencies can use the service to check multiple data sources to make payment eligibility decisions.

programs.[28] SBA designated such an entity in February 2022, which is responsible for the oversight and coordination of SBA's fraud risk prevention, detection, and response activities.[29]

Strategy for managing fraud risks—implemented. We made two recommendations in March 2021 that, once SBA completed a comprehensive fraud risk assessment for PPP and COVID-19 EIDL, it should also document an antifraud strategy for each program.[30]

As discussed in leading practices, an antifraud strategy describes the agency's approach for addressing the prioritized fraud risks identified during a fraud risk assessment.[31] The antifraud strategy describes how the agency will prevent, detect, and respond to fraud, as well as monitor risks. Without an antifraud strategy based on the results of a fraud risk assessment, SBA was not positioned to ensure that it was strategically addressing its most significant fraud risks in either program.

In August 2023, SBA finalized a fraud risk management strategy that identified approaches to prevent, detect, and respond to instances of active and potential fraud in PPP and COVID-19 EIDL. For example, it described data analytic methods for reviewing the PPP loan portfolio to manage fraud risks by reducing false positives, prioritizing identified fraud typologies and behaviors, and uncovering areas of fraud risk not previously identified. For COVID-19 EIDL, the document described SBA's efforts to use advanced data analytics, machine learning technologies, and cross-program data analytics to screen for potential fraud and ineligibility.

Portfolio-level data analytics—implemented. We recommended in January 2021 that SBA develop and implement portfolio-level data

[28]As discussed in GAO's Fraud Risk Framework, it is a leading practice to designate an entity to design and oversee fraud risk management activities. In carrying out its role, the antifraud entity, among other things, manages the fraud risk-assessment process.

[29]SBA has since made some changes to its fraud governance structure. According to SBA, the agency created an Office of Enterprise Integrity in January 2024 led by its Chief Risk Officer that is responsible for overseeing the agency's enterprise risk management and fraud risk-management functions. The Chief Risk Officer will be responsible for ensuring risk management activities across SBA are coordinated, internal controls are designed and implemented to ensure accuracy in SBA's financial reporting, and SBA is following and in compliance with laws and regulations.

[30]GAO-21-387.

[31]GAO-15-593SP.

analytics across COVID-19 EIDL program loans and advances to detect potentially ineligible and fraudulent applications.[32] SBA fully implemented this recommendation by developing and implementing data analytics. For example, SBA identified applications with foreign area codes, which is an indicator of ineligibility.

In addition, in July 2022, we found that SBA had not proactively used data analytics or information from enforcement entities to identify potentially fraudulent RRF award recipients.[33] Therefore, we recommended that SBA develop and implement data analytics across RRF awards. SBA has fully addressed this recommendation. It conducted data analytics for the RRF program that included cross-checking recipient identifiers (such as address and tax identification number) against recipients flagged for fraud or identity theft.

Use of enforcement data—open. We recommended in July 2022 that SBA develop, document, and implement procedures to use enforcement data on suspected fraud in other SBA programs, such as PPP, to identify potential fraud by RRF recipients.[34] SBA disagreed with this recommendation, indicating its current process already addressed the intent of the recommendation. However, SBA told us in January 2023 that it was reviewing 10 percent of RRF awards to confirm eligibility and use of funds compliance. This recommendation will remain open until SBA provides documentation of using enforcement data (e.g., information on suspicious borrowers provided by the Department of Justice or SBA's Office of Inspector General) on suspected fraud in other SBA programs to identify potential fraud in RRF recipients.

Response to improper awards—open. In July 2022, we recommended that SBA develop and implement a plan to respond to potentially fraudulent and ineligible RRF awards in a prompt and consistent manner.[35] SBA disagreed with this recommendation, stating that its planned efforts were sufficient. However, in September 2023, SBA stated that it would prioritize reviewing all awards flagged for potential fraud and provide supporting documentation. This recommendation will remain open until SBA provides documentation showing it is prioritizing the

[32]GAO-21-265.

[33]GAO-22-105442.

[34]GAO-22-105442.

[35]GAO-22-105442.

review of potentially fraudulent and ineligible awards in its post-award reviews.

Identifying fraud across multiple programs—open. We found in May 2023 that SBA had used data analytics to facilitate fraud detection for PPP and COVID-19 EIDL.[36] However, it had not fully leveraged information to help prevent fraud and identify applicants who tried to defraud multiple programs. Consequently, we recommended that SBA (1) develop and use mechanisms to facilitate cross-program data analytics and (2) identify external data sources that can facilitate the verification of applicant information and the detection of potential fraud across its programs. SBA agreed with these two recommendations.

SBA officials told us in November 2023 that they had started a comprehensive review of fraud prevention and mitigation analytics within SBA. The review is looking at SBA's collection of information on internal and external data used for fraud mitigation, any internally developed or externally procured tools, and any data-driven fraud controls in place or planned. SBA officials also told us the agency has procured third-party services to help validate customer identity. In addition, they said they had engaged with other federal agencies regarding data sharing to improve SBA's fraud risk management capabilities. We will continue to monitor SBA's efforts to complete these efforts in response to our recommendations.

Also, as discussed in our May 2023 report, SBA has developed oversight plans for PPP and COVID-19 EIDL that include automated and manual reviews to help identify and refer potentially fraudulent loans and advances to the SBA Office of Inspector General. This four-step approach involves (1) initial automated screening that compares each file with several public and private sector databases, (2) data analytics to examine anomalies, (3) human-led review of files not cleared through data analytics, and (4) referral of files that are identified as likely fraudulent to the Inspector General. SBA incorporated this approach into its oversight for RRF and SVOG. We have recently begun an assessment of SBA's implementation of this four-step approach.

[36]GAO-23-105331.

SBA's Financial Statement Auditor Has Raised Concerns

In November 2023, SBA's independent financial statement auditor issued a disclaimer of opinion on SBA's fiscal year 2023 financial statements.[37] SBA was unable to provide adequate evidence to support a significant number of transactions and account balances related to its pandemic relief programs because of inadequate processes and controls. The auditor identified six material weaknesses in internal controls over financial reporting, including that controls over PPP loan guarantees, COVID-19 EIDL loans, and monitoring of RRF and SVOG need improvement.

The fiscal year 2023 financial statement audit included 55 recommendations to SBA, including 38 directly related to its pandemic relief programs. For example, the auditor found that SBA did not sufficiently design the PPP loan forgiveness review process. The auditor also found that SBA did not adequately design and implement controls to ensure that COVID-19 EIDL loans were provided to eligible borrowers and accurately recorded. Similarly, the auditor identified shortcomings in SBA's monitoring of RRF and the SVOG program. In response, SBA stated that it continues to work toward improving its audit outcomes through collaborative partnerships across the agency along with a strategy that prioritizes the most critical corrective action needs and optimizes resources.

We support the recommendations the financial statement auditor provided to address control weaknesses related to PPP, COVID-19 EIDL, RRF, and SVOG. We encourage SBA to develop and implement a corrective action plan to address the material weaknesses and continue to work to improve its controls over the programs.

Our recent audit of the U.S. government's consolidated financial statements noted that SBA's internal control deficiencies significantly increase the risk of fraud and other improper payments.[38] These deficiencies also contribute to the federal government's inability to reasonably estimate the value of receivables and liabilities associated with lending programs.

[37]Small Business Administration, Office of Performance, Planning, and the Chief Financial Officer, *Agency Financial Report: Fiscal Year 2023* (Washington, D.C.: Nov. 15, 2023). SBA's auditor also had issued a disclaimer of opinion on SBA's fiscal year 2020, 2021, and 2022 financial statements.

[38]GAO, *Financial Audit: FY 2023 and FY 2022 Consolidated Financial Statements of the U.S. Government*, GAO-24-106660 (Washington, D.C.: Feb. 15, 2024).

SBA Can Improve Risk Assessment in and Access to Its Disaster Loan Program

Disasters affect numerous American communities and cause billions of dollars of damage. SBA addressed one recommendation for its Disaster Loan Program related to identifying critical elements of disaster response. Several other recommendations we have made have not yet been fully implemented.

Identifying critical elements of disaster response—implemented. We found in February 2020 that SBA's response plans for Hurricanes Harvey, Irma, and Maria varied and, in some cases, did not discuss certain resource requirements for responding to the disaster, such as equipment needs.[39] We recommended that SBA identify the key elements of a disaster action plan and provide guidance to staff on how to incorporate those elements into future plans. In December 2022, SBA provided a revised template for its disaster action plans that requires officials to identify critical information, such as the projected resource needs and outreach strategy.

Identifying potential risks—open. We found in February 2020 that SBA's major disaster planning documentation following Hurricanes Harvey, Irma, and Maria lacked in-depth discussions of risks SBA could face when responding to disasters, such as extended power outages.[40] We recommended SBA identify and document risks associated with its disaster response and plans to mitigate these risks in its disaster planning documentation. SBA agreed with this recommendation and provided an updated Disaster Preparedness and Recovery Plan in February 2024. The updated plan includes an appendix that presents the results of regional risk assessments and identifies hazards most likely to affect SBA disaster recovery operations. Before we can determine if SBA has fully addressed our recommendation, we will need to obtain and review internal agency documentation cited in the plan and discuss with SBA officials the efforts to mitigate the risks identified in the plan.

Communicating with applicants—open. In July 2021, we found that SBA's initial communication with potential applicants excluded key information about the program, such as program terms.[41] In addition, applicants did not receive clear information about their application status. We recommended that SBA develop a comprehensive strategy for

[39]GAO-20-168.

[40]GAO-20-168.

[41]GAO-21-589.

communicating with potential and actual program applicants in the event of a disaster. SBA agreed with the recommendation and told us in February 2023 that it had started developing a new disaster loan application portal that would include improved messaging features, such as immediate status updates. SBA did not provide a time frame for implementing the new portal.

Addressing access barriers—open. In December 2021, we reported on what was known about the impact of six federal disaster recovery programs, including SBA's Disaster Loan Program, on various socioeconomic and demographic groups.[42] We found the programs lacked key data and analysis that would allow them to examine patterns and indicators of potential access barriers and disparate recovery outcomes. We recommended SBA work with two other agencies to (1) develop and implement an interagency plan to help ensure the availability and use of quality information to aid in identifying access barriers or disparate outcomes and (2) design and establish routine processes to address identified access barriers and disparate outcomes. SBA agreed with these two recommendations.

SBA officials told us in February 2024 that they have been working with the other agencies to develop an interagency plan for data collection, sharing, and analysis to identify potential equity issues. SBA officials said the plan would describe processes the agencies would use to address any identified equity issues. According to the officials, the plan should be developed by June 2024.

In November 2023, we found that SBA had identified the lending criteria for its Disaster Loan Program as a barrier for underserved communities but had not assessed whether changes were needed.[43] Thus, we recommended SBA assess its lending criteria as part of an internal review of the Disaster Loan Program. SBA agreed with the recommendation and said it would assess its lending criteria and evaluate any relevant gaps in loan outcomes.

[42]GAO-22-104039. The other recovery programs were the Federal Emergency Management Agency's Individual Assistance and Public Assistance programs, National Flood Insurance Program, and Hazard Mitigation Grant Program and the Department of Housing and Urban Development's Community Development Block Grant-Disaster Recovery program.

[43]GAO-24-106682.

We will continue to monitor SBA's actions to complete these efforts.

SBA Can Provide More Timely Reporting and Better Access for Some Programs

SBA has periodic reporting requirements designed to ensure that Congress and other parties have timely information on SBA programs. SBA also has requirements to target veterans in its lending programs. SBA has not yet fully implemented recommendations we made related to these issues.

Ensuring reporting requirements are met—open. SBA must report annually to Congress on the 8(a) Business Development Program. In August 2022, we reported that the agency had not submitted the 2016–2021 reports when they were due (April 30 of the following year).[44] SBA had submitted the 2016 and 2017 reports in February 2020 and expected to complete the remaining reports by December 2022. We recommended SBA assess the report process and develop a plan to address report delays. SBA agreed with the recommendation and told us in March 2023 that it had assessed its process and begun drafting the late reports. However, as of February 2024, it had published reports only through fiscal year 2017.

SBA is also required to report annually agency award timeliness data to Congress along with other information about participating agencies' implementation of the SBIR and STTR programs. In October 2022, we reported that SBA had been consistently late with its annual reports from fiscal year 2016 to fiscal year 2021.[45] We recommended that SBA develop, document, and execute a plan to identify actions that could improve timely publication of its annual report to Congress and implement the actions identified. SBA agreed with this recommendation and told us in August 2023 that it had taken some steps to implement it such as reviewing all parts of the process and convening an annual meeting with agency representatives to discuss opportunities to streamline the annual report. As of February 2024, the most recent report that SBA had completed was for fiscal year 2019.

Similarly, we found in December 2023 that SBA could not demonstrate compliance with its statutory responsibility to report annually to congressional committees on the needs of veteran-owned small

[44]GAO-22-104512.

[45]GAO-23-105591.

businesses.[46] We recommended SBA develop and implement policies and procedures to ensure compliance. SBA agreed with the recommendation and said it would implement policies and procedures to submit an annual report to congressional committees.

We will continue to monitor SBA's efforts to provide the reports in a timely manner.

Ensuring access for target populations—open. We found in December 2023 that SBA did not have procedures to ensure it was giving special consideration to veterans in carrying out its lending programs, as required by the Small Business Act.[47] Consequently, we recommended SBA implement policies and procedures to ensure veterans receive such consideration. SBA agreed with the recommendation and said it would work to incorporate specific guidance on special consideration to veterans in its lending platform and standard operating procedures.

We will continue to monitor SBA's efforts to update its procedures.

Chairman Williams, Ranking Member Velázquez, and Members of the Committee, this concludes my statement. I would be pleased to respond to any questions you may have.

GAO Contact and Staff Acknowledgments

If you or your staff have any questions about this testimony, please contact Courtney LaFountain, Acting Director, Financial Markets and Community Investment, at (202) 512-8678 or lafountainc@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this statement. GAO staff who made key contributions to this testimony are Paige Smith (Assistant Director), Daniel Newman (Analyst in Charge), Johana Ayers, Marcia Carlsen, Irina Carnevale, Dan Flavin, Garrett Hillyer, and Jessica Sandler. Key contributors to the previous work discussed in this statement are listed in each of the cited reports.

[46]GAO-24-106071.

[47]GAO-24-106071. 15 U.S.C. § 633(b)(1).

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Questions for the Record:

"Reducing Mismanagement: GAO Recommendations for Improving the SBA"

Congressman Nick LaLota

The Small Business Innovation Research (SBIR) program was established to increase the participation of small innovative companies in federally funded research and development.

SBIR is critical for innovation in the defense industry. The Department of Defense is responsible for nearly half of all SBIR funding at $1.533 billion in FY2019.

I would like to use more updated statistics for such an important program but for the past 5 years the SBA has failed to meet its reporting requirements for the program.

This brings me to my first question.

1. **SBIR is scheduled to be reauthorized next year. What information is most vital for SBA to provide so that Congress can properly consider reauthorizing the SBIR program?**

   GAO response:

   One vital information gap includes whether the SBIR/Small Business Technology Transfer (STTR) participating agencies are meeting the minimum spending requirements for these programs. According to SBA's annual report for fiscal year 2019, not all agencies met the minimum spending requirements at that time. Congressional oversight of agency compliance (i.e., oversight identifying whether agency compliance has improved or become worse since fiscal year 2019) is important to ensure that the participating agencies are implementing the programs as directed by law.

   In addition, public data on applicants to SBIR/STTR are limited. Although SBA has regularly published awards data on SBIR.gov, SBA does not publish data on applicants. Regular public reporting on aggregate applicant trends could, among other things, help Congress assess the extent to which the programs attract first-time applicants and foster and encourage participation in innovation by socially and economically disadvantaged small businesses and women-owned small businesses.

We have helped to fill the gap with several studies that have provided Congress with information to support its oversight of the SBIR/STTR programs. For example, in October 2022 (GAO-23-105591), we provided information on the timeliness of agencies' awards. In February 2024 (GAO-24-107004), we provided information on awards to small businesses with venture capital ownership. In November 2023 (GAO-24-106399), we provided information about sub-award use and data quality.

In 2021, GAO conducted a report on the SBA's Disaster Loan Performance following the RISE After Disaster Act of 2015.

This bill raised the limit borrowers can obtain a loan up to $25,000 - instead of the previous $14,000 - without pledging any collateral.

GAO reviewed more than 20 years of loan data and found that the loans approved before the change in collateral requirements had higher default rates than the loans approved after the change.

2. **With that report in mind, how would raising the loan limit without collateral back to $25,000 impact disaster loan performance?**

   GAO response:

   Several factors can affect loan performance, and therefore we cannot determine definitively how a change in collateral requirements would affect loan performance based on our previous work. In August 2021 (GAO-21-581R), we reported on the performance of loans issued before and after the RISE After Disaster Act of 2015 (RISE Act). While we reported that the default rate for loans issued before the RISE Act was higher than for those issued after, we could not conclude that RISE Act changes in collateral requirements caused the change in loan performance. We could not do so because we identified other factors that affected loan performance independent of the RISE Act.

   For example, we found that loans issued before the RISE Act had been performing longer on average than those issued after the RISE Act and that older loans may have higher default rates. Relatedly, an average of 53 months elapsed from the disbursement date to the default date for all the pre-RISE Act loans that ultimately defaulted. However, only 12.3 percent of post-RISE Act loans had this long to perform.

To account for differences in loan age, we reported on default rates for the first 4 years of (1) Pre-RISE Act loans issued from January 1, 2011, through November 24, 2015 (the day before the RISE Act was enacted), and (2) Post-RISE Act loans issued from November 25, 2015, through September 30, 2020. When comparing these two sets of loans, we found that the default rates for the loans varied by less than 1 percentage point for each year of the loan performance and less than 2 percentage points cumulatively.

In addition, we identified several other factors that could have affected loan performance, including (1) changes in SBA's lending practices, such as a change in 2014 to consider applicants' credit scores and credit history, (2) economic conditions in a given disaster area, and (3) payment deferrals beginning in March 2020 because of the COVID-19 public health emergency.

Following Superstorm Sandy, Congress appropriated $779 million to the Small Business Administration (SBA) for the purpose of disaster assistance.

Despite this, many Sandy victims were unable to obtain loans to assist with their recovery.

Applicants, especially small businesses, experienced extensive delays in the disaster loan application, processing, and disbursement process.

According to the September 2014 GAO Report:

- **Physical Disaster Business Loan applications were processed in approximately 45 days,**
- **While Economic Injury Disaster Loans took about 38 days.**

3. **Is the SBA more or less prepared for a major disaster than they were prior to Sandy?**

GAO response:

We cannot determine definitively SBA's preparedness because we have not compared all aspects of preparedness since Hurricane Sandy. However, SBA has implemented some reforms since Hurricane Sandy to help it better respond to a major disaster. These reforms include efforts to improve the timely processing of loan applications and to identify critical elements of disaster response. In a February 2020 report on SBA's response to Hurricanes

Harvey, Irma, and Maria (GAO-20-168), we found that despite a high volume of applications, SBA was able to process applications quicker than it had for Hurricane Sandy because of changes it made to its loan processing and review functions and the increased use of electronic applications. It took SBA about 70 days on average to go from acceptance to initial disbursement following Hurricanes Harvey, Irma, and Maria. In contrast, it took SBA about 93 days on average to go from acceptance to initial disbursement after Hurricane Sandy.

In that February 2020 report, we also found that SBA's response plans for Hurricanes Harvey, Irma, and Maria varied and, in some cases, did not discuss certain resource requirements for responding to the disaster, such as equipment needs. We recommended that SBA identify the key elements of a disaster action plan and provide guidance to staff on how to incorporate those elements into future plans. In December 2022, SBA provided a revised template for its disaster action plans that requires officials to identify critical information, such as the projected resource needs and outreach strategy.

4. **What open priorities are most important for SBA to implement before hurricane season?**

GAO response:

Since February 2020, we have made several priority recommendations to SBA to improve its Disaster Loan program that SBA had not fully implemented as of March 2024. These recommendations relate to identifying potential risks, communicating with applicants, and addressing access barriers.

- **Identifying potential risks.** We found in February 2020 (GAO-20-168) that SBA's major disaster planning documentation following Hurricanes Harvey, Irma, and Maria lacked in-depth discussions of risks SBA could face when responding to disasters, such as extended power outages. We recommended that SBA identify and document risks associated with its disaster response and plans to mitigate these risks in its disaster planning documentation. SBA agreed with this recommendation and provided an updated Disaster Preparedness and Recovery Plan in February 2024. The updated plan includes an appendix that presents the results of regional risk assessments and identifies hazards most likely to affect SBA disaster recovery operations. Before we can determine if SBA has fully addressed our recommendation, we will need to obtain and

review internal agency documentation cited in the plan and discuss with SBA officials the efforts to mitigate the risks identified in the plan.

- **Communicating with applicants.** In July 2021 (GAO-21-589), we found that SBA's initial communication with potential applicants excluded key information about the program, such as program terms. In addition, applicants did not receive clear information about their application status. We recommended that SBA develop a comprehensive strategy for communicating with potential and actual program applicants in the event of a disaster. SBA agreed with the recommendation and told us in February 2023 that it had started developing a new disaster loan application portal that would include improved messaging features, such as immediate status updates. SBA did not provide a time frame for implementing the new portal.

- **Addressing access barriers.** In December 2021 (GAO-22-104039), we reported on what was known about the impact of six federal disaster recovery programs, including SBA's Disaster Loan Program, on various socioeconomic and demographic groups. We found the programs lacked key data and analysis that would allow them to examine patterns and indicators of potential access barriers and disparate recovery outcomes. We recommended SBA work with two other agencies to (1) develop and implement an interagency plan to help ensure the availability and use of quality information to aid in identifying access barriers or disparate outcomes and (2) design and establish routine processes to address identified access barriers and disparate outcomes. SBA agreed with these two recommendations.

  SBA officials told us in February 2024 that they have been working with the other agencies to develop an interagency plan for data collection, sharing, and analysis to identify potential equity issues. SBA officials said the plan would describe processes the agencies would use to address any identified equity issues. According to the officials, the plan should be developed by June 2024.

