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REVIEW OF SBA'S TOP MANAGEMENT AND PERFORMANCE CHALLENGES IN FISCAL YEAR 2022 AND SBA OIG'S SEMIANNUAL REPORT TO CONGRESS

HEARING

BEFORE THE

COMMITTEE ON SMALL BUSINESS
UNITED STATES
HOUSE OF REPRESENTATIVES

ONE HUNDRED SEVENTEENTH CONGRESS

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REVIEW OF SBA'S TOP MANAGEMENT AND PERFORMANCE CHALLENGES IN FISCAL YEAR 2022 AND SBA OIG'S SEMIANNUAL REPORT TO CONGRESS

WEDNESDAY, JANUARY 12, 2022

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

The committee met, pursuant to call, at 10:00 a.m., in Room 2360, Rayburn House Office Building and via Zoom, Hon. Nydia Velázquez [chairwoman of the Committee] presiding.

Present: Representatives Velázquez, Golden, Davids, Mfume, Phillips, Newman, Bourdeaux, Carter, Chu, Evans, Delgado, Houlahan, Mr. Kim, Craig, Luetkemeyer, Williams, Stauber, Meuser, Tenney, Garbarino, Mrs. Young Kim, Van Duyne, Donalds, and Fitzgerald.

Chairwoman VELÁZQUEZ. Good morning. I call this hearing to order.

Without objection, the Chair is authorized to declare a recess at any time.

I would like to begin by noting some important requirements. Let me begin by saying that standing House and Committee rules and practice will continue to apply during hybrid proceedings. All Members are reminded that they are expected to adhere to these standing rules including decorum.

House regulations require Members to be visible through a video connection throughout the proceeding, so please keep your cameras on. Also, remember to remain muted until you are recognized to minimize background noise.

In the event a Member encounters technical issues that prevent them from being recognized for their questioning, I will move to the next available Member of the same party and I will recognize that Member at the next appropriate time slot provided they have returned to the proceeding.

For those Members and staff physically present in the Committee room today, in accordance with the attending physician's most recent guidance, all Members and staff who attend this hybrid hearing in person will be required to wear masks in the hearing room.

Now I will move to my opening statement.

First, I would like to welcome Inspector General Ware. Thank you for being here today. Your work has been indispensable throughout the COVID crisis, and you should be proud of your ef-

forts to improve programs critical to small businesses. The IG's office is tasked with reporting on the top management and performance challenges facing the Small Business Administration every year. While this year's report covers many longstanding issues, it also calls attention to the biggest challenge facing the agency, the pandemic relief programs.

Since 2020, the SBA has distributed nearly $1 trillion in economic relief to small firms. This figure surpasses the amount of money distributed in all other years of SBA's existence combined. This is an enormous achievement and helped keep millions of small businesses afloat during the pandemic. However, with any emergency effort of this magnitude, problems will inevitably occur. According to investigations, the COVID-EIDL and Paycheck Protection Programs have been vulnerable to fraud. Much of this potential fraud can be traced back to the early days of the pandemic when programs were new, loan volume was high, and the need to get the loans out quickly was the priority.

Your report also notes that in 2020, the previous administration "relaxed internal controls," adding significant stress to the system and creating an environment ripe for fraud.

This Committee has worked diligently to conduct oversight and institute legislative fixes to address these problems. We have conducted hearings, written letters, held briefings, and passed bills, ensuring money is going to small businesses that need it most and not the bad actors. Since taking office in January, the Biden administration has also demonstrated its commitment to rooting out fraud and abuse.

Administrator Guzman inherited many open recommendations from the OIG. Under her leadership, the SBA has closed out 70 OIG recommendations this year alone. SBA took steps to shore up fraud protections in critical pandemic programs. This includes implementing a master review plan for loan and forgiveness applications in the PPP program and allowing the agency to hold funds at any time in the EIDL process.

The agency now also ensures that all borrowers are not on the Treasury Department's "Do Not Pay" list. These are just a few of the actions that help reduce fraud. I look forward to continuing our work with the administration on this front.

At the same time, the IG's reports cover other critical issues unrelated to pandemic relief. These include challenges in small business contracting, IT security, access to capital, and disaster assistance.

Addressing these problems will require sustained work on a bipartisan basis from this committee. I hope that today's hearing allows us to take a close look at all of these issues and discuss bipartisan solutions to fix them.

I would now like to yield to the Ranking Member, Mr. Luetkemeyer.

Mr. LUETKEMEYER. Thank you, Madam Chair. And thank you for calling today's hearing with Inspector Ware. Welcome, Inspector. Always good to have you before us to explain what is going on.

Before I begin, I also want to thank the Chairman for the announced changes in the order in which Members will question the witnesses. This is an important announcement. I am thankful for

your action. Likewise, I know Members will appreciate going back to regular order and the methods that were voted on within the rules package.

Additionally, I would like to take this time to recognize and congratulate the Committee's chief counsel, Jan Oliver, on her upcoming retirement. Jan has been a stalworth for small businesses for years and has worked in public service for decades. From her time with now-Senator Portman to working at the White House and to her time and her services committee, her steady guidance and counsel for the past 31 years has always been welcomed by the several Chairmen and many Committee Members that she has served. Jan, thank you for the thoughtful insight, analysis on all issues, including and especially those pertaining to regulations and its impact on small businesses. Thank you very much.

Now, as we start the second session of the 117th Congress, it is critically important that we begin with a discussion on oversight. With roughly $1 trillion in assistance provided to the nation's smallest firms through the Small Business Administration, we must exercise our oversight responsibilities wisely and often. It is not just dollars flowing to small businesses. There are new programs at the SBA that also require our attention. That is why I am thankful we have today's conversation with Inspector General Ware.

Congress moved quickly in the spring of 2020 to support the nation's economy with hundreds of billions of dollars for small businesses. Some of these programs, like the Paycheck Protection Program, which was driven by private sector lenders, focused heavily on the nation's workers. Other programs that were administered directly through the SBA moved slower and were overall less successful. Fraud took place and taxpayer dollars were and continue to be wasted. This is unacceptable.

The numbers presented by the inspector are significant. While the IG reports approximately $4.6 billion in possible fraudulent activity within the Paycheck Protection Program, the Economic Injury Disaster Loan Program, also known as EIDL, is enmeshed in roughly $84 billion in potentially fraudulent activity. The PPP was administered by private sector financial institutions. The EIDL program was not. The SBA acted as the sole and only gatekeeper to the EIDL program. That any theft or businesses and individuals illegally entered the program is a major problem for the EIDL program.

Differences on how these programs were run cannot be overstated and they should serve as case studies for future public policy debates on how the SBA should run its programs. Asking SBA to expand or enhance their direct lending ability would be counter to the facts that we have on the ground.

Beyond the COVID relief programs, we know that the SBA has struggled with identifying risks within their access to capital programs, overseeing their contracting programs, and updating and keeping pace with their information technology needs for years.

The COVID emergency period has compounded all these programs and challenges for SBA. I always say that when you put something under stress, that is when you find out where your real problems are. And obviously with this COVID situation and the

SBA taking on a tremendously increased workload, we now know where a lot of problems are.

Due to PPP and EIDL, more businesses know about the services and functions of SBA than ever. Therefore, the SBA must be ready to serve and assist small businesses, all the while protecting taxpayer dollars and preserving the integrity of the existing programs.

Small business owners do not have time to waste. They are facing significant price increases and they are having trouble finding workers. Unfortunately, it does not end there. Supply chain issues continue to thwart their planning and uncertainty surrounding a vaccine mandate is ever present. Now more than ever, the federal government programs cannot be duplicative, wasteful, or counterproductive.

I look forward to hearing more from Inspector Ware on where fraud stands today with the COVID relief programs, an update on all recommendations, and what programs his office will be examining next. With such a significant amount of potential fraud clogging the process for small businesses, I know the discussion will not end here. This will require ongoing efforts for years to come.

With that, Madam Chair, I look forward to working with you this year, and I look forward to continuing to work with the Inspector General. To that end, I want to give you this letter which is a list. And we can give that to your staff. This letter which is a list of some of the witnesses and topics that I think would be impactful for and helpful to us in our legislative and oversight work.

With that, Madam Chair, I yield back and look forward to working with you this coming year.

Chairwoman VELAZQUEZ. Thank you, Mr. Luetkemeyer. The gentleman yields back.

With that, I will now introduce our distinguished witness, the Honorable Hannibal "Mike" Ware, Inspector General of the SBA. Mr. Ware was sworn in as the inspector general in May 2018 and has been an effective leader in his role and an asset to this Committee. He has nearly 30 years of experience in the IG community rooting out fraud, waste, and abuse in federal programs.

Welcome, Mr. Ware. You are recognized for 5 minutes.

STATEMENT OF HANNIBAL "MIKE" WARE, INSPECTOR GENERAL, OFFICE OF THE INSPECTOR GENERAL, UNITED STATES SMALL BUSINESS ADMINISTRATION

Mr. WARE. Thank you, and good morning. Good morning, Chairwoman Velázquez, Ranking Member Luetkemeyer, and distinguished Members of the Committee. Thank you as always for inviting me to speak with you today and for your continued support of my office.

It was my hope that my next appearance before this Committee would occur with the pandemic in our rearview mirrors. However, the pandemic has been lasting with everchanging challenges.

SBA has played a pivotal and unprecedented role in stabilizing the U.S. economy. In doing so, the men and women of SBA who have been on the frontlines and who have directly met the needs of millions of small businesses, they have sacrificed their time and worked long hours to implement these programs on an unprecedented scale. Not only do we as taxpayers thank them for their

hard work, but there are countless whistleblowers who have come forward to my office to shine the light of transparency on matters that they believe were of concern to stewarding the taxpayers' dollars. We thank them not only for their hard work but for their courage and sense of duty to the nation.

The men and women of my office equally have been working diligently to provide oversight of SBA's pandemic response. We have never lost sight of the struggles of the small business owners and their employees who toil not only with financial hardship but in many cases personal loss as a result of the pandemic. We are keenly aware that nothing short of the public's trust is at stake in our oversight efforts.

We have already issued 18 reports addressing SBA's pandemic efforts with dozens of recommendations for corrective action. Our investigative work to date has resulted in 366 indictments, 294 arrests, and 142 convictions related to EIDL or PPP. The monetary recoveries and savings from our oversight investigations pandemic response efforts in fiscal year 2021 alone were $4.2 billion, with Congress investing just $50 million in supplemental funds to facilitate our oversight efforts.

And the work has really just begun. A significant portion of our supplemental funding will be exhausted by the end of fiscal year 2024 which will coincide with hundreds of billions of dollars in EIDL loans coming due for payment. We anticipate this will be a key moment for realizing the true scope of fraud in the program which already is expensive.

We believe our annual resource levels will need to be right sized to match this fraud landscape and to provide necessary oversight of SBA's management challenges in the years beyond the pandemic response.

Notwithstanding the challenge, OIG has sought opportunity to more effectively and efficiently carry out our mission. We have provided oversight in real time, producing reports in under 2 months. In doing so, the IG community took note and used our oversight model to develop an agile products toolkit for OIGs across government. The result of our innovation is that we proudly kept the Congress, the administrator, our stakeholders, and the public currently and fully informed of SBA's pandemic response efforts.

I am also happy to report that OIG has taken significant strides in leveraging data analytics to oversee these vast loan portfolios. We are moving from a reactive data analytics posture to leveraging artificial intelligence and machine learning to get in front of fraud and expand the reach of our oversight.

In OIG's dealing with SBA's leaders throughout the pandemic, I have never had a reason to doubt their commitment to providing assistance to the nation's small businesses. In terms of characterization of SBA's response to our findings related to their pandemic response, it is my perspective that there were missed opportunities to recalibrate internal controls and implement corrective action in a timely manner at the outset of SBA's pandemic response efforts. This has since changed significantly as we work more closely to implement proper internal controls from the onset of new program startups. We are committed to providing independent and objective oversight of SBA's programs and operations. And in doing so, we

will continue to shine the light of transparency and work diligently to keep everyone informed.

Thank you for the opportunity to speak to you today. I am happy to answer any questions you may have of me.

Chairwoman VELAZQUEZ. Thank you, Mr. Ware.

I now recognize myself for 5 minutes for questions.

Mr. Ware, Administrator Guzman indicated that this administration is sincere in implementing the IG's recommendations and that SBA has made great strides in satisfying most recommendations. Is this administration cooperating with ongoing audits and investigations, and can you expand on your relationship with the administrator in resolving the IG's recommendations?

Mr. WARE. Yes. Thank you for the question.

I could say unequivocally that this, well, the leadership team at SBA currently is definitely taking recommendations seriously and moving quite quickly to resolve them.

Chairwoman VELÁZQUEZ. Thank you.

In your July briefing with the Committee, you indicated that 50 recommendations made by the OIG related to PPP and COVID-EIDL remained open. At this time, how many remain open?

Mr. WARE. At this time, I believe that number is, it could be 20. I could get back to you on the exact number. What I do know is that half of the number that remain open have not quite come due yet to be closed. And the date for another set of them passed just December 31st and we may have the information on it but we have not reconciled that information yet to give an update as to which ones can be closed.

Chairwoman VELÁZQUEZ. Thank you. Speed was imperative at the beginning of the pandemic leading to fraud controls being removed. The current administration put guardrails back in place to prevent further fraud and abuse. Has your office evaluated whether any of the new safeguards are achieving their intended goals since most of the audits and investigation have focused on the performance of the PPP and COVID-EIDL programs under the previous administration?

Mr. WARE. So there are a few ways to look at that. To answer the question directly, we are in the process of reviewing those. And as a matter of fact, two reports should be out addressing those questions more directly within the next 30 days I believe. I hope; right? That is what we are looking at. But I could tell you this, what was done differently in terms of this leadership team was an upfront focus on the internal control environment that included an actual sit-down to determine what was best to be put in place prior to setting anything else up.

Chairwoman VELAZQUEZ. Thank you. Mr. Ware, Congress created the COVID-EIDL program to provide quick working capital to small businesses suffering economic injury due to the COVID-19 pandemic. In creating this program, Congress acknowledged that the private sector will struggle to deliver relief funds to small dollar borrowers quickly. Given the COVID-EIDL emphasis on the fast delivery of funds and the approach the private sector took to focus on larger businesses and existing clients with PPP, do you believe it is fair and appropriate to compare COVID-EIDL to the 7(a loan program?

Mr. WARE. Being that they are two totally completely different animals, it is difficult, based on the evidence that we have, to make a comparison of the two in terms of how delivery is. Certainly, the body of work definitely says that the direct lending programs have had issues in terms of a fraud environment, but so has the 7(a) program as well. We have our own issues with them. To make up a comparison of the two when speaking about direct lending, I do not believe that we have a body of work that can make that because there are so many different aspects that have to be considered. And we have focused primarily based on fraud risk.

Chairwoman VELAZQUEZ. Okay. So is it fair to compare new direct lending programs to the COVID-EIDL given the stark differences and goals in the two programs?

Mr. WARE. I believe that a whole lot of angles have to be considered if you are going to do a comparison. From an Inspector General perspective, from my perspective, either way there is the control environment that will tell the tale.

Chairwoman VELAZQUEZ. Thank you.

Mr. WARE. A proper control environment could——

Chairwoman VELAZQUEZ. My time has expired.

Mr. WARE.—a lot of issues that we have seen.

Chairwoman VELAZQUEZ. Thank you.

Mr. WARE. Thank you.

Chairwoman VELAZQUEZ. Now I recognize the Ranking Member, Mr. Luetkemeyer, for 5 minutes.

Mr. LUETKEMEYER. Thank you, Madam Chair. And again, welcome, Inspector. Good to see you again.

I would like to start today by discussing some of the numbers that your reports identified when it comes to fraud. In total it looks like there is approximately $80 billion in potentially fraudulent EIDL activity and another $4.6 billion potentially fraudulent activity within the PPP. These two programs have different mechanics as you have just described but I think contrary to the point of the Chairman, that there is some similarities here in that they are direct lending programs, money going out the door, but they were done in a different fashion from the standpoint that the PPP had the private sector, the banks, credit unions and some fintech folks delivering those funds versus SBA and their folks delivering that. And so I think the difference there, correct me if I am wrong here, but this is my question. It would appear to me that the rules, regulations, processes, procedures, controls were not followed by the SBA folks when it comes to the EIDL program and some of the other direct programs, 7(a) programs that they implement versus the banks and credit unions who have " know your customer" rules in place, laws in place that minimized. When you look at $4.6 billion in PPP, that is roughly 5 percent fraud rate. Eighty billion is over 30 percent fraud rate in the EIDL program. That is a significant difference between the two and I think there is a significant difference in the way that they were adjudicated by the SBA. Would you agree with that?

Mr. WARE. I would agree that the 7(a) program in dealing with the lenders meant that they had more of a relationship and they were able to let us know from the onset where the issues were and to work with us to call back a whole lot of the money.

In terms of EIDL oversight initially with the focus being solely on speed, initially and guardrails being lowered, it is just, that was the reason. That was the reason that we ended up with what we have.

Mr. LUETKEMEYER. Okay. So it begs the question then, have the guardrails been put back up?

Mr. WARE. Have they? That is what you are asking me?

Mr. LUETKEMEYER. Yeah. You said the problem with the fraud was the guardrails were taken off. Have they been put back up?

Mr. WARE. Yes. Many of the guardrails have, and many of our recommendations to that regard have been put in place.

Mr. LUETKEMEYER. I am going to follow up with regards to the PPP. We had this discussion before and we found that a lot of the fraud that was in the PPP program was in the fintech folks. They did not have the " know your customer" law in place that the banks and credit unions do, or the banks have in place, and did not really take the precautions to make sure that those dollars were actually going to a real person and that this was not duplicative actin on the part of the borrower. And so you were telling me in earlier conversations and your other reports that the fintechs were really kind of the problem children here. Have you seen that continue to be the situation? Do you see something different now or where are we at with this?

Mr. WARE. What I told you at the time was that our investigative work was finding that where we were seeing the most fraud in terms of our arrests, convictions, indictments and everything else, there was a great deal, a percentage of those that had to do with fintechs. Not saying that if the proper control environment is in place that would be the case but that is what the evidence demonstrates.

Mr. LUETKEMEYER. Okay. I know that the Chairman asked a number of times about the recommendations that you are making and it seems that they are making some progress, which is great. I know the last time we talked there was some concern that one of the problems was you make recommendations and the SBA administration would put them in place but their staffs would not execute on those recommendations. Have you seen that improve? Is that still going on? Is it getting worse? What are you seeing?

Mr. WARE. I am actually happy for that question because I wanted to clarify something. What I needed to clarify in this regard is that these things normally take time to happen in earnest. So somebody conducting a loan review and what my folks brought me up to speed on was this. It is not every person conducting a review that did not follow what is currently in place; right? We are finding that in some instances it happens; in other instances, it does not. And I believe though we may find that in just about every program or every industry that sometimes what is in place is not followed.

Mr. LUETKEMEYER. Inspector, you just opened up a whole new can of works there. So do we have people that are doing a good job and adhering to the recommendations and now we have other people that are not? Have you identified those other people yet so we can point to them and say these people have to either shape up or

ship out? I mean, if we have got some bad apples in the barrel, we need to get rid of them.

Chairwoman VELAZQUEZ. Mr. Ware, time has expired but I will let you answer the question.

Mr. WARE. Thanks.

Mr. Luetkemeyer, I do not believe it is a bad apple situation; right? I believe that it is in terms of expertise. It is in terms of training and it is in terms of having people know exactly what people need to do to the T. We have not found where someone is willfully doing a poor job in terms of loan review. So I would not want to categorize it in that way. And we have work coming out on that that will be coming to you very, very shortly.

Mr. LUETKEMEYER. Well, when 40 percent of the program is being fraudulently active, we have got a problem, sir. Thank you.

Chairwoman VELAZQUEZ. Time has expired.

Now we recognize the gentlelady from Illinois, Ms. Newman, for 5 minutes.

Ms. NEWMAN. Thank you, Madam Chair, and thank you Ranking Member. This is a great discussion today.

Thank you, Mr. Ware, for being here, and thank you for executing this very daunting task. It does not fall short on us that this is a complicated action that involves actions that took place 2 and 3 years ago, so this forensic taskforce has really been helpful but realizing that it is tough.

I want to make one comment and clarify something because I just want to clarify with you, you are investigating potential fraud and those numbers are relative to potential fraud, not proven fraud; correct?

Mr. WARE. So investigations and audits, two different things clearly.

Ms. NEWMAN. Yes.

Mr. WARE. So in terms of our audit findings, those were potential fraud. We have not reviewed or completed our review on the entire package, large package to determine what is the actual fraud. We do know anecdotally that what we have called potential fraud is very likely fraud because our fraud cases and criminal convictions and indictments speak directly to the patterns that we document as potential fraud.

Ms. NEWMAN. Thank you for clarifying.

So I have three areas of question. I hope we can get it in in the five. Tell me a little bit about this right-sizing project. I really like this idea. I have done this in business before so I really like the agile product. Can you just share a little bit about what is in that product kit?

Mr. WARE. Great. In the toolkit is a way for you to identify and focus on a single question or to notify management and leadership of serious crucial problems that they need to take action on immediately.

So in the case of EIDL, for example, once we started to see the trends, we got to the table with the leadership team here while the team was working on putting together something for public consumption and told them, listen, you need to put a stop to this right now. You need to set up a system of control that can identify these duplicate IP addresses and these bad emails and these things that

fall in like three, four buckets. It needs to be addressed right now. And we try to get that so the information is immediate and then the public sees the entire thing that they could respond to within 30 to 60 days.

Ms. NEWMAN. Thank you. That sounds like it is working in real time which is what we want right now. We do not want to lose any more time.

A couple of other areas. One is data integrity. In our visit, oh, gosh, it was probably in first quarter, it was clear that there were some data integrity issues. Can you share with the Committee here what has been done in the last 3 quarters to address the data integrity issues?

Mr. WARE. Great. So what we have found in working with them, initially, of course, the deluge of things that came in completely broke the system; right? So since that time they brought in a third-party contractor that has done a great job in terms of cleaning up the data. And as you know they put out, what, I think monthly they put out the stats. They put out these things. This data has been fixed tremendously. There are some, I think there is one field. I am trying to remember. It has to do with congressional data that we are looking at right now. So we are in the process of determining just how clean it is.

Ms. NEWMAN. Good. And I will look forward to that report.

And then finally, which of all of the loan programs did you find the least potential fraud and why do you think that fared the best?

Mr. WARE. Great. So, the least potential fraud, of course, was found in the Paycheck Protection program. And I believe one of the reasons was because they knew, most of the lenders knew their customers. So they were able to ask the right questions off the bat and to put a stop to it prior to funds being disbursed. We got like within the first week or so like 5,000 contacts from banks where we knew there was a problem. And they were being able to hold and they have been a great partner with us in terms of having the funds seized and returned to the government.

Ms. NEWMAN. Well, thank you for that. And thank you for your great work on this. And I will say again, thank you for going back forensically to 2 or 3 years prior to this in solving some of the issues that arose at that time. So appreciate your work.

Mr. WARE. Thank you.

Chairwoman VELAZQUEZ. The gentlelady's time has expired.

Now we recognize Mr. Williams, the Vice Ranking Member of the Committee from Texas.

Mr. WILLIAMS. Thank you, Madam Chairwoman, and Ranking Member Luetkemeyer. I am just listening to this. Already as a small business owner it is amazing to me how this Committee and this agency is so political and the main street small business owner is getting squeezed right in the middle. This is going to have to change.

Now, Mr. Ware, your report found massive fraud in almost every one of the SBA's COVID relief programs. In the EIDL program we talked about this morning alone there has been nearly $80 billion in fraudulent activity. This leads to us to question the ability of the SBA to carry out or set up new programs in the future if they are unable to properly account for taxpayer dollars when main street

businesses need it most and have earned it. The SBA demonstrated their inability to discharge emergency lending at every single turn, yet, my democratic colleagues want to expand the SBA's lending authority and kind of reward bad behavior even when the private sector has proven willing and better suited to take on these efforts. The private sector always does it better.

Mr. Ware, why should we expand direct lending authority for the SBA when evidence that you talked about today has clearly proven they were unsuccessful in properly executing their duties in combatting fraud in COVID relief programs?

Mr. WARE. Mr. Williams, thank you very much for that question. The question as to why should you do that is really a policy and program question that the IG is prohibited by law from responding to. I could tell you what our body of work talks about in terms of an internal control structure and that a proper internal control structure, regardless of which way this Congress or the administration determines to go from a policy perspective is what is most critical in my eyes.

Mr. WILLIAMS. Okay. During the pandemic, various federal agencies were tasked with getting money to the American people as fast as possible. Now, unfortunately, the SBA seemed to be one of the worst in distributing business saving funds for the last 2 years. The Shuttered Venues Operator Grant (SVOG) program, which was created from my bipartisan Save Our Stages Act, took over 6 months from being signed into law before a single dollar was disbursed. Cinemas, theaters, concert halls, and other entertainment venues across the country struggled to stay in business while they were left in the dark by the SBA's Administrator Guzman who has still not been held to account for these catastrophic failures. People lost jobs. Futures were torn apart.

So Mr. Ware, based on their fundamentally unprepared to perform their duties, is it your opinion that the SBA setbacks are indicative of greater organizational challenges? Or was it basic incompetence and lack of leadership that caused these embarrassing rollouts of events and lifechanging events for small business owners? That is a pretty simple question.

Mr. WARE. Well, I mean, again, I go back simply to the work that we have done. And you know, we put out a management alert on the control environment and tracking performance results in that program, the Shuttered Venue Operators Grant Program; right? And in terms of the risk framework that we asked them to put in place, clearly the five performance goals, we know that they put those items in place. Relative to the rollout of it and what happened and who was to blame and everything like that for the delay, we have not looked into that. We have another report on SVOG that should be out shortly.

Mr. WILLIAMS. Well, I look forward to seeing that but you ought to look into it and see who is responsible for delaying this to these businesses that cost so many jobs.

So the SBA is tasked with assisting small businesses across the country. I am a small business owner. However, they fail to properly communicate with businesses, borrowers, and lenders and Members of this Committee during important times of need. So when the SBA system disruptions halted the SVOG program in the

spring of 2021, businesses were unable to reach anyone at the SBA to get a status update on their applications. And I mean, you could not get anybody. So meanwhile, Members of this Committee such as myself, were being stonewalled and did not receive the answers to our pressing letters until October when our concerns were really pressing. As Members of this Committee, we are charged with overseeing the SBA and I find this lack of communication troubling.

So Mr. Ware, do you have any information or data on the SBA's lack of communication with borrowers, lenders, or Members of this Committee? We are customers, too, and you have to take care of your customer. So if not, would your office to commit to looking into the efficiency and the effectiveness of SBA's communication with stakeholders?

Mr. WARE. Yes. Well, definitely. Anything that is a concern to this Committee is taken seriously as a concern by my office. And if there is a request that you would like to put forward for us to look into that, we can.

Mr. WILLIAMS. Yeah. I just did.

Chairwoman VELAZQUEZ. The gentleman's time has expired.

Now we recognize the gentlelady from California, Ms. Chu, for 5 minutes.

Ms. CHU. Mr. Ware, I am so glad to hear that your office will continue to audit the PPP program and take a focus on fraud in the loan forgiveness process. As you know, in order to qualify for total loan forgiveness, the employers had to expend at least 60 percent of their PPP proceeds on payroll. Well, I have heard from labor unions representing hospitality workers in Southern California who have made very concerning allegations of several major hotels in the area including JW Marriott and the Chateau Marmont. Their Members experienced widespread layoffs at the start of the pandemic, yet the employer still received millions in PPP loans and have applied for forgiveness. It is unclear how they could have met the payroll requirements for the loan after laying off nearly all of their workers so they have submitted complaints to OIG but they have not been contacted yet.

So can you talk about the office's process for responding to complaints regarding PPP forgiveness? And with tens of thousands of complaints coming in, will your office need assistance to investigate these claims in a timely manner? Also, let me ask this. I mean, in the hospitality business, the allegations are made of larger employers who received loans worth millions of dollars, so are you planning to establish a dollar threshold over which loan forgiveness recipients will receive more scrutiny?

Mr. WARE. Thank you. So, there is a lot to unpack there. Let me start with our hotline process and what we are dealing with. You are correct; there are tens of thousands constantly coming in. Here is what we have done. Clearly, my office, we tried just about everything up front in terms of dealing with all the hotline complaints, including reassigning staff. Including we got help from 10 different IG offices in terms of processing. What we have done now is we have moved to more of a data-driven model in concert with the Pandemic Response Accountability Committee (PRAC). And the PRAC and my office developed a system by which we could take this in and categorize them and do some triaging so we could get

these things out to the field. We actually got a public award for innovation for putting that together and we are still working on it. As a matter of fact, it is my hope that if I was to be in front of you in 30 days that I would tell you that there is no backlog; that everything has been addressed. That is how aggressively we are moving on it.

But that lends itself to a different issue; right? The issue is that I have a finite amount of staff, investigative staff, that we have staffed up. We are at about 180. And my criminal investigators are carrying huge workloads. That is why we are partnering across the entire law enforcement landscape. So the process in terms of getting back to someone on like the people that you spoke about, right, for us is an acknowledgement that we received it but we do not provide updates, case updates to complaints. So that is the process of maybe why they would know that.

I hope I touched everything. What did I miss?

Ms. CHU. Oh, I also asked about thresholds and how are you ensuring that the larger transgressors are being addressed?

Mr. WARE. So as you are aware, all our criminal investigations are run through the Department of Justice, and AUSAs across the nation. These offices set the thresholds for our community. So what we are doing, listen, the focus right now, really, is on the big ones. The ones that were the rings and everything like that. So you might see some that pop up because we have been providing I think monthly, I hope. Monthly, we have been providing you an update with the convictions, the cases and everything like that. You might see some that are a small dollar amount, smaller dollar amount. You see others with large dollar amounts. The small ones would spill into what we are looking at in terms of a ring. They are natural outpourings of that.

Chairwoman VELAZQUEZ. The gentlelady's time has expired.

Now we recognize the Ranking Member from the Subcommittee on Economic Growth, Tax, and Capital Access, Mr. Meuser, from Pennsylvania, for 5 minutes.

Mr. MEUSER. I thank the Chairwoman very much. And I thank our Ranking Member. And Mr. Ware, I appreciate you being here as well. It is unfortunate as this is an oversight hearing that the United States Treasury Department has oversight of PPP as you well know, and Secretary Yellen has been requested along with by law required to appear before this Committee twice on an annual basis and yet has yet to appear.

Do you have conversations with Secretary Yellen? Can you inform her perhaps for us since she is ignoring our requests to appear before this Committee and answer some of these important oversight questions, Mr. Ware?

Mr. WARE. No, I do not. My oversight is within the Small Business Administration.

Mr. MEUSER. Okay.

Mr. WARE. I meet regularly, every other week with the administrator here.

Mr. MEUSER. Well, PPP obviously falls within your wheelhouse as well. So perhaps her insight and answers would be helpful to you as well as this Committee.

So let me continue along related to the EIDL Disaster Loan Program. Perhaps appropriately named, unfortunately. The thing is that, look, there was $80 billion in fraud out of $260 billion in loans. I mean, that is a really outrageous figure here as well as to taxpayers. PPP as you offered and stated honestly was far more effective and successful. Nine hundred billion in loans with $4.6 billion in potential fraud. So a far, far better ratio for legitimate loans. And as you mentioned, Mr. Ware, it is due to the partnership with the private sector. So it would be considered to expand the SBA sole lending vehicles by Members, our colleagues on this Committee, or even your office. Would that be something that you would advocate for, expanding lending vehicles solely through the SBA resources as opposed to advocating for such lending vehicles to be expanded via the partnership of the community banks such as how the PPP loan was handled? Which would you prefer?

Mr. WARE. In my role, I do not advocate one way or the next; right? I rely solely on the work that is done by my office to inform this Congress and the people who would set up policies and the people who would set up programs on what you have before you. There are a lot of moving parts in order to make a determination into that. Our focus has been on the fraud environment in terms of——

Mr. MEUSER. Well, you are in charge of it. We need your input on what would be most effectively carried out by the SBA. So please keep that in mind.

Let me just ask you this as well regarding EIDL loans. Is it going to get better before it gets worse? Are you comfortable at this point with the loans being made? Have we put, as Ranking Member Luetkemeyer brought up, additional safeguards in place so this fraud does not continue?

Mr. WARE. I believe, and I think I have said it on record, and I will say it again here, I believe that SBA's programs have more integrity in them right now than they did at the onset. And I believe that, for example, the major fraud concern, right, initially SBA was dependent on self-certification. There was not sufficient vetting of that information, even when information was clearly illogical. And that led to many of the problems that we found. I think it is the 4506T tax transcripts and the type of data that they are processing from the Internal Revenue Service, I think it addresses much of it and I will tell you, we are in the process of making a determination as to how that fraud landscape changed and what that meant in terms of savings to the American taxpayer.

Mr. MEUSER. Thank you, Madam Chairwoman. I yield back.

Chairwoman VELAZQUEZ. The gentleman yields back.

Now we recognize the gentleman from Pennsylvania, Mr. Evans, for 5 minutes.

Mr. EVANS. Thank you, Madam Chair.

In the past, you have reported that many missions critical and senior positions at SBA are staffed by federal employees nearing retirement. How has the SBA been dealing with the alleviation of the workforce challenges? And can you please share with the Committee the progress that has been made in this area?

Mr. WARE. Thank you for that question. This is one of them that I hate to have to say I believe I am going to have to get back to

you on that because I do not believe I have current work that informs it. But I do know that my people ask questions like this regularly. I know I have seen from the chief human capital officer here, Elias Hernandez, that they have put together some plans to address that. We have not reviewed those plans as yet.

Mr. EVANS. Let me ask this question. Many small businesses in my district are interested in contracting with the government. Such contracts can help the businesses grow and expand. In recent years, the federal government has been successful in achieving the statutory goal of awarding 23 percent of all contracts primarily to businesses. Can you tell us exactly how is that process proceeding?

Mr. WARE. The process of determining whether or not the mandate has been met in terms of the percentage?

Mr. EVANS. Exactly. Exactly.

Mr. WARE. Well, over the past, at least since I got in, long before I got here in 2016, we have been going back and forth with the agency on how they actually calculate those percentages. And including how they run the numbers. They have been, actually, the one change that they have made is that they have been transparent to everyone in what goes into the denominator or what goes into the numerator and coming up with that percentage. So at least they are doing that. But it is within, remember, they are responsible for ensuring that all other government agencies are calculating the same way in terms of making their percentage. The improvement that they have made is that we all know how they do it.

Mr. EVANS. Thank you.

Thank you, Madam Chair. I yield back the balance of my time.

Chairwoman VELAZQUEZ. The gentleman yields back.

Now we recognize the gentleman from Florida, Mr. Donalds, for 5 minutes.

Mr. DONALDS. Thank you, Madam Chair. And Mr. Ware, thanks so much for making yourself available to the Committee on such an important topic and for all the work of you and your staff that you have been doing here.

I was taking some in-depth time reviewing your written statement and you identified several challenges for the SBA in the financial year 2022.

Challenge 3. The SBA's economic relief programs are susceptible to significant fraud risks and vulnerabilities.

Challenge 2. Inaccurate procurement data and eligibility concerns in small business contracting programs undermine the reliability of contracting goal achievements.

Challenge 3. SBA faces significant challenges in IT investment, system development, and security controls.

Challenge 4. SBA risk management and oversight practices need improvement to ensure the integrity of loan programs.

Challenge 5. SBA's management and monitoring of 8(a) business development program needs improvement.

Challenge 6. Identification of improper payment in SBA loan programs remains a challenge.

Challenge 7. The SBA's Disaster Assistance Program must balance competing priorities to deliver prompt assistance and prevent fraud; and

Challenge 8. The SBA needs robust grants management oversight.

Mr. Ware, these challenges are significant for any lending institution, let alone the SBA. Based upon all of this, does the SBA have frankly the necessary infrastructure and wherewithal and capacity to embark on direct business lending considering all the challenges the agency still faces?

Mr. WARE. That is a good question. Our goal and the goal of all IGs, because all of us have to put out the top management challenges facing whatever agency or department that we are responsible for. In all of this, I believe that the men and women of the Small Business Administration are up to the task. I do believe that there needs to be the type of systemic changes that we have detailed in this document put in place and then I believe that the programs could run and we could have an assurance that there is more integrity in these programs.

I think it is probably better that I stop there. I do believe that the Small Business Administration has the capacity to be able to run the programs that they are charged with running.

Mr. DONALDS. Mr. Ware, what I will tell you is that could they run their existing programs? I believe it is a maybe. But in the world of lending, and I spent, you know, many years as a loan underwriter, in the world of lending, maybe is what costs you your customers money. And with respect to the SBA, maybe is what is going to cost taxpayers money. I mean, I think the core question for the Committee, and frankly for the American people overall, is that if the SBA has a track record with direct business lending that they have already had with the EIDL program, who is going to actually carry the losses when the SBA gets it wrong because of so many systemic challenges they have in their infrastructure? Like, who bears the real burden of losses from the SBA if they do not have basic, you know, underwriting capacity that has been outlined in your report?

Mr. WARE. You are asking me who bears it?

Mr. DONALDS. Yeah. Who bears the responsibility? Who is going to bear the responsibility for dollars lost?

Mr. WARE. Well, for dollars lost it is the taxpayer; right? But that is in all the programs. That is in the direct lending program. That is in the 7(a) program because the agency pays the guarantee.

Mr. DONALDS. Well, and honestly, it is a statement, frankly, Mr. Ware, that I think we both know but I think it is important for all the Members of the Committee, no matter what side of the aisle that you are on, for us to understand that even though there are some good intentions that the Members may want to have or want to see SBA engage in for the benefit of various business in our country, the reality is that the SBA is nowhere near capable from an institutional standpoint, from an infrastructure standpoint, from a capacity standpoint to address those needs, especially considering the fact that what they already have on their books with respect to the EIDL program and the PPP program and the existing loans in the 7(a) program. There is a lot of work to be done over at the SBA. They are nowhere close. And to, in my view, radically change the mandate into direct lending would actually cause significantly more problems and exacerbate those programs. It will

not fix them and we will be right back here having more hands just like this one.

I yield back. Thank you so much, Madam Chair.

Chairwoman VELAZQUEZ. The gentleman yields back.

Now we recognize the gentlelady from Pennsylvania, Ms. Houlahan, for 5 minutes.

Ms. HOULAHAN. Thank you, Madam Chair. And thank you so much for being here today and for your diligent work, Mr. Ware, to oversee SBA's unprecedented response to COVID and the COVID-19 pandemic.

And I wanted to take my time and opportunity to ask for your insights on how we can possibly apply lessons that we have learned from the pandemic and the pandemic response to future disaster relief programs.

Many small businesses in my community have also been seriously impacted by the damage that was recently caused by Hurricane Ida. In fact, my community is under a federal State of Emergency. While some have bounced back quickly, others have been less fortunate such as the Veterans Construction and Utility Services Company that is located in Modena. Faced with damages to equipment on top of economic pressures from the pandemic, this veteran-owned and service-disabled small business opted to close its doors for good, informing my office that they simply did not have the capital to apply for an SBA loan, nor the capacity to take on another bill to pay, particularly without the possibility of forgiveness.

Unfortunately, this situation is very common. According to FEMA, between 40 and 60 percent of small businesses never reopen their doors after a natural disaster like Ida. Something I heard time and again from small businesses in my community following the hurricane is where is PPP for natural disasters? I agree. Why do we not have loan forgiveness like we did under PPP for small businesses impacted by these natural disasters that are increasingly more and more common. It is our responsibility to take the positive aspects of our SBA COVID assistance programs, making improvements where necessary to address lessons learned and ensure that our small businesses have the support they need to recover from all disasters, whether they be related to public health or climate change.

So with this context in mind, I am interested in learning more from you about how we can appropriately balance the need that we have talked about here to get more money into the hands of small businesses quickly in an emergency while understanding certainly that the prevention of fraud can require a much more deliberative and careful review.

So my question, sir, to you is has the SBA and has your organization and operation examined what the tipping point is between getting money to businesses in a timely manner while also sufficiently rooting out cases of fraud and abuse? So my specific question is, are you not just looking at cases and addressing whether they are fraud or not, but are you also trying to catalogue what it is that we could be doing to be better at preventing this fraud and abuse to begin with so that we can take the good of the PPP program and apply it to other uses?

Mr. WARE. Thank you for your question. Please know that that is a major focus of my office. We have put out 18 different reports on the pandemic programs. From before the very first loan was issued on PPP, we issued a report addressing this very same thing, what needs to be done to balance speed and controls. How you need to communicate to folks so that everybody knows what they are doing. It is a major part of what we are looking at. And I have sought to do this across government in my role on the PRAC. We are going to work on a document that tells the entire disaster story and to make sure that the lessons that we learn this time around are there forever so that we do not make the same type of mistakes again. So, yes, it is a huge focus of my office and has been from the beginning.

Ms. HOULAHAN. And of those 18 reports, and I am sure in counting that you are working on right now, are there any aspects of those reports that this Congress and its responsibility can be helpful in terms of changing, modifying PPP so that we could end up with a PPE disaster program?

Mr. WARE. Yes. As a matter of fact, we worked closely with Congress on one of the earlier reports on PPP where legislation was put in place to address some of our findings. So this body has actually been on top of it in terms of making immediate changes, changes that move pretty rapidly.

Ms. HOULAHAN. So I only have 40 seconds left of time and I would really rather not ask my second question because I do not believe we would have time for an answer but with the very limited time I have left, I am an entrepreneur, a small businessperson, mid-size businessperson as well, and some of the most remarkable things that ever happen, happen under duress, when a company is under duress or when an organization is under duress. And so we have experienced extreme duress in this country due to COVID and the innovations that have resulted are things like the PPP program which arguably, and granted, have definitely, we have seen some abuse. But we really should make sure that we are taking advantage of an innovation such as PPP, figuring out how to take advantage of the neuropathways that we have created between companies and their banking institutions and our SBA, and make sure that we are able to use those innovations for something like the stressors that happen in natural disasters as well.

And with that I yield back. And thank you, Madam Chair.

Chairwoman VELAZQUEZ. The gentlelady yields back.

Now we recognize the gentleman from Minnesota, Mr. Stauber, for 5 minutes.

Mr. STAUBER. Thank you very much, Madam Chair, and Ranking Member Luetkemeyer for putting this hearing on. Thank you, Mr. Inspector General for being here to answer our important questions.

What number of recommendations that you have made to the Biden administration's SBA in relation to fraud have yet to be closed out?

Mr. WARE. So the exact number of the recommendations I could get back to you really quickly on. But I do know——

Mr. STAUBER. Mr. Ware, has the agency explained why they have yet to be closed out to you?

Mr. WARE. Oh, no. So it is important for me to note this. The agency has moved rather expeditiously to close out the majority of the recommendations. There are not that many outstanding that have to do directly with what our systemic recommendations were. When you look at it, the numbers are coming back to me, like 110 recommendations but about, what, 60, 70 of them had to do with the financial statement audit. So in terms of the systemic things to move PPP and EIDL and to deal with the Shuttered Venues program that we issued——

Mr. STAUBER. Mr. Ware——

Mr. WARE.—they have pretty much closed those out. There are only a few that are remaining. Most of them the date has not come for when they are supposed to be closed.

Mr. STAUBER. Mr. Inspector General——

Mr. WARE. There are a handful that came——

Mr. STAUBER.—because my time is limited, Mr. Inspector General, you mentioned that the SBA has either partially or totally disagreed with some of your recommendations. What procedure is in place that occurs if they do not support your recommendation? Do they remain open or what?

Mr. WARE. No. So here is what we have. It is both the agency's and my office's responsibility to get these closed out. So we have a process in place where we go to what we call the audit follow-up official to make a final determination. If the final determination is that, well, we flat out do not agree with you, I raise that with this Committee as an item to determine whether or not you feel——

Mr. STAUBER. And I think, Mr. Ware, I think that some of those suggestions are going to be coming back to this Committee I am quite sure.

One of the things that you had mentioned in your previous testimony today, and this is almost a quote, that you do not advocate in one way or the other. Mr. Ware, we need you to advocate one way or the other because when you look at $4.6 billion of fraud in the PPP and $84 billion in the EIDL loan, you see some deficiencies. The SBA needs some changing and so we need you to advocate for those changes. Eighty-four billion, and my guess is as you go, as you look into this further, you are going to see more fraud. And my colleague, Byron Donalds from Florida asked you who pays for this? It is the American taxpayer that pays for this. I understand in this town, millions and billions, and now even trillions is thrown around like it is nothing. Eighty-four billion dollars, Mr. Ware, is exactly what we need you to find and hold these people accountable, so we need your advocacy. That is the priority that your mission statement says as Inspector General, to advocate for the taxpayers.

And lastly, lastly because my time is limited, I just want to say in closing, I just want to express my deep concern about this fraud at the SBA. It should be troubling to everyone here that as families are struggling with inflation, higher energy bills and the supply chain crisis, that their hard-earned tax dollars are not being stripped away to pay criminals for fraud.

I completely, Mr. Ware, and I want you to understand this, I completely respect the work that you are doing to recover these

taxpayer dollars but it is beyond me that my colleagues on the other side of the aisle still are trying to ram through their Build Back Broke program to increase the funds at the SBA when we know that they are not efficient right now. When the safeguards that you have recommended are not even put in place by the SBA. So we need your advocacy in this. We need you to step up and help us. This Committee has full oversight of the SBA and we cannot allow career bureaucrats in the SBA to determine this because when we have done that, like the EIDL, $84 billion. That is with a B. Billion dollars of taxpayer money. I cannot explain that to my constituents in Northern Minnesota but I will tell them we are going to find that money and we are going to prosecute the fraud. We need your help, Mr. Ware. I am asking you to be an advocate for every taxpayer.

Chairwoman VELÁZQUEZ. Time has expired.

Mr. STAUBER. And I yield back.

Chairwoman VELAZQUEZ. The gentlelady from Georgia, Ms. Bourdeaux, is recognized for 5 minutes.

Ms. BOURDEAUX. Thank you, Chairwoman Velázquez and Ranking Member Luetkemeyer for holding today's hearing. And thank you, Inspector General Ware, for joining us today and for your important work.

Since taking office, I have been working to ensure small businessowners in my district have access to the tools they need to apply for and receive loan forgiveness under the PPP program. Can you give us an update on the OIG's work to evaluate the PPP loan forgiveness activity? So how involved have you been in this process? And of particular interest to me was that early on we noticed that there was disparity among different communities in my very diverse district and who was receiving that loan forgiveness and who was not. And so I would ask that you talk to that particular issue as well if you have looked at that.

Mr. WARE. Thank you for the question.

We have two ongoing reviews right now on the loan forgiveness process. What I do know as of this month probably a week ago or so, 94 percent of the loans have been fully or partially forgiven. The 2020 PPP loans that is. And less than 95 percent of the amount that the loan value for 2020 PPP has been forgiven all or in part. I do know that. So that is what I have so far. The work is in progress.

Ms. BOURDEAUX. Okay. Thank you. That should cover everybody pretty much.

So on that, so then moving on with this, so the other half of it, of course, is making sure that we are preventing fraud in the loan forgiveness piece. And can you speak to the work you are doing to prevent PPP forgiveness fraud, of course, without holding up forgiveness process for rule following businessowners?

Mr. WARE. Great. So I think what I do know, last year, about the middle of last year, that is when SBA changed the way that it was going to do the loan review process for forgiveness status; right? So they decided that they were going to prioritize more manual reviews that were based on fraud risk rather than the status of forgiveness. They have gone to more of a, they say, a machine learning type environment where they are able to determine risk.

Know this, getting forgiven does not mean that we cannot review the loan afterward, that we cannot come after a fraudulent actor after. So we are still in the fight for that.

Ms. BOURDEAUX. Okay. Thank you.

And you are going to be evaluating, it sounds like, sort of a data driven risk program to see if that is really effective?

Mr. WARE. Yes.

Ms. BOURDEAUX. Okay. Thank you.

And then last of all, I know your office has been working on identifying preventing fraud, you know, across different programs. And can you provide some insight into why the agency is further along in addressing the PPP fraud issues as compared to the COVID EIDL issues?

Mr. WARE. Is the question why were they further along?

Ms. BOURDEAUX. Yes.

Mr. WARE. Maybe an answer could be found. And so COVID EIDL was realigned internally in order to address it. They were realigned under the division within SBA that deals with the PPP lending. So it is a familiar, more of a familiarity from the banks, the lending institution private standpoint in terms of the systems that they have in place to address and to catch fraud and to catch things up front that allowed it to be better suited to deal with this attack by fraudsters that came the agency's way. And the lowering of guardrails in the EIDL program in order to focus specifically on speed at the time.

Ms. BOURDEAUX, Thank you. I yield back.

Chairwoman VELÁZQUEZ. The gentlelady yields back and now we recognize the gentlelady from California, Mrs. Young Kim, Ranking Member of the Subcommittee on Innovation, Entrepreneurship, and Workforce Development for 5 minutes.

Mrs. YOUNG KIM. Thank you, Chairwoman Velázquez. And I would also like to thank our Ranking Member Luetkemeyer for holding this very important hearing.

Thank you, Mr. Ware, for being with us and taking time to testify about your findings and help shed light on some of the waste, fraud, and abuse issues taking place at the SBA. We all recognize that your work is indispensable in our efforts to safeguard taxpayer dollars and push the federal government to work more efficiently and effectively for all constituents and small businesses.

A lot has been discussed regarding how SBA direct loans have been more susceptible to fraud than loans provided by private financial institutions. And I want to echo many of the same concerns raised by my colleagues on the fraud plaguing SBA's direct loan program. And I have to say that I am very troubled that we are considering expanding SBA's direct loan programs without ensuring internal controls against fraud and, you know, that is working properly before we do anything.

So Mr. Ware, since the beginning of the pandemic, the SBA Economic Injury Disaster Loan program has been riddled with fraud and we all know this and we have been talking about this. With fraudulent loans potentially topping $78.1 billion, this program calls into question the efficiency of the SBA in any direct lending. So has SBA leadership done all that it should to combat fraud in

the direct lending programs that the administration has administered over the past year?

Mr. WARE. I would say yes. They have done a great deal. And there is so much that pops into my head. Remember, at the onset, in the EIDL program, that is when we put out the management alert that was able to capture what type of fraud we were dealing with within the program. And yes, SBA did not move. Leadership did not move at the time as quickly as we would have liked it to stem the tide of that fraud. But since that time, they have implemented quite a bit of our recommendations. Some they even did in real-time, like at the table making a telephone call. One that comes to mind was stop people from changing the bank account information after the verification has already been conducted. That was one way that we stopped it almost immediately, that level of fraud. Addressing the duplicate IP addresses and everything like that. So a lot of controls have been put in place. That is the answer to the question.

Mrs. YOUNG KIM. Another concern, and my colleagues' concern about direct lending, given that the SBA has a checkered past in direct lending, would it not seem to call into question whether the SBA has the capacity to undertake more direct lending authority such as originating loans directly through the 7(a) program without opening the door for more fraud?

Mr. WARE. What I would say is this, again, the work that I provided on the onset, right, was a completely different control environment. The reason that I said, and sorry to offend, that I do not advocate one way or the next, I think that to have any kind of advocacy that comes from an inspector general is in terms of the evidence that I put before you that shows you what is going on in the programs.

Mrs. YOUNG KIM. Well, thank you for your response.

I want to move on to another one of your findings regarding the SBA's failure to adopt effective IT systems. Your top management report said SBA was expected to complete work on revising the project scope and improving management areas by the end of 2021. Can you provide us with an update and tell us if SBA was successful in meeting that baseline reviews and completing the functionality of that as certified by the end of 2021 like the report said?

Mr. WARE. I can tell you right now that from the information that I have before me currently, the system is basically where it was when we last spoke but we are looking into it. Like you said, it was at the end. We are just at the beginning of 2022 so we are looking at it. My understanding is it still is not working as promised. That Beta Certify—was supposed to be what delivered the woman-owned small business capability and that the application is still in the program sustainment and production mode in other words. So they hope to make a directional decision in the next 2 months. That is what I was told.

Mrs. YOUNG KIM. Well, thank you for your response.

It looks like my time is up so I will yield back.

Chairwoman VELÁZQUEZ. The gentlelady yields back.

Now we recognize the gentleman from Minnesota, Mr. Phillips, Chairman of the Subcommittee on Oversight, Investigations, and Regulations for 5 minutes.

Mr. PHILLIPS. Thank you, Madam Chair. Greetings, Mr. Ware.

Moments ago, one of my colleagues insinuated that Democrats seem to not care about the fraud and are reckless with investment in the SBA. I just want to remind everybody that I think we all agree we are all here to provide oversight and ensure that there is no fraud, at least as much as we can. Every dollar that is lost to fraud and fraudsters is a dollar denied to the very small businesses that we are here to serve and a source of understandable disgust by me and every American taxpayer. I just want to make that clear.

And there is a lot of work to be done. We all know that. But I applaud OIG's dedication to providing oversight and to the SBA for its diligence in implementing a number of important IG recommendations in recent months.

As Chair of the Small Business Committee on Oversight and Investigation, along with Ranking Member Van Duyne let me assure you we are both committed to ensuring that OIG has the necessary resources to conduct proper oversight. Period. And with just $50 million in support from Congress, the OIG recovered $4.2 billion in fiscal year 2021, which is an extraordinary return on investment.

So Mr. Ware, with that in mind, what more can Congress do to support OIG and your efforts to ensure even more efficient and effective oversight and recovery efforts?

Mr. WARE. Thank you. Thank you for that.

Let me first say thank you to this Committee for all the work that you have done with our office to make sure that we get you what you need. But I think a reframing of the question might be do we have enough resources for the oversight that will provide for the pandemic loans that are going to perform many years after the pandemic? So at present, like we demonstrated, we could provide more oversight with more resources. That is not a good argument though. The current level of oversight that we have includes just over 180 positions. The problem is that our nonsupplemental budget authority only provides for 125 and as I said in my opening, the supplemental funds are going to be gone by the end of fiscal year 2024. So I think that it is bad timing in terms of that is going to be a key moment for realizing the true scope of fraud in these programs. But, so I believe that the annual resource level, the ones that we get annual appropriation. You know, I am Executive Branch. I work with the Office of Management and Budget and they work well with me. What I could ask the Committee is to just please support what comes forward in terms of right sizing us to match the fraud landscape.

Mr. PHILLIPS. Okay. Thank you, sir. And I encourage my colleagues to give that deep consideration when that request is made.

As we all know, PPP was designed to expeditiously distribute funds with much of the fraud and eligibility controls designed to occur not at loan initiation; rather, during the loan forgiveness period. I know OIG has identified I think it is 70,000 loans roughly totaling $4.6 billion in potentially fraudulent PPP loans and stated " this might the tip of the iceberg." So with a large majority of the

PPP loans now being partially or fully forgiven, does OIG have a better sense of the extent of total PPP fraud? I do not remember if you gave a specific sense of that. And if not, when will you have a more distinct picture of fraud?

Mr. WARE. That work is ongoing. So the work on loan forgiveness, we have I think there are two that are ongoing currently in which we should have at least some indication of what we are looking at. I still think we are going to see where the rubber meets the road on a lot of these that will not come back for loan forgiveness because the numbers are large; right? Even if it is 5 percent, the numbers are still huge. So, and on those that may default early, because we have an early default high-risk lending review program internally.

Mr. PHILLIPS. Okay. With my minute left or so, we know there are a number of nonbank lenders that may have been particularly susceptible to processing fraudulent or ineligible loan applications. Is OIG working specifically to identify and investigate those lending institutions, the nonbank lenders?

Mr. WARE. Well, we have not focused on any over any. The number that we are dealing with, we have enough from the entire landscape to select from. I mean, our agents have caseloads that are just unimaginable, quite frankly.

Mr. PHILLIPS. I imagine.

Mr. WARE. So.

Mr. PHILLIPS. Okay. Well, with that in mind, you know, my first question was what resources do you need? I trust you will not be shy in asking us because it is our responsibility to ensure you have the resources to provide the oversight that we expect and demand, and so do American taxpayers. So thank you, again, for your service, sir.

And with that, Madam Chair, I yield back.

Mr. WARE. Thank you.

Chairwoman VELAZQUEZ. The gentleman yields back.

Now we recognize the gentleman from Wisconsin, Mr. Fitzgerald, for 5 minutes.

Mr. FITZGERALD. Thank you, Madam Chair.

General Ware, thanks for being here again. You can hear the level of frustration I think in some of the Members' voices as they continue to ask the questions. And it is difficult I think in a 5 minute exchange to kind of get down to the nitty-gritty.

Let me just ask you a couple of things here. In the Fall of 2021 Semi-Annual Report to Congress you mention that the OIG had been working diligently with federal, state, and local law enforcement partners over the past year to bring more than 300 PPP or EIDL fraudsters to justice. The result has been reiterated numerous times today. It is $460 million in assets recovered not including the $3.1 billion that the OIG helped financial institutions recover. So I guess my question is, what is the measuring stick that you are using at this point to kind of gauge what you would consider success? You know, those numbers the way the math kind of shakes out is it is just a 3 percent recovery but, you know, what I am wondering is what is that goal that you guys have internally right now and certainly I would love to hear updates on a regular basis given

to the Committee so that we know kind of where we are at and what is going on.

Mr. WARE. Regarding the updates, there is an update document sent to this Committee that comes out I believe on a monthly basis. Either monthly or quarterly. Yeah, it is monthly. On a monthly basis that goes to this Committee. Relative to measuring the numbers that you are using, do you remember that the Semi-Annual Report covers 6 months; right? So understand that as well.

In terms of a measuring stick for success, success is the whole of government approach that we have taken from the onset. We are working with the Department of Justice and with AUSAs across this country in order to pull this together. We are working with the FBI, the Secret Service. Our success is all of our successes. It is really the success of the American taxpayer in terms of how much fraudulent actors we will catch. I do not have a number like we need to catch X amount of people. What I do know is that we are diligently working on bringing fraudulent acts, fraudsters to justice in these programs.

Mr. FITZGERALD. Well, I think my concern is that as we go through this process now, and unfortunately, I mean, PPP and the EIDL program, you know, even though they have been great successes, they are tarnished now. And they are tarnished by this high fraudulent number. If there is some way for us to moving forward say this is where you might shutter a program, you may actually make a determination that it is no longer serving its purpose because of the high fraudulent number. I mean, I do not think that is out of the realm and that appears to be something that has happened in the past related to some other SBA programs. So I mean, from my perspective, I think that is something that we should be aware of, we should be watching and, you know, a year from now, let us all get back together and see exactly where we are at because, unfortunately, I think it might mean the end of some programs if it is not characterized this way or if there are not specific hard deadlines on trying to meet some of those goals. And I think it would be in the best interest of obviously the SBA but, you know, your office kind of has the reigns there and you can make that happen. So I am hoping that, you know, with these regular, and if you say it is monthly updates I certainly will pay more attention to that and I hope the communication is free flowing between the Committee and your office.

Mr. WARE. Can I say one thing?

Mr. FITZGERALD. Yeah, go ahead.

Mr. WARE. Okay. One of the things I forgot to mention that I think is very important for everyone here to understand is that white collar crime of this type normally takes years to manifest and to really come forward. What we have done is we have expedited this in a way that really has not happened in the past and so what we are seeing is we are only still at the beginning of it because the loan forgiveness process is not even done yet. The EIDL loans have not even come up for repayment yet. So that would be where the real rubber meets the road in terms of fraud cases and everything else. So that is understanding that we are still at the very onset of our oversight.

Chairwoman VELAZQUEZ. The gentleman's time has expired.

The gentlelady from Kansas, Ms. Davids, Chairwoman of the Subcommittee on Economic Growth, Tax, and Capital Access is recognized for 5 minutes.

Ms. DAVIDS. Thank you, Chairwoman. And thank you, Mr. Ware, Inspector General Ware for joining us today to report on the SBA's managerial and programmatic challenges.

As you mentioned in your testimony, the Paycheck Protection Program and the COVID EIDL program have unfortunately been susceptible to forms of fraud and abuse, and these programs have been especially vulnerable because of the broad scope and as you mentioned, the rapid implementation during the very beginning of the pandemic.

I am particularly concerned about the fraud in the COVID EIDL program involving identity theft because it not only harms the taxpayers and real small businessowners, but also innocent individuals who are not at all connected in that way. So, you know, in your OIG report 21-15 which was released in May, you examined the SBA's handling of identity theft in the EIDL program and raised concerns about the OIG's lack of administrative seizure authority. So I am curious if the lack of seizure authority has impacted the case, you know, what you are seeing now and how that has impacted cases your office is able to pursue.

Mr. WARE. Great. So I would say that in terms of impact, it has not stopped anything because we work very closely with the Secret Service. We have a great relationship with them to seize on our behalf because they have, obviously, the seizure authority. Now, if we had it in this instance I believe we would be able to move a little bit faster but that is it.

Ms. DAVIDS. Okay. Well, I appreciate that. And that was definitely something that stuck out to me.

And then I think I kind of want to switch over to ongoing liability. So you had mentioned many of the initial vulnerabilities of the program had been fixed and I am curious if you could speak to the ongoing liabilities in the Paycheck Protection Program and EIDL programs and what further steps the SBA or even this Committee need to take as we move forward. You know, if you want to speak to that for a minute.

Mr. WARE. Can you help me to understand? What do you mean specifically by ongoing liability?

Ms. DAVIDS. I guess what I am thinking about is, you know, there were some, you know, guidance to financial institution issues that had occurred earlier on and I am curious if, you know, whether or not there is ongoing, I say ongoing liabilities. I think what I am thinking about is the potential for, you know, additional fraud and those kinds of things. As you said, when the rubber meets the road, you know, those dates have not come up yet so I am curious if you could talk to us a little bit about what is going on or if there are any steps that we need to be taking.

Mr. WARE. So the whole landscape would be different because of closed programs; right? So the money at this point is already out. So we are dealing with looking at it from a loan forgiveness perspective of which we have two ongoing reviews that will inform us greatly on what that continued risk is from that standpoint. The same will happen when the loans come up for repayment in COVID

EIDL. So in terms of informing, that is the work that is ongoing currently. But it is kind of two different things, if you know what I mean. In terms of the money going out the door is where we were at before. The money is out the door already.

Ms. DAVIDS. Yeah. Okay. Well, I appreciate your being here. I appreciate the work you guys are doing over there and I will look forward to if there are any further issues that we are seeing, we will absolutely keep the line of communication open with your office.

Mr. WARE. Thank you.

Ms. DAVIDS. Thank you, Madam Chair. I yield back.

Chairwoman VELÁZQUEZ. The gentlelady yields back.

Now we recognize the gentlelady from Texas, Ms. Van Duyne, Ranking Member of the Subcommittee on Oversight, Investigations, and Regulations, for 5 minutes.

Ms. VAN DUYNE. Thank you very much, Chairwoman Velázquez and Ranking Member Luetkemeyer for holding this hearing today.

And thank you, Inspector General Ware for being here and for your continued oversight work. What your office does, especially over the last 2 years has been vital. This has been clear by the $4.2 billion in recovered funds and savings from your oversight of SBA's pandemic response efforts last year.

As we are all aware, the December CPI numbers just came out today and they are even worse than expected once again. Gasoline is up 49.6 percent. Used cars and trucks are up 37.3 percent. Rental cars and trucks are up 36 percent. Propane, kerosene, and firewood are up 33.8 percent. This is on the backs of working Americans and on small business employers. Many deserving applicants are being pushed out and being beat out by fraudulent applicants. So if about $80 to $100 billion worth of fraudulent improper payments have been given by the SBA, theoretically, if the SBA was to return that fraudulently obtained money, could they then provide that money to other more deserving applicants?

Mr. WARE. I will need to get back to you on that one. That is a complicated question quite frankly and I believe that it has to go through Treasury. There are some rules that need to be followed. I do not believe it is as easy as going back into the program and going back out. But I would need to clarify that. I would not want to give a wrong answer on the record.

Ms. VAN DUYNE. I would be interested in hearing the response on that. Because if $100 billion was appropriated to be able to give out in this fund to those deserving applicants and $100 billion was fraudulently given out, it seems to me that you would be able to take that money that was fraudulently given out and be able to help those people who need it the most. That was the purpose. That was the appropriation of those dollars by Congress. So if you could get back with my office on that I would really appreciate it.

Mr. WARE. The only issue is that that money is still potential that we do not have our hands on the money to pull back yet.

Ms. VAN DUYNE. I think that was part of my question is if you were able to obtain those fraudulent funds.

Mr. WARE. Okay. Okay.

Ms. VAN DUYNE. That was the assumption. Yeah.

It is clear the amount of fraud is incredibly large and the Secret Service's National Pandemic Fraud Recovery Coordinator was quoted saying he has never seen something at this scale. So considering those kind of issues, what would you recommend this Committee, or who would you recommend that this Committee reach out to to expedite getting these funds back and prevent further fraud from occurring?

Mr. WARE. To give which funds back?

Ms. VAN DUYNE. The funds that have been handed out fraudulently.

Mr. WARE. Oh, that have been recovered?

Ms. VAN DUYNE. That we have not yet recovered. How can we get those funds back and quickly? How can we expedite the recovery of those funds? Who would you recommend that this Committee call and work with?

Mr. WARE. Well, I would believe that that would be with the Department of Justice, but I do believe that the Department of Justice is working hand-in-hand with the law enforcement community, federal, state, and local in that regard.

Ms. VAN DUYNE. All right. So the financial institutions that have been involved with this process from the beginning and they have not been able to help return funds. So would it be beneficial for Members of this Committee to work collaboratively with these financial institutions, either by holding hearings or by other means?

Mr. WARE. So remember that you are talking about two different programs; right? One, a direct lending program that was done by SBA and the other that was done by banks. And like so many have pointed out, where we found rampant fraud was in the direct lending program.

Ms. VAN DUYNE. I am just wondering if you think it would be beneficial for this Committee to be able to work with financial institutions to identify how we could better the program and prevent fraud from happening in the future.

Mr. WARE. That is a tough one for me. Perhaps.

Ms. VAN DUYNE. Okay. Okay. In your November 30th report you highlighted that your review of a Treasury Department analysis revealed that SBA's lack of adequate framework controls during this period of review led to 75,180 COVID-19 EIDLs totaling over $3.1 billion and 117,135 emergency EIDL grants totaling over $550 million being disbursed to potentially ineligible recipients. Has this lack of control been resolved?

Mr. WARE. Yes. Yes, it has. SBA immediately instituted the Do Not Pay check that is now automatic in their process.

Ms. VAN DUYNE. Excellent.

Mr. Ware, I appreciate your hand work that you and your office continue to do. It will certainly give the Members of this Committee a lot to think about in terms of oversight. I hope the Chairman of the Oversight, Investigations, and Regulations Subcommittee, Mr. Phillips, agrees that we should be holding a hearing on the rampant fraud that we see in these programs and that would be an excellent first step. Thank you very much.

I yield back.

Chairwoman VELÁZQUEZ. Time has expired.

Now we recognize the gentleman from Louisiana, Mr. Carter, for 5 minutes.

Mr. Carter, you need to unmute yourself.

Mr. CARTER. Thank you. Madam Chair, thank you very much. Mr. Ware, thank you very much for your service.

Staffing up for major disasters continue to be a top management performance challenge for SBA. The challenge has been even more evident with the current pandemic, and for me in Louisiana, insult to injury is the pandemic as well as the natural disasters that we suffered with with Hurricane Ida. When the agency was forced to hire more permanent and temporary staff than ever before and process millions of COVID EIDLs, Mr. Ware, your office recommended the agency develop an after action plan to assess how the agency staff performed during the pandemic so they could do better with the next disaster. To your knowledge has the agency committed to conducting these assessments?

Mr. WARE. They have committed to conducting the assessments. We have not yet seen it.

Mr. CARTER. So when do you anticipate, do you anticipate them actually doing it, and what effort do you have to kind of make sure that this actually gets done?

Mr. WARE. I do anticipate. I believe that there was a date associated, a deadline for when they were supposed to do that. That deadline has not come up yet I believe. I do not have the exact dates in front of me. I certainly could get that to you but the only way that that recommendation would be resolved is with that document.

Mr. CARTER. Will you provide any guidance for them on the best way to conduct this assessment or do you plan to play any role in providing guidance?

Mr. WARE. That is the trick part of the job of an inspector general. I cannot build it for them and then review it by law. So what I could do is provide the evidence based on the work that I have done up to that point that they could get from and deal with the recommendation from there.

Mr. CARTER. Are there best practices that are out there that does not put you in a potential conflict but that can provide some guidance on best practices on how this could be done?

Mr. WARE. The best practices are what we can offer up. I do not recall, because I do not have that particular report in front of me where the recommendation came from but this is definitely something I could get back to you on more definitively.

Mr. CARTER. Okay.

Mr. WARE. I do not want to speak above it and then have the auditors come after me.

Mr. CARTER. That is fair. Are there lessons you could take from FEMA or other agencies on how to rapidly staff up better?

Mr. WARE. I certainly could but I also believe they have, because remember that the EIDL program is not new; right? The EIDL program has been around forever. So they have consistently had this challenge. They know how to ramp up. The question is the ramping up, are the folks trained? Are the folks properly vetted? And that is something that we continue to work with them to see that it is done.

Mr. CARTER. As a part of your oversight, do you look for and determine if small minority businesses, woman-owned, disadvantaged enterprises are having an opportunity to be a part of that ramp up? Oftentimes we have these ramp ups and we have companies or agencies that are big and by its nature have the ability to be ready for these kinds of opportunities but because Small Business Administration obviously, we have an interest in making sure that we are providing opportunities for small businesses, truly small businesses to play a role. Any guidance or thoughts as you go through your oversight to determine if, in fact, we are reaching those small businesses so they have an opportunity to partake in the aftermath in the case of a pandemic or other natural disasters?

Mr. WARE. That is a good question. I do not believe my office has performed or conducted any work in the area that is in alignment with your question. But it is certainly something that we could look at. I will talk with my team responsible for the disaster programs and get their thoughts on it.

Mr. CARTER. That would be very helpful, particularly as I mentioned in my jurisdiction we have a plethora of small businesses that are, in fact, oftentimes on the side watching larger firms get the work, many of which are not in the jurisdiction that the natural disaster took place in and obviously that is very difficult when we are trying to build a small business base and create opportunities for small and emergent businesses. So any assistance that you can give us in that area and provide some guidance and/or resource would be greatly appreciated.

Madam Chair, I yield back.

Mr. WARE. Thank you.

Chairwoman VELÁZQUEZ. The gentleman yields back.

Now we recognize the gentleman from New York, Mr. Garbarino, for 5 minutes.

Mr. GARBARINO. Thank you, Madam Chair and the Ranking Member, for having this hearing. Thank you, Mr. Ware, for being here.

I have a question. And I know my colleagues brought it up before and you mentioned the top challenges, there are a couple that SBA is facing in fiscal year 2022 and the first one on the list was SBA's economic relief programs are susceptible to significant fraud risks and vulnerabilities. You have seen the books. You have seen the inner workings of the SBA. And I know a couple people have asked you already if you would advocate that they increase these programs. I am not asking you to say yes or if they should not, but is the SBA prepared to start new direct lending programs or increase the amount of money that they are lending before this challenge is addressed? I am not asking you if they should or not; are they prepared?

Mr. WARE. Great. Good question.

I believe that SBA is more prepared now than they have ever been in terms of the control environment that is currently in place from a risk perspective. And I look at it in my role from a risk perspective to the taxpayers' funds. So I believe that their control environment is stronger now than it has ever been. And certainly, much stronger than it was at the onset of the pandemic.

Mr. GARBARINO. So for risk, you are saying that there still is risk of fraud because I am looking at your comments and you say your audits and investigations continue to find that the agency is facing significant risk of fraud because of the size and scope of its loan programs and related internal control environment. So that still currently exists. They are still facing significant risk of fraud but it is less fraud, risk of fraud than at the beginning when the program started?

Mr. WARE. Yes. Let me clarify because it is important for us to understand that fraudsters do what fraudsters are going to do. There will be a risk of fraud to any program; right? Our role is to make sure that that risk of fraud is mitigated to the lowest level possible.

Mr. GARBARINO. Is it as mitigated now as it could be? I mean, the reason I ask that is there are 110 open recommendations. Would there be less risk if those 110 open recommendations were taken into account?

Mr. WARE. Certainly. Important to understand that more than half of those have to do with the financial statement audit which is dealing with something quite different.

Mr. GARBARINO. No, I understand that. So, yeah, I think you said 60 or so are part of it. So there is still 50 out there that could be addressed that would even further reduce the risk of fraud if they were addressed; correct?

Mr. WARE. Yes.

Mr. GARBARINO. Okay. So——

Mr. WARE. Although not all of the 50 have to do with fraud. But the ones that do, definitely.

Mr. GARBARINO. There are some of them, out of these recommendations there are some that would reduce the risk of fraud?

Mr. WARE. Yes.

Mr. GARBARINO. Okay. So would you like to see those items addressed before any new programs start?

Mr. WARE. Certainly. Certainly. I have advocated from the very beginning that certain controls need to be in place before any program is started. I said that before PPP was rolled out; right? Before COVID EIDL was rolled out. We had our report out imploring the agency to take a look at these things before kicking them off.

Mr. GARBARINO. Okay. I appreciate that and I do appreciate the work that your office has been doing on these reports. They are very thorough. And I agree, I would love to see the SBA address these risks because I think any risk of fraud, and like you said, bad guys are going not do bad things. They are always going to find a way to do it. We need to stay on top of them to make sure that that risk is as diminished as possible. I just do not think based on what you said, and as you said, your advocacy is what you put in front of us with your reports. That is how you advocate. You are not going to take a position. I think what your reports are saying is clear to every Member on this Committee that before the SBA starts any new direct lending program or increases the amount of money that they do through current programs, they should listen to you and address those issues, those recommendations, because any risk of fraud of taxpayer dollars is unacceptable. Again, I appreciate the work you have been doing. Thank you for your testi-

mony today and I hope the SBA administrators listen to you so less dollars, less taxpayer dollars go to fraud.

And thank you, Madam Chair, I yield back.

Mr. WARE. Thank you.

Chairwoman VELAZQUEZ. The gentleman yields back.

Now we recognize the gentlelady from New York, Ms. Tenney, for 5 minutes.

Ms. TENNEY. Thank you, Chairwoman, and Ranking Member Luetkemeyer.

I just want to say thank you, Mr. Ware, for taking your time for being here. And we are really grateful for your work and what you are doing and exposing some of the issues we have had with the Small Business Administration and how to improve it and make it more friendly to our business community.

As a small businessowner, we greatly appreciate that. And we know that they have struggled at times and that is one of the reasons that I actually partnered with Senator Lee to introduce the Transparency and COVID-19 Expenditures Act. And only through the full audit of COVID-19 emergency programs can we really ensure that these mistakes are not made again and we appreciate your effort in trying to get these reports out.

We do know that SBA has failed to respond to a lot of these policies that you have set forth in your reports which are highlighting where we need to move them. And as my colleague, Mr. Garbarino said, we want to make sure that we push them in the right direction.

I want to specifically first get into an issue that I had with Administrator Guzman when she was here in November. She said she was unaware, and I tried every angle on this question to her, that SBA was illegally providing millions of dollars in Paycheck Protection Program loans to multiple Planned Parenthood affiliates, including a $10 million PPP loan for Planned Parenthood of Greater New York. And as you are aware, it is illegal for these federal funds to be used for abortion and all applicants for PPP must abide by the rules and the size standards. And since Planned Parenthood has over 16,000 employees nationwide, they are ineligible. Have you provided information about the Paycheck Protection loans to Planned Parenthood to Administrator Guzman? Is she aware of these as far as you know or have you provided her with this information?

Mr. WARE. I have not personally provided information on Planned Parenthood to the administrator. I believe, I hope that the Committee knows that we have kicked off a job that looks into eligibility of nonprofits that will deal with affiliation and size standards, and Planned Parenthood is a part of that.

Ms. TENNEY. Let me ask——

Mr. WARE. So we do have work that is going on right now that addresses it. As a matter of fact, it came as a request I believe from the Senate Small Business Committee.

Ms. TENNEY. Great. So are you aware of loans that were made to Planned Parenthood?

Mr. WARE. Yes, I am.

Ms. TENNEY. Okay. And do you know if those loans were made, if Administrator Guzman was aware of that and if those loans were forgiven?

Mr. WARE. No, I do not know either of the two right now off the cuff. Like I said, the work is ongoing.

Ms. TENNEY. Right.

Mr. WARE. When the team briefs me I will know.

Ms. TENNEY. Does Administrator Guzman have access to this information, whether the topline numbers, does she know, does she have access to see this information anywhere as the rest of us would?

Mr. WARE. I cannot say definitively that she does. I would guess so.

Ms. TENNEY. Do you recommend that SBA change any of its internal controls or anything to make sure that these types of loans, illegal loans that violate either constitutional provisions or the provisions of the PPP program to ensure that SBA does not give these out in the future? That is something that I think through your inspector general role you could do that as far as recommendations to the administrator.

Mr. WARE. I believe that recommendations will be forthcoming at the conclusion of our review.

Ms. TENNEY. Have there been any——

Mr. WARE. But the review is ongoing.

Ms. TENNEY. So if it is ongoing, have there been any preliminary information given to Administrator Guzman? For example, she denied knowing of any of these, and as the administrator I found that quite startling. But would she be aware of those now since it is an ongoing production of information?

Mr. WARE. I have not received an update myself from the audit staff as to where we are on this assignment. So I do not have something to provide to the administrator currently.

Ms. TENNEY. So nothing is uploaded on any website or no information is in the public domain on this issue other than what we know because there have been loans given and received on their 990 forms? Or what other IRS forms are. It may not be a 990 Form.

Mr. WARE. No. My work would never be uploaded before it is fully vetted and completed.

Ms. TENNEY. Okay. So there has been nothing disclosed since November that she would know?

Mr. WARE. No. I have not had any discussions with her. I meet with her every other week.

Ms. TENNEY. Okay. Well, I just want to thank you.

I also just wanted to reiterate the concerns that my colleague, Mr. Garbarino had about the customer service issue. We still are receiving information about loans and other things that are not being handled in an efficient and continuous matter. We hope that you will continue as the inspector general to urge the administration to answer customer information complaints faster and more efficiently as many people are out there waiting or have not had loans processed for over a year. But again, I appreciate, I know my time is running out but I appreciate your work in trying to get the correct information to the administration so SBA can work and

function better for our communities and our small business community who are struggling through this pandemic. I thank you.

And my time is out so I yield back my time. Thank you.

Chairwoman VELAZQUEZ. The gentlelady's time has expired.

Thank you again, Mr. Ware, for being here today. Your oversight of SBA programs is very important, and it is more important now than ever as we work to address the challenges with the stimulus lending programs and learn valuable lessons for the future. It is vital that we address the systemic challenges at SBA and work together to ensure that internal controls are put in place. Doing so we will make the agency stronger, nimbler, and better able to handle disasters in the future. To that end, it is encouraging to see SBA is heeding your advice and working to close out the outstanding recommendations. Most importantly, your work helps the Committee track challenges all throughout the agency that need to be addressed. If we have learned anything over the last 2 years it is that we need to have a well-functioning, funded, and staffed agency to address the day-to-day needs of small firms and be ready for any catastrophe facing our nation. I truly hope that today's hearing motivates all of us to work to find bipartisan solutions to bolster the agency.

Without objection, Members have 5 legislative days to submit statements and supporting materials for the record.

If there is no further business to come before the Committee, without objection, we are adjourned. Thank you.

[Whereupon, at 11:55 a.m., the committee was adjourned.]

APPENDIX

HANNIBAL "MIKE" WARE
INSPECTOR GENERAL
U.S. SMALL BUSINESS ADMINISTRATION

BEFORE THE

COMMITTEE ON SMALL BUSINESS
U.S HOUSE OF REPRESENTATIVES

JANUARY 12, 2022

INTRODUCTION

Chairwoman Velázquez, Ranking Member Luetkemeyer, and distinguished members of the Committee, thank you for inviting me to testify before you today and for your continued support of the Office of Inspector General (OIG). I am proud of the dedication and hard work of the men and women of OIG to not only prevent fraud in SBA programs, but also to detect, deter, and combat fraud.

Since 2001, OIGs across the government have prepared a report that documents what they consider to be the most serious management and performance challenges facing agencies, including a brief assessment of the respective agency's progress in addressing those challenges.[1] OIG publishes its report annually by October 15, providing OIG's independent assessment of the top management challenges facing the U.S. Small Business Administration (SBA). Most recently, OIG published Report 22-02, *Top Management and Performance Challenges Facing the Small Business Administration in Fiscal Year 2022*.

The Inspector General Act of 1978, as amended, requires that the Inspector General report semiannually to the Congress on the activities of the OIG during the 6-month periods ending March 31 and September 30. Most recently, OIG published our *Semiannual Report to Congress April 1, 2021-September 30, 2021* on November 30, 2021.

BACKGROUND

The mission of SBA under the Small Business Act, as amended, is to maintain and strengthen the nation's economy by enabling the establishment and vitality of small businesses and assisting in the economic recovery of communities after disasters. The Agency's strategic plan for FYs 2018–2022 has four core strategic goals:

1. Support small business revenue and job growth;
2. Build healthy entrepreneurial ecosystems and create business friendly environments;
3. Restore small businesses and communities after disasters; and,
4. Strengthen SBA's ability to serve small businesses.

SBA is organized around four key functional assistance areas: financial, certification for federal contracting, entrepreneurial development, and disaster assistance. The Agency also represents small businesses through an independent advocate and an ombudsman.

SBA programs are essential in strengthening America's economy; however, the Agency faces a number of challenges in carrying out its mission. Managing COVID-19 stimulus lending is the greatest overall challenge facing SBA, and it may likely continue to be for many years as the agency grapples with fraud in the programs, particularly in the COVID Economic Injury Disaster Loan (EIDL) Program, and the process of Paycheck Protection Program (PPP) loan forgiveness. Pandemic response has, in many instances, magnified the challenging systemic issues in SBA's mission-related work. The Agency must continue to strengthen its internal controls to identify and mitigate fraudulent schemes affecting all SBA programs. In addition, SBA faces other

[1] 35 U.S.C. § 3516(d)

challenges that further complicate mission fulfillment such as: significant losses from defaulted loans, procurement flaws that allow large firms to obtain small business awards, excessive improper payments, and outdated legacy information systems.

The OIG plays a critical role in addressing challenges to assist SBA in achieving its mission by conducting audits to identify wasteful expenditures and program mismanagement; investigating fraud and other wrongdoing; and taking other actions to deter and detect fraud, waste, abuse, and inefficiencies in SBA programs and operations. As a result of its oversight efforts, each year OIG provides dozens of recommendations to SBA leadership aimed at improving the integrity, accountability, and performance of SBA and its programs for the benefit of the American people. Similarly, OIG's investigative efforts result in dozens of convictions and indictments as we aggressively pursue evidence of fraud in SBA programs. In doing so, OIG provides taxpayers with a significant return on investment as it roots out fraud, waste, and abuse in SBA programs. During fiscal year (FY) 2019, OIG achieved $111.0 million in monetary recoveries and savings—a fivefold return on investment to the taxpayers, and during FY 2020, OIG achieved $142.5 million in monetary recoveries and savings—a sixfold return on investment to the taxpayer. The monetary recoveries and savings from our oversight of SBA's pandemic response efforts in FY 2021 were exponential at $4.2 billion, with Congress investing just $50 million, which is available until expended, in supplementing OIG's annual budget to combat the fraud in the pandemic relief programs and promote integrity, efficiency, and effectiveness within the same.

There is no higher priority for our office than providing oversight of SBA and taxpayer's funds made available through the Coronavirus Aid, Relief, and Economic Security (CARES) Act and ensuing legislation related to the pandemic response. We have identified SBA's economic relief programs being susceptible to significant fraud risks and vulnerabilities as the top management challenge for SBA. We have been focused on preventing and deterring fraud, waste, and abuse from the outset of the pandemic response.

OIG's EIDL and PPP oversight and investigative work resulted in 366 indictments, 294 arrests, and 142 convictions related to PPP or EIDL by December 2021, with associated amounts totaling more than $460 million. Additionally, OIG collaboration with SBA and the U.S. Secret Service has resulted in the seizure of more than $1 billion stolen by fraudsters in the EIDL program. We also played a key role in assisting financial institutions in the return of another $3.1 billion to the SBA's EIDL program.

SUMMARY OF THE MOST SERIOUS MANAGEMENT AND PERFORMANCE CHALLENGES FACING SBA IN FY 2022

Prior to the pandemic, SBA faced major challenges in managing enormous financial lending programs, information technology, and other areas. The report discusses eight major performance challenge areas and the issues that contribute to the challenges, many of which we have discussed in previous OIG reports.

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

Some of the challenges encompass new issues that have arisen. Resolving these challenges will require consistent, focused attention from agency management and ongoing engagement with Congress, the public, and other stakeholders.

It is also important to note that the top challenges are not listed in order of importance or magnitude, except for the COVID-19 challenge, which we address first in the report. We also view the other challenges as critically important to SBA operations

The following table provides a summary of the top management and performance challenges facing SBA in FY 2022.

Challenge	Issues
Challenge 1 SBA's Economic Relief Programs Are Susceptible to Significant Fraud Risks and Vulnerabilities	Paycheck Protection Program Susceptible to Abuse and Fraud Paycheck Protection Program Eligibility Paycheck Protection Program Data Reliability COVID-19 Economic Injury Disaster Loan Program Susceptible to Fraud
Challenge 2 Inaccurate Procurement Data and Eligibility Concerns in Small Business Contracting Programs Undermine the Reliability of Contracting Goal Achievements	Agencies Receive Credit for Ineligible Firms or Those No Longer in the HUBZone or 8(a) Programs Women-Owned Small Business Federal Certification Program Susceptible to Abuse
Challenge 3 SBA Faces Significant Challenges in IT Investment, System Development, and Security Controls	SBA's IT Investment Controls Need Improvement Existing System Development Controls Do Not Reflect Changing IT Application Landscape Additional Progress Needed on Security Controls
Challenge 4 SBA Risk Management and Oversight Practices Need Improvement to Ensure the Integrity of Loan Programs	SBA's Oversight of High-Risk Lending Participants Increased Risk Introduced by Loan Agents Increased Risk Introduced by Lender Service Providers
Challenge 5 SBA's Management and Monitoring of the 8(a) Business Development Program Needs Improvement	SBA Continues to Address Its Ability to Develop Firms in the 8(a) Program and Measure Results Streamlined Application Process May Expose the 8(a) Program to Higher Fraud Risk Corrective Actions Are Needed to Improve Continuing Eligibility Processes and Reduce Risks of Ineligible Firms Participating in the 8(a) Program Economically Disadvantaged Determination Criteria Should Be Based on Sound Methodology
Challenge 6 Identification of Improper Payments in	Improvements Needed to Ensure High Risk 7(a) Loan Reviews Reduce the Risk of Losses

SBA's Loan Programs Remains a Challenge	
Challenge 7 SBA's Disaster Assistance Program Must Balance Competing Priorities to Deliver Prompt Assistance but Prevent Fraud	Reserve Staff Need Training to Sustain Productivity During Mobilization Improper Payment Quality Assurance Process Needs Strengthening Inadequate Verification of Cause and Extent of Damages Unprecedented Increase in Servicing COVID-19 EIDLs
Challenge 8 SBA Needs Robust Grants Management Oversight	SBA's Grants Management System Needs Improvement Better Performance Measurements Needed to Monitor Grant Program Achievements Serious Concerns over SBA's Risk Assessment Used for Payment Distributions and Audits for the Shuttered Venue Operators Grant Program Leveraging SBA's Workforce to Ensure Effective Administration of New and Significantly Expanded Grant Programs to Aid Small Businesses

Overall, the agency has made progress addressing this year's list of management challenges. We are even retiring some issues we identified last year within major challenge areas because the agency has made such significant progress that the problem has either been resolved or no longer rises to the level of a systemic challenge.

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

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

SEMIANNUAL REPORT TO CONGRESS APRIL 1, 2021 - SEPTEMBER 30, 2021

Prior to this Semiannual reporting period OIG published 12 pandemic related reports. SBA began FY2021 with 68 open recommendations from OIG. In FY 2021, OIG made 119 new recommendations to SBA and the Agency closed 77 recommendations, ending the fiscal year with a balance of 110 open recommendations. The following summarizes our oversight work for April 1, 2021 through September 30, 2021.

Notable Audits, Inspections, and Evaluations

Serious Concerns About SBA's Control Environment and the Tracking of Performance Results in the Shuttered Venue Operators Grant Program (Report 21-13)

We reported that SBA should take immediate action to reduce or eliminate risks by strengthening existing controls and implementing internal controls to address potential misuse of federal funds. Strong controls will ensure the Shuttered Venue Operators Grant (SVOG) program can effectively help eligible small business owners and entities that have suffered economic injury because of the COVID-19 pandemic. To address serious concerns and potential deficiencies in internal controls of the SVOG program, we suggested the Administrator reassess the audit risk plan to identify vulnerabilities, commensurate with the expected volume of applications and average award amount, to strengthen internal controls and reduce risk of misuse of federal funds. We suggested SBA clearly establish 2 CFR 200 criteria for the program to ensure compliance during the implementation and oversight phases. We also suggested SBA implement required performance measures to determine the impact of program funds and ensure sufficient resources are available to implement and oversee the SVOG program.

SBA's Handling of Identity Theft in the COVID-19 EIDL Program (Report 21-15)

We reported that SBA had referred more than 845,000 COVID-19 EIDL applications to OIG for suspected identity theft, while still disbursing $6.2 billion in loan funds and $468 million in advance grants to these applicants. Many of these loans had indications of potential fraud. We found SBA officials were not tracking identity theft complaints at the time of our review, nor did they have a process to cease collection actions, release the identity theft victim from the loan liability, or charge-off the loan and related fees.

We recommended the Administrator direct the development of a process to maintain and track all identity theft complaints and develop a process to provide status updates to each complainant alleging identity theft. We also recommended SBA complete and formalize a process to restore identity theft victims to their condition prior to the fraud. The process should include steps to stop the loan billing statements, prevent delinquency collections, and release identity theft victims from loan liability and UCC liens. This process should also remove any fraudulent loans and related Uniform Commercial Code filing fees from financial records. Additionally, we recommended SBA Review more than 150,000 returned billing statements and resolve any that involve identity theft and then refer fraudulent loans to OIG. While management stated they partially agreed with all the recommendations, management's formal comments stated they took actions to address each of them.

Evaluation of SBA's Coronavirus Reconstitution Plan (Report 21-18)

OIG found that SBA established its May 2020 COVID-19 Reconstitution Plan in accordance with applicable federal guidance. We identified issues with the implementation of the reconstitution plan that should be addressed to help the agency safeguard its employees from contracting and spreading COVID-19 in the workplace.

We found the agency did not follow occupancy procedures for advancing or reverting phases at its Washington, DC headquarters. SBA also did not implement exposure tracking protocols to ensure it consistently traced COVID-19 cases. We found the agency did not consistently notify its staff of presumed or confirmed COVID-19 cases in the sampling we analyzed. SBA did not consistently contact potentially exposed personnel and ensure employees completed 14-day quarantine periods before returning to the workplace.

In February 2021, SBA replaced the May 2020 COVID-19 reconstitution plan with the COVID-19 Workplace Safety Plan. We made one recommendation for SBA to enforce the requirements of its new COVID-19 Workplace Safety Plan by consistently applying procedures for occupancy and exposure tracking and to accurately record and maintain supporting documentation for all reported COVID-19 cases. SBA management agreed with our recommendation and planned actions to resolve the recommendation.

The Small Business Administration's Implementation of Recommended Controls and the Economic Aid Act (Report 21-19)

SBA implemented or initiated action on all the OIG recommendations to strengthen internal controls related to the PPP. The Economic Aid Act continued assistance under the PPP for small businesses financially affected by the ongoing coronavirus pandemic. We found SBA implemented the PPP in accordance with the Economic Aid Act with two exceptions. SBA did not: 1) require an assessment of affiliation for faith-based organizations which contradicts its internal control procedures and 2) issue guidance regarding farm credit system institutions to ensure requirements were met.

We recommended SBA assess affiliation for faith-based organizations to ensure only eligible faith-based organizations received the applicable PPP loans. We did not make any recommendations regarding the farm credit system institution requirements and the $1 billion set aside because the PPP ended on May 31, 2021. SBA disagreed with the recommendation, stating it is committed to not assessing or requiring lenders to assess the reasonableness of the faith-based organization's determination, which they believe met the intent of Congress.

Notable Investigations

Oregon Man Pled Guilty to Stealing CARES Act Funds

An Oregon man pled guilty to bank fraud, money laundering, and aggravated identity theft for stealing CARES Act funding. The man submitted nine PPP loan applications, six of which were accepted, securing over $3.4 million. He also applied for numerous EIDLs, funded for an additional $160,000. The man then purchased real estate and invested in securities, transferring more than $1.8 million of PPP loan funds to his E-Trade securities brokerage account. Agents seized the man's brokerage account, including 15,740 shares of Tesla Inc. Also, agents seized another account containing more than $660,000 in securities and cash. The securities and cash-seized accounts were valued at more than $11 million, not including the value of the 23 properties seized as fraud proceeds.

Two California Brothers and their Wives Found Guilty of Submitting Fraudulent Loan Applications

Two California brothers, their wives and associates were each found guilty of 1 count of conspiracy to commit bank fraud and wire fraud, 11 counts of wire fraud, 8 counts of bank fraud, and 1 count of conspiracy to commit money laundering. One brother was also found guilty of two counts of aggravated identity theft, while his brother was found guilty of one count of aggravated identity theft. All were found guilty of submitting fraudulent loan applications to obtain COVID-19 relief funds used as down payments on luxury homes in Tarzana, Glendale, and Palm Desert and to purchase jewelry other high-end items. The total loss was more than $18 million in COVID-19 relief funds.

Georgia Man Sentenced to Fraudulently Obtaining an SBA-guaranteed PPP Loan

A Georgia man was sentenced in U.S. District Court for the Northern District of Georgia for his role in a conspiracy to fraudulently obtain an SBA-guaranteed PPP loan and a Ponzi scheme that defrauded more than 20 investors over the course of at least 7 years. The man pled guilty to multiple counts of conspiracy to commit wire fraud (18 U.S.C. §1349), wire fraud (18 U.S.C. §1343), bank fraud (18 U.S.C. §1344), and false statements to a federally insured bank (18 U.S.C. §1014). He was sentenced to 210 months of imprisonment, 5 years of supervised release, restitution of $4,465,865.55, and a special assessment of $600.

Texas Wedding Planner Sentenced in COVID-19 Fraud Scheme

A Texan man was sentenced to 31 months in federal prison for perpetrating a scheme to fraudulently obtain more than $3.3 million in PPP loans. The man fraudulently alleged that he employed more than 100 individuals, when he and his wife were actually the only employees. He used the funds to pay off his home mortgage and purchased two Tesla's and a Mercedes, among other items.

CONCLUSION

SBA has exercised over a trillion dollars in lending authority and entrepreneurial assistance in the wake of the pandemic. While PPP lending is anticipated to resolve within several years, the systemic weaknesses that were evidenced by the strain on SBA's programs and operations for its pandemic response will require consistent focus and robust oversight so that SBA can efficiently and effectively meet the needs of small businesses. Additionally, SBA's Disaster Assistance Program lending for the pandemic response, principally through EIDL, is in the hundreds of billions—amounts that exceed all of SBA's disaster assistance lending since 1953—and will perform in SBA's portfolio for decades, which also will require continuing oversight by OIG.

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

available across the federal law enforcement community to bring wrongdoers to justice. I am confident SBA leaders are willing partners in ensuring their programs have integrity and meet the needs of the nation's small businesses. OIG will shine the light of transparency on areas of concern and will be the independent and objective voice in our service as a valued change agent.

SBA OIG OPEN COVID-19 RECOMMENDATIONS as of Jan 12, 2022				
	REPT NUMBER	ISSUE DATE	TITLE	RECOMMENDATION
1	21-02	10/28/2020	Inspection of SBA's Initial Disaster Assistance Response To The Coronavirus Pandemic	Review all loans that had a bank account number changed from that shown on the original application to determine if the changes were legitimate or fraudulent. If not legitimate, work to recover the funds, deobligate any undisbursed funds, and refer to the OIG.
2	21-02	10/28/2020	Inspection of SBA's Initial Disaster Assistance Response To The Coronavirus Pandemic	Review duplicate loans to IP addresses, email addresses, business addresses, and bank accounts to determine if there are undisbursed funds that should be suspended until the duplicate loans are assessed for eligibility.
3	21-02	10/28/2020	Inspection of SBA's Initial Disaster Assistance Response To The Coronavirus Pandemic	Strengthen or establish controls to ensure multiple loans are provided only to eligible applicants and prevent the erroneous duplication of loans.
4	21-02	10/28/2020	Inspection of SBA's Initial Disaster Assistance Response To The Coronavirus Pandemic	Strengthen data integrity to make it possible to determine if the inaccurate information allowed loans to be made to ineligible entities and to strengthen SBA's ability to service loans appropriately.
5	21-03	12/1/2020	Evaluation of CARES Act Debt Relief to 7(a) Borrowers	Establish post-payment audit procedures, using a risk-based approach, to verify the accuracy and completeness of all subsidy payments to lenders and include reviews ofpayments made to loans that changed from liquidation status to regular servicing status, and remedy improper payments in accordance with the Payment Integrity Act of 2019.
6	21-04	12/18/2020	Independent Auditors' Report on SBA's FY 2020 Financial Statements	Determine the impact on the outstanding guarantee and eligibility for forgiveness of loans determined to be not in conformance with the CARES Act and related legislation.
7	21-04	12/18/2020	Independent Auditors' Report on SBA's FY 2020 Financial Statements	Identify and review PPP loans with incomplete or inaccurate 1502 reports.
8	21-04	12/18/2020	Independent Auditors' Report on SBA's FY 2020 Financial Statements	Determine and update the loan repository system with correct PPP loan related balances.
9	21-04	12/18/2020	Independent Auditors' Report on SBA's FY 2020 Financial Statements	Develop and enforce a policy that requires the adequate training and monitoring of lenders to execute their responsibilities in the PPP loan servicing process.
10	21-04	12/18/2020	Independent Auditors' Report on SBA's FY 2020 Financial Statements	Develop and enforce a policy to monitor incomplete or inaccurate PPP 1502 reports on an ongoing basis.
11	21-04	12/18/2020	Independent Auditors' Report on SBA's FY 2020 Financial Statements	Update and enforce the existing Procedural Notice 5000-20049 to require the adequate review and approval of Section 1112 payments made to lenders and to determine that the necessary documentation is maintained to substantiate the payment amount.
12	21-06	1/11/2021	Paycheck Protection Program Loan Recipients on the Department of Treasury's Do Not Pay List	Promptly identify PPP loans that have not been fully disbursed and follow-up with the lenders to stop $280 million in potential improper loan disbursements.
13	21-06	1/11/2021	Paycheck Protection Program Loan Recipients on the Department of Treasury's Do Not Pay List	Strengthen SBA controls to ensure that loans to ineligible recipients are not forgiven.
14	21-07	1/14/2021	Inspection of SBA's Implementation of the Paycheck Protection Program	Review the loans identified as potentially ineligible to determine if the businesses met eligibility requirements. If not, take appropriate action related to loan guaranty and forgiveness.
15	21-09	3/15/2021	Duplicate Loans Made Under the Paycheck Protection Program	Review the OIG identified potential duplicate disbursements for eligibility and take action to recover any improper payments as applicable.
16	21-09	3/15/2021	Duplicate Loans Made Under the Paycheck Protection Program	Review SBA controls related to all PPP loan reviews to ensure that duplicate loans are not forgiven and not subject to an SBA guaranty, as appropriate.

17	21-09	3/15/2021	Duplicate Loans Made Under the Paycheck Protection Program	Strengthen E-Tran controls for future PPP type programs, which includes keeping E-Tran controls that align with program requirements on at all times.
18	21-09	3/15/2021	Duplicate Loans Made Under the Paycheck Protection Program	Review the issues that SBA identified involving the actions of lenders, such as providing incorrectly formatted data and submitting the same application through multiple platforms, and determine how to strengthen controls and guidance as appropriate to ensure lenders meet program requirements for future PPP type programs.
19	21-11	3/30/2021	Evaluation of SBA's Award Procedures for the Coronavirus Aid, Relief, and Economic Security Act Entrepreneurial Development Cooperative Agreements	Enforce standard operating procedures requiring clearly defined performance goals and include performance targets in all future SBDC and WBC cooperative agreements and grants to objectively measure performance results.
20	21-11	3/30/2021	Evaluation of SBA's Award Procedures for the Coronavirus Aid, Relief, and Economic Security Act Entrepreneurial Development Cooperative Agreements	Collect and analyze the CARES Act entrepreneurial development cooperative agreement recipient's performance results and establish a framework for setting goals for technical assistance programs in response to future disasters. Retain the analysis in program files for future guidance.
21	21-15	5/6/2021	SBA's Handling of Identity Theft in the COVID-19 Economic Injury Disaster Loan Program	Develop a process to remove any fraudulent loans and related UCC filing fees from its financial records.
22	21-15	5/6/2021	SBA's Handling of Identity Theft in the COVID-19 Economic Injury Disaster Loan Program	Review over 150,000 returned billing statements and resolve any that involve identity theft, then refer fraudulent loans to OIG.
23	21-18	7/12/2021	Evaluation of SBA's Coronavirus Reconstitution Plan	Enforce the requirements of the February 2021 COVID-19 Workplace Safety Plan by consistently applying occupancy and exposure tracking and accurately recording and maintaining supporting documentation for all reported COVID-19 cases.

Questions for the Record
House Small Business Committee
Hearing: "Review of SBA's Top Management and Performance Challenges in Fiscal Year 2022 and SBA OIG's Semiannual Report to Congress"
January 12, 2022

Questions for the Record from Rep. Nydia M. Velázquez, Chairwoman of the Small Business Committee

1. **SBA began issuing formal certifications for the Women-Owned Small Business program in October 2020. Mr. Ware, according to your office, the SBA has received 15,000 applications, of which 12,000 were screened and returned to the applicant for more information. How do you recommend the agency deal with this backlog, and what can the SBA do to educate small firms to submit a complete application from the start?**

   OIG is currently auditing the program to determine whether SBA implemented controls to prevent ineligible firms from being certified into the WOSB program. SBA uses Beta.Certify.SBA.gov to receive and review applications and make certification decisions. We will make recommendations that address the effective use of resources. This report is expected to be issued in final in April, 20222. Regarding SBA's efforts to educate small firms, SBA conducted outreach initiatives to educate prospective applicants on how to complete the application, including live seminars, YouTube videos, and informational guides. We did not assess the impact these initiatives had on the quality or completeness of the applications.

2. **Is your office's current year appropriation, in addition to the supplemental appropriations, sufficient to provide the necessary oversight over the expanded SBA programs?**

   Follow-up: **Mr. Ware, do you believe the additional $12.5 million that was included in the Build Back Better Act is needed for your office to maintain a high level of oversight over the agency?**

   In terms of the $12.5 million proposed for appropriation to OIG as supplemental funds in the Build Back Better Back Act, OIG always seeks a substantive return on investment to the taxpayer. OIG will utilize any supplemental funds to increase its oversight capacity and leverage technology and data analytics to root out fraud, waste, and abuse in the pandemic response programs.

   OIG executes funds to provide oversight principally through salaries and expenses for Criminal Investigators and Auditors/Analysts. OIG is operating under FY 2021 budget authority by continuing resolution at an amount of $22.011 million; however, the President has proposed in the FY 2022 budget to increase OIG's annual appropriations to $24.905 million.

OIG faces a historic challenge as it oversees SBA's role in the nation's pandemic response. Congress recognizes the need for oversight and sees the value of OIG in performing this necessary and vital function. The Coronavirus Aid, Relief, and Economic Security (CARES) Act appropriated $25 million to OIG. The Consolidated Appropriations Act, 2021 allocated $20 million to OIG for oversight of the Targeted Economic Injury Disaster Loan (EIDL) Advance program. The American Rescue Plan Act of 2021 appropriated $25 million to OIG to supplement its resources.

With the recission of OIG's $20 million supplemental funds as part of the broader recission of Targeted EIDL Advance funding, a significant portion of our remaining supplemental funds will be exhausted by the end of FY 2024, which will coincide with hundreds of billions of dollars in EIDLs coming due for payment. It should be noted that the same processes that supported the Targeted EIDL Advance program were the same that underpinned the EIDL program. As such, we invested in additional hiring for Targeted EIDL Advance oversight prior to this recission. The salaries and expenses of these resources are now contributing to the exhaustion of our CARES Act and American Rescue Plan Act supplemental funds at an unplanned rate. As such, with the recission of Targeted EIDL Advance oversight funding and its impact on the collateral exhaustion of OIG's total supplemental funds by the end of 2024, the amount proposed in the Build Back Better Act does not equal the amount of the recission or maintain oversight staffing levels throughout FY 2025.

We anticipate the end of FY 2024 will be a key moment for realizing the true scope of fraud in the program. The fraud is already expansive. We believe our annual resource levels will need to be rightsized to match this fraud landscape and to provide necessary oversight of SBA's management challenge areas.

3. **Mr. Ware, the top management and performance challenges report raises concerns that SBA's termination of the small, disadvantaged business certification program, which occurred in 2008, and the removal of regulations allowing for protest of a firm's disadvantaged business status, which occurred in 2020, jeopardizes the small, disadvantaged business goaling achievements. This is of importance because we want to ensure that the President's policy to increase the share of federal contracts awarded to small, disadvantaged businesses from 5 to 15 percent by 2025 is realized. With that in mind, what steps can the agency take to ensure that only eligible small, disadvantaged businesses are being awarded contracts?**

SBA plays an important role in ensuring that eligible small businesses receive a fair and equitable opportunity to participate in federal contracts and subcontracts. Even though the Small, Disadvantaged Business (SDB) program is no longer in existence, the designation remains and may influence contracting officers' award decisions since awards made to firms with this designation are counted toward meeting the contracting goals.

It is important that SBA establish controls to ensure it reports high quality data on the SDB prime and subcontracting goal achievements to accurately inform decision makers.

In accordance with *Standards for Internal Control in the Federal Government*, SBA should conduct a risk assessment to identify and analyze the risks of ineligible firms certifying themselves as an SDB and then being included in the goaling achievement reports to Congress. SBA should then design appropriate controls to reduce the risks. At a minimum, SBA should consider implementing a process similar to the 8(a) Business Development program regulations 13 CFR § 124.112 (c) to review a firm's status as a SDB when it receives specific and credible complaints.

Contracts awarded to those certified by SBA as 8(a) and businesses that self-certify as small and disadvantaged are counted toward the 5 percent government wide goals. The self-certified businesses represent themselves as meeting the definition of a socially and economically disadvantaged business from criteria established in 13 CFR 124.101-108.

As of September 2021, SBA's Dynamic Small Business Search database included 153,126 firms that self-certified as small, disadvantaged businesses. The 8(a) program accounted for only 4,900 of the small, disadvantaged businesses. In FY 2020, as much as $11.6 billion of the prime contracts included in the goaling achievements were awarded to businesses that self-certified as a small, disadvantaged business.

4. **The committee has been concerned about Restaurant Revitalization Fund awards that were made to ineligible entities, such as an amusement park with food service or a hotel that has a non-independently operated restaurant. Why were these awards made, and what steps is SBA taking to retrieve awards made to ineligible entities?**

OIG's reviews of SBA's Restaurant Revitalization Fund (RRF) grant awards are planned but have not yet been initiated. GAO started a review in July 2021 and is currently reviewing the program. We are scheduled to meet with GAO to discuss our planned review and ensure we do not duplicate their effort. We plan to initiate a series of engagements to review the agency's practices for awarding the grants and monitoring recipients in March 2022, after coordinating with GAO.

5. **Mr. Ware, in recent audits your office has found systemic issues with the accuracy of SBA's grant data and ineffective oversight of its grant recipients. With the significant growth in the agency's grants programs, what are some of the immediate and long-term steps the agency can take to increase its oversight of its expanded grants programs?**

SBA officials have made progress improving their grants program management practices since we first raised this concern as a management challenge in FY 2019. SBA updated its federal assistance directives, established a training program for grant officers and program officials, and implemented a new grants management system. However, more can be done to maximize the value of its grant funding program results.

In the near term, SBA can improve its management and oversight of the grant programs by taking appropriate action to implement OIG and GAO recommendations and suggested actions. OIG issued a management alert in April 2021 (21-13) for the Shuttered Venue Operators Grant (SVOG) program regarding its planned internal controls over the process for awarding and distributing grant funds. We reported that SBA's program plan for SVOG needed stronger internal controls, defined program requirements, and adequate resources to provide a balanced approach to manage the grants process.

As reported in OIG report 21-14, we found SBA needed to improve the methodology used to evaluate grant applicant risks, conduct proper financial compliance reviews, and follow up on any financial examination findings to effectively administer the Women's Business Center grant program.

As reported in OIG report 21-11, we found SBA program officials had missed an opportunity to establish meaningful performance goals for the CARES Act entrepreneurial development grant awards. We have reported on this issue in other grant programs we've reviewed, including the Veterans Business Outreach Centers, SCORE program, State Trade and Expansion Program, among others. SBA should clearly define the performance goals and set targets.

As a long-term investment, SBA intended to use Grantsolutions.gov to modernize its grant management system. The system improves SBA's ability to monitor grant recipients' compliance with reporting requirements. It also enhances applicant risk assessment abilities and improves data quality because it reduces the amount of manual data entry. SBA launched the system for program use in FY 2020. SBA still needs to integrate the financial system into the Grantsolutions.gov system to maximize efficiencies and reduce duplicate manual processes.

SBA developed a new performance management system for collecting and reporting on the resource partners' performance results. This long-term investment should improve SBA's ability to report performance metrics. SBA worked to transition each grant program to Grantsolution.gov by FY 2021. However, SBA did not use Grantsolution.gov for the SVOG or RRF grant programs. Instead, the agency used the platforms of contractors tasked to distribute the awards. SBA experienced challenges and limitations with each platform and that may not have yielded optimal administration of these programs.

Question for the Record from Rep. Judy Chu (CA-27)

6. **Mr. Ware, last Congress, I chaired an Oversight Subcommittee Hearing with the Government Accountability Office (GAO) to examine the Native 8(a) program. In the two years since, GAO undertook an investigation to evaluate SBA's ability to verify 8(a) applicant's affiliation with tribal organizations. Fortunately, their report – released a few weeks ago – found that SBA was successful in taking steps to verify membership prior to approving applications. But your office also published a report last year that found that SBA had no standardized process for verifying tribal membership of applicants, meaning that outcomes could be greatly influenced by the individual caseworker assigned to an application.**

   Follow-up: **Can you provide an update on the agency's work to address OIG's finding by establishing standard operating procedures for tribal membership verification?**

   OIG found that SBA adequately verified the socially disadvantaged eligibility of 8(a) firms owned by enrolled members of a federally or state recognized Indian tribe for the majority of the applications we reviewed, despite SBA not having documented verification procedures. However, we found SBA admitted two firms into the 8(a) program even though the business owners were not members of federally or state recognized tribes.

   The program office has since updated its desk guide with instructions for verifying an individual's membership in a federally or state recognized tribe. Program officials also issued a procedural notice that instructs staff to use the desk guide, which is easily accessible on the agency's internal website. As a result, we have closed the recommendation.

Questions for the Record from Ranking Member Blaine Luetkemeyer (MO-03):

7. **In your written testimony, you stated that the Small Business Administration had 110 open recommendations as of the fiscal year end. Please provide an update on how many open recommendations remain as of January 12, 2022. Additionally, out of the 110, how many deal with fraud and how many deal with COVID-19 relief? Please provide a list of the open recommendations that deal with fraud and a list of the open recommendations that deal with COVID-19 relief.**

   Seventy-nine of the 110 open recommendations as of fiscal year end remain open as of January 12, 2022. These recommendations are in various stages of implementation. We meet with responsible program officials monthly to discuss their status and the agency's progress toward closing them. If we feel adequate progress is not being made, we elevate the issues to the Audit Follow-up Official in accordance with our policy.

   Of the 110 recommendations, 13 address mitigating the risk of fraud and 46 deal with COVID-19 relief. The 13 fraud recommendations are also COVID-19 recommendations as these recommendations direct the agency to establish or strengthen internal controls to prevent fraud and ensure only eligible businesses receive funds. A list of the remaining open recommendations that deal with fraud and COVID-19 relief is included as an attachment.

   Many of your COVID reports that identify potentially fraudulent activity were published in 2020. Both the PPP and the EIDL had significant utilization by small businesses in 2021. Additionally, a number of changes were made to these programs. First, will these reports be updated? Second, will you be examining the changes made by the Biden Administration as it pertains to independent contractors?

   OIG is conducting a follow-up review of SBA's controls to prevent COVID-19 EIDLs to ineligible entities. This report is expected to be issued by the end of March. In addition, OIG is preparing a summary report to present all findings, status of recommendations, and new controls established in the COVID-19 EIDL program. Lastly, as shown in our workplan, we have additional reports ongoing and planned to provide further oversight of the COVID-19 EIDL program.

   Regarding PPP, OIG plans to conduct a series of audit projects on eligibility and forgiveness of PPP loans, which will provide further insight and some updates to the information reported in 2020. We do not currently have audit work directly focused on the changes made by the Biden Administration as it pertains to independent contractors. However, we do plan to review activities related to fintech and other lenders that relied on third-party processors and Schedule C activities, which involve independent contractors and sole proprietors.

   SBA did take actions to mitigate many of the weaknesses identified by OIG; however, there are key report recommendations that are still open, and we will monitor status and

requests to close through our audit follow-up process. Our management challenges report identified SBA actions taken to implement recommendations.

8. **Will your office be auditing the Restaurant Revitalization Fund and the Shuttered Venue Operators Grant Program for 2021? If so, what is the timeline for when these reports are due to be published?**

   We currently have two engagements focused on the Shuttered Venue Operators Grant Program. We are reviewing SBA's budget approvals and payment practices on which we plan to publish a report in the second quarter of FY 2022. We also are reviewing SBA's controls used to determine whether Shuttered Venue Operators Grant applicants were eligible for an award. We plan to publish a report the third quarter of FY 2022. Finally, we plan to review SBA's implementation of the Restaurant Revitalization Fund grant program starting in March 2022.

9. **Has your office studied the role of fintech lenders within the PPP? If so, what has your office found? If not, will your office be examining their participation within PPP?**

   As part of our 2022 Audit Divisions Oversight Plan, we will conduct a review to assess PPP loans made by lenders that relied on third-party processors, including fintech lenders. Additionally, our criminal investigations continue to focus on any wrongdoing that may involve loans associated with fintech lenders.

10. **There have been numerous examples of the SBA's communications failures – its failure to respond to borrowers, lenders, and Members of Congress about issues in its temporary pandemic programs. What has your office found when examining the SBA's communications during the pandemic? Does your office plan to fully audit the SBA's communication efforts with regard to pandemic related programs?**

    We share the Committee's concern with complaints expressing communication and customer service challenges within SBA's programs. Our prior work has increased transparency on this issue, particularly within SBA's EIDL program:

    - Report No. 21-02, *Inspection of SBA's Initial Disaster Assistance Response to the Coronavirus Pandemic,* issued October 2020, which laid out the timing of loan approvals and grant payments, as well as SBA's staffing and handling of call volume (communication with disaster victims) by their Customer Service Center early in the pandemic.
    - Report No. 21-15, *SBA's Handling of Identity Theft in the COVID-19 Economic Injury Disaster Loan Program*, issued May 2021. This report highlighted significant issues associated with SBA's handling of identity theft complaints, including communication with identity theft victims, associated with the EIDL Program.

We believe some of our planned work within our 2022 Audits Division Oversight Plan will also cover customer service and communication issues as we examine the reconsideration process and follow-up on SBA's corrective actions to track customer service activities.

11. Within Challenge number 7 of your Top Management and Performance report, you outline that the SBA's level of servicing EIDL loans will increase exponentially. Specifically, the dollar amount will rise from $9 billion to potentially $470 billion. In your opinion, how much stress will this put on the SBA's resources? Is the SBA prepared for this increase? Additionally, to address this issue, the SBA worked with a contracted vendor "to determine the most effective way to service the COVID-19 EIDL portfolio." According to your report, a final recommendation was due on September 31, 2021. Please provide an update on this recommendation and the steps the SBA is taking to address this issue.

The dramatic increase in SBA's disaster loans will put significant stress on the agency's current servicing centers, which were stretched before the pandemic. SBA officials have indicated that they have added additional staffing resources across the disaster servicing and liquidation centers to accommodate the corresponding increase in borrower inquiries and requests. While we did include this as a risk in our top management challenges report, we have not made any recommendations in this area. Prior to the issuance of our report, SBA had engaged a contractor to help determine the best solution to this challenge. The contractor's preliminary analysis was due on August 31, 2021, with the final recommendation due on September 30, 2021. We have not received an update from SBA regarding the status of this, but we are scheduled to meet with SBA management in March to discuss progress on issues covered in the *Top Management and Performance Challenges Facing the SBA in FY 2022* report. We expect to receive an update at that time. Possible solutions that were being discussed include contracting out the servicing, factoring the loans, increasing service center staff, and other remedies. OIG is monitoring SBA's actions in this area to determine if additional oversight is necessary in context of review priorities.

12. Can you provide a status update on your Management Alert on the Shuttered Venue Operators Grant Program? What steps have been taken to implement your suggestions? Do you believe these steps will address your concerns?

We alerted SBA to serious concerns and potential deficiencies in internal controls of the Shuttered Venue Operators Grant (SVOG) program and suggested four corrective actions to address the concerns. SBA took action to clearly establish that grant recipients, regardless of the entity type, must comply with 2 CFR 200 requirements by updating the SVOG Assistance Listing, Frequently Asked Questions and other program guidance, as well as the Federal Register funding opportunity.

SBA has not implemented suggestions 1, 3, and 4 from the management alert. Suggestion 1 advised SBA to reassess the audit risk plan to identify vulnerabilities, commensurate

with the expected volume of applications and average award amount, to strengthen internal controls and reduce risk of misuse of federal funds.

SBA originally planned to rate SVOG applicants as low risk, medium risk, and high risk based on a variety of measurements and pay out the grants in up to four payments based on the grant dollar amount request and risk level. After the management alert was issued, SBA announced that it would disburse all grant awards in a single full payment at the onset of the award instead of the risk-based approach it had planned to implement. This change magnifies our concern.

Suggestion 3 advised SBA to implement required performance measures to determine the impact of program funds. SBA has not finalized any performance measures or plans to collect data from grant recipients at this time. Until SBA makes a decision on how or whether it will measure program performance, this suggested action remains unresolved.

Suggestion 4 advised SBA to ensure sufficient resources are available to implement and oversee the SVOG program. SBA assigned federal employees and hired contractors to process the applications. We are currently reviewing SBA's payment and budget approval practices. Part of that review includes a look at the controls SBA established to ensure authorized federal employees approved and awarded federal funds.

Overall, we believe, if the suggested actions are implemented, the concerns from the original report would be addressed. Also, as mentioned above, we are conducting other reviews of SVOG, and this work will result in additional recommendations that will also improve the agency's ability to provide effective grants management and oversight.

13. The federal government's history with Navigator programs is underwhelming. Serious concerns were raised about the program that was set up to assist Obamacare. Have you or will you be examining the SBA's new Community Navigators Program?

We plan to review SBA's administration of the Community Navigators program as part of our 2022 Audits Division Oversight Plan.

14. According to your previous work, has the SBA had issues with fraud, improper payments, or communication within its Disaster Loan Program?

Yes, OIG has identified issues with fraud, improper payments, and communication in the Disaster Loan Program. OIG's White Paper titled *Risk Awareness and Lessons Learned from Audits and Inspections of Economic Injury Disaster Loans and Other Disaster Lending* alerted SBA that its disaster loan program suffers increased vulnerability to fraud and unnecessary losses when loan transactions are expedited. SBA was asked to quickly expedite $525 billion in COVID-19 EIDLs, grants, and advances, which was far more funding than they had processed and disbursed in total since 1956. For comparison, SBA approved approximately $1.1 billion combined in disasters loans to businesses and nonprofits in response to hurricanes Harvey, Irma, and Maria. For Hurricane Sandy, SBA approved approximately $527 million in disaster loans to businesses and nonprofits.

As of December 31, 2021, SBA had received 27.8 million COVID-19 EIDL applications. The agency had disbursed $329.7 billion in loans and $27.4 billion in grants and advances as of January 20, 2022. The level of fraud in the COVID-19 EIDL program has been significant. Based on our analysis of SBA's COVID-19 EIDL data, as of July 31, 2020, OIG found SBA approved $14.3 billion ($13.4 billion disbursed) in COVID-19 EIDLs to accounts that differed from the original bank accounts listed on the loan applications; $62.7 billion ($58.0 billion disbursed) in multiple (between 2 and 245) COVID-19 EIDLs to applicants using the same IP addresses, email addresses, bank accounts, or businesses listed at the same addresses; and approximately $1.1 billion in COVID-19 EIDLs and emergency advance grants to potentially ineligible businesses.

OIG also reported in May 2021 that SBA had referred more than 845,000 COVID-19 EIDL applications to OIG for suspected identity theft, while still disbursing $6.2 billion in loan funds and $468 million in advance grants to these applicants. Many of these loans had indications of potential fraud.

OIG's EIDL and PPP oversight and investigative work resulted in 366 indictments, 294 arrests, and 142 convictions related to EIDL and PPP by December 2021, with associated amounts totaling more than $460 million. Additionally, OIG collaboration with the U.S. Secret Service has resulted in the seizure of more than $1 billion stolen by fraudsters in the EIDL program. We also played a key role in assisting financial institutions in the return of another $3.1 billion in the SBA's EIDL program.

Regarding improper payments, there was a long history at the outset of the improper payments estimation process where the SBA Disaster Assistance program had among the highest improper payments rates in all of government. In 2010, SBA reported an improper payment rate of 34.2 percent for its Disaster Assistance loan program. SBA has since revised its processes and procedures resulting in lower reported rates. Specifically, in the past five years, SBA's reported rates were as follows:

SBA Disaster Loan Improper Payment Rates 2017-21 (percent)

FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
13.65	8.91	6.3	11.98	13.4

In 2018 and 2019, SBA successfully brought the improper payment rate below the 10 percent statutory requirement. However, during the past two years the improper payment rates have increased, exceeding the statutory requirements. According to SBA officials, these rates do not include all pandemic relief program assistance. We will continue to monitor these rates as they are likely to increase significantly once the COVID-19 EIDLs are included.

Regarding communication, we have found that for SBA to adequately communicate with loan applicants, the agency must have sufficient staff to respond to a disaster. OIG report 21-05, issued December 2020, *Consolidated Results of SBA's Initial Disaster Assistance Response to Hurricanes Harvey, Irma, and Maria*, detailed communication issues the agency experienced when responding to those natural disasters. This included concerns with SBA not meeting its goals for answering calls and responding to email messages. OIG also reported on SBA's ability to bring on sufficient staff to respond to those natural disasters. In the April 2020 White Paper, ahead of the COVID-19 grant and lending programs being implemented, OIG alerted SBA to staffing concerns from prior disasters, including lack of sufficient number of translators, to effectively process loan applications. In response to these reviews, SBA has implemented actions to address identified issues. However, while we understand the pandemic was unprecedented in nature, we are aware of and reported on other communication issues with regard to the identity theft victims in the COVID-19 EIDL program. We are planning other reviews in 2022 that will assess communication and customer service issues as we assess the reconsideration process and SBA's response to other natural disasters.

15. I am concerned about the SBA's lack of internal IT investment controls. As you note, the 5-year, $30 million dollar investment intended to improve and streamline the SBA's contracting programs failed to yield the intended results. Can you tell us more about this failed experiment? Is there any evidence that the SBA has improved its IT spending management, to ensure future investments do not meet the same fate?

The Certify.gov system was intended to improve small business access to SBA contracting and assistance programs. Certify.gov also was intended to be the single gateway to all of SBA's contracting programs, streamlining the applicant certification process, and improving management productivity. SBA did not detect or prevent shortcomings in the Certify.gov platform because it did not deploy effective oversight controls when developing and monitoring the project.

OIG Report 20-17, *Evaluation of Certify.SBA. gov*, discusses our findings pertaining to SBA's development shortfalls of this system. This report states essential IT investment controls were missing in this project while the agency deployed an agile methodology. The agile methodology, using iterative development, is used to provide early and continuous delivery of software. However, the agency omitted development of a complete front-end project baseline, design and requirements planning, continuous monitoring against predetermined cost-schedule milestones, and testing against comprehensive user-acceptance criteria.

The missing control activities are interrelated, any one deficiency compromises the integrity of the overall development effort. Consequently, in each area, we saw that the lack of planning was followed by a subsequent lack of oversight reviews and reporting.

This, in turn, left Certify.SBA.gov managers ill-equipped to accomplish the project's objectives and goals.

SBA's Business Technology Investment Council's meeting minutes dated April 28, 2021 indicated that Certify.gov will not undergo additional development. The meeting minutes also stated Certify.SBA.gov would be replaced as a larger project to develop and deliver a single, integrated certification management system.

The agency is taking steps to improve its investment controls, but we do not have evidence they are fully implemented on large IT investments. The SBA Office of the Chief Information Officer (OCIO) accepted our recommendations for documented requirements and program resources to validate the completion of system requirements through all phases of design, development, and user-acceptance. OCIO has further agreed to implement cost and performance controls throughout the IT investment cycle. The agency also issued revised standard operating procedures to accomplish these goals.

OIG plans to assess the quality of system development controls on planned Certify.SBA.gov IT investment in FY2022. We also will validate that our previous project management and investment controls recommendations have been fully implemented.

16. **In connection with Challenge number 2, your office conducted a report on the SBA's suspension and debarment practices in 2019 noting several concerns such as significant delays in processing such actions and failures to document actions taken following a referral or civil judgment. Has your office conducted any follow-up with the SBA, in regard to this report? Have you seen the SBA make any improvements in this area?**

We made six recommendations to improve SBA's oversight and management of its suspension and debarment program. All recommendations have been closed based on the evidence SBA provided to demonstrate that it implemented corrective actions. SBA published standard operating procedures and improved the tracking system it used for suspension and debarments related to contracting and all other non-financial programs. The published procedures included requirements to promptly issue decisions based on evidence on hand and to properly document declination decisions. The standard operating procedures also included requirements for the suspension and debarment office to follow-up with the OIG whenever it declines an OIG referral. The Office of Capital Access updated its standard operating procedures to include a specific requirement for lending partners to review the System for Award Management for applicant and borrower eligibility. While the implemented corrective actions should improve SBA's suspension and debarment practices, which address the causes for the deficiencies we found, we have not conducted follow-up audits or reviews to assess the effectiveness of the agency's corrective actions.

17. I completely agree that more transparent reporting is required to show a more accurate picture of the true small business goaling achievements. Aside from your recommendation to report awards made to firms growing beyond the definition of "small,' are there other categories of firms that should be reported to enhance this accuracy, for instance, awards made to joint ventures consisting of small and large partners?

The biggest issue we highlight in our top management challenges report is the concern you raised in your question regarding small firms that grow beyond the definition of small, but their awards continue to be counted as part of the goal achievements. SBA could also consider factoring in the amount of work that small businesses subcontract to large businesses to fully quantify small businesses participation in federal contracting. Besides these, we haven't identified additional categories of firms that should be reported to enhance accuracy.

Currently, SBA's methodology of calculating contract awards for agency goaling requirements consists of five categories of small business groups (small business, women owned, small disadvantaged, service-disabled veteran, and HUBZone). We do believe to have a full picture of the federal contracts performed by small businesses, it would require a collaboration with the General Services Administration (GSA), which manages the contract data reporting system. SBA should collaborate with GSA to establish effective controls to reduce the federal contracting workforce's erroneous entries that misclassify awards as small.

Joint ventures consisting of small and large partners are only eligible for set-aside awards if they are formed under an SBA-approved mentor and protégé agreement. SBA regularly monitors program participants to ensure the large business mentor develops the small business protégé.

18. Regarding the WOSB program, are you satisfied with SBA's regulatory changes made to its oversight of third-party certifiers?

SBA's recent regulatory changes memorialize the oversight requirements SBA had initiated in October 2020. We currently are reviewing SBA's procedures it uses to oversee third-party certifiers in our ongoing audit of the WOSB certification program. Once this work is complete, we will be in a better position to provide our view of the agency's oversight of third-party certifiers, and we will make recommendations to address any issues identified during our review. In addition, GAO issued several reports that identified weakness in SBA's oversight of its third-party certifiers. SBA agreed with GAO's recommendations and is working toward implementing corrective actions.

19. Regarding your body of work on the SBA's 8(a) program, a common theme I am seeing, as far as the SBA's response, is that the SBA will update their internal policies and procedures to conform with the recommendations made by the IG's office. But, as we all know, it is one thing to create an internal guidance document

and quite another to actually execute such policies. Are you finding the SBA's responses to your recommendations effective at combating the challenges you raise?

We have found that SBA has implemented many of our recommendations to address concerns raised with regard to the 8(a) Program. We have done limited verifications to assess the effectiveness of a few controls implemented and found that those corrective actions were in fact working at that time. We also recently completed an audit of SBA's Business Development Assistance to 8(a) Program Participants. We plan to issue this report in final in February, 2022.

As part of an effective system of internal controls, policies and procedures ensure management designs activities to mitigate risk and achieve objectives. Management sets expectations for work processes. In addition to recommending SBA establish procedures to address the deficiencies found in our reviews of the 8(a) program, OIG also made recommendations for management to train staff on the updated guidance and improve its information systems to effectively monitor the program results. We verified that SBA updated its policies and procedures and issued procedural notices to notify staff of the changes as well as conducted training. However, SBA continues to use ad hoc solutions to accomplish tasks that it had intended for the Certify.SBA.gov system to handle. The ad hoc solution may fix the problem we identified but require manual input and do not lead to long-term efficiencies like a functional information technology system. SBA should continue to pursue a fully functional system to better manage the program.

OIG and 8(a) program officials meet on a reoccurring basis to discuss SBA's corrective actions and work to resolve disagreements in accordance with our audit follow-up policies. OIG's audit plan considers the need to cycle back to test and report on the effectiveness of implemented changes. We continue to work with SBA to assess their controls to ensure that only truly qualified small businesses gain access to the program and receive the program benefits.

20. **In reading Challenges number 2 and number 5 together in your report, I am sensing a common theme in that the SBA may be relaxing certain safeguards, as far as eligibility or qualification criteria into its contracting programs, in an attempt to increase contractor participation. Notably, in the 8(a) and HUBZone programs. From your standpoint, do you think the SBA is fairly balancing the scales or do you think there needs to be greater emphasis on ensuring only truly qualified small businesses gain access to these programs and thus to federal small business contract awards?**

As the agency responsible for ensuring that small businesses receive a fair and equitable opportunity to participate in federal contracts and subcontracts, we believe SBA should do more to strengthen its oversight. In terms of balancing the scales, I believe SBA's internal controls require strengthening to ensure only eligible entities gain access to the preferential contracting programs.

While the agency continues to make progress implementing corrective actions to address weaknesses identified in OIG and GAO audits of the contracting programs, SBA management could be more proactive and assess and identify risks in its programs that OIG and GAO have not yet detected. A proactive approach to internal controls and mitigating risks will help resolve some of the issues OIG and GAO has identified, ensuring greater program integrity.

Questions for the Record from Rep. Jim Hagedorn (MN-01):

21. In both your testimony and recent report, you emphasize that the SBA's top management challenge being its susceptibility to fraud within their economic relief programs.

- **From your findings, approximately how much of the American taxpayer's dollars have been wasted due to the SBA's failure to adhere to the recommendations listed in the OIG's October 2020 report?**

OIG's oversight of the EIDL program has identified approximately $80 billion in potential fraud, $4.5 billion in questioned costs, and $1.1 billion in loans to ineligible entities in the COVID-19 EIDL program. OIG is developing a compilation report on all the potential fraud reported to date in the EIDL program, the status of recommendations, and new controls established by SBA. OIG also has identified approximately $4.6 billion in potential fraud within PPP loans made in 2020.

Additionally, OIG's EIDL and PPP oversight and investigative work resulted in 366 indictments, 294 arrests, and 142 convictions related to PPP or EIDL by December 2021, with associated amounts totaling more than $460 million. Additionally, OIG collaboration with SBA and the U.S. Secret Service has resulted in the seizure of more than $1 billion stolen by fraudsters in the EIDL program. We also played a key role in assisting financial institutions in the return of another $3.1 billion to the SBA's EIDL program.

- How much more does your office foresee being wasted if the SBA continues to operate as is?

SBA has addressed many of the recommendations made by OIG. Thus, SBA is no longer operating as it was, and it is not possible to project the amount of funds being wasted in this context. That said, our oversight efforts will continue to root out fraud, waste, and abuse. Our oversight of these funds will last decades given that EIDL funds will be a part of SBA's loan portfolio for up to 30 years.

22. You recommended for Administrator Guzman to direct the development of a process to maintain and track all identity theft complaints and develop a process to provide status updates to each complainant alleging identity theft.

- **To your knowledge, have adequate steps been taken by Administrator Guzman to facilitate these processes?**

  Yes, and we have closed the recommendations.

- **If so, would you please explain the steps taken by the Administrator and if they have proved effective thus far?**

SBA's Identity Theft Fraud Teams are working and monitoring the different steps in this process, including:

- posting a letter on its website explaining the new process and documentation needed for submitting identity theft fraud allegations or claims;

- posting an announcement on the same website to inform those who submitted an identity theft fraud allegation prior to February 2, 2021 (the implementation date) would need to submit the new information and documentation as required under the new process in order for SBA to proceed with their allegation of identity theft;

- including a URL to the website with this information: Report ID theft and fraud (sba.gov);

- using a system to maintain and track identity theft complaints (from initiation of the allegation, the validation review process, and closure of the case);

- providing status updates to the victims (to include acknowledgement of receipt of allegation, request for any additional documentation, as well as the completion and outcome of the review of the allegation);

- updating the validation review process to include the rule of two, in which a team lead or supervisor needs to review and sign off on the decision whether the case is valid or not, and to place a hold any remaining undisbursed funds, and make further referrals to IG investigations;

- updating the validation review system to include steps for confirmed cases of identity theft fraud: to stop mailing out loan statements, prevent collection actions, and release the victim of the loan liability, and to send the victim a letter stating these actions;

- providing identity theft victims any applicable Form for Termination of the Uniform Commercial Code (UCC) liens on the victim's assets, upon completion of SBA's review.

  However, SBA is not paying for the fee to file the release or termination form because there is no specific appropriation for this purpose. It is up to the identity theft victim to file the form and pay the filing fee. The amount of the filing fees varies depending on the jurisdiction. In some jurisdictions there is no fee, while in other places the fee can vary from $10 to $25.

- **Do you feel as though the SBA's shortcomings in IT support and maintenance have played a role in the widespread fraud we've seen thus far within SBA's pandemic relief programs?**

  Yes, the previous system controls were not sufficient to prevent fraud. SBA has strengthened existing controls or established new controls on their own or to address our recommendations. OIG is currently performing and planning reviews that will evaluate these controls as evidenced by our 2022 Audits Division Oversight Plan.

- **Specifically, what can we as a Congress do to support your recommendations to avoid abuse and fraud in the SBA's economic relief programs?**

  OIG appreciates the balance needed to implement a program relative to an internal control environment that provides assurance of eligibility and other factors in context of timely delivery of assistance. However, OIG's reviews found that data within other government agencies that could aid in the automation of the internal control environment either was not accessed by SBA in design or due to a legislative restriction. For example, SBA did not leverage Treasury's Do Not Pay System in either EIDL or PPP prior to OIG's findings. EINs were not verified as being legitimate or associated with the borrower in the EIDL program. Tax records initially were legislatively excluded from the internal controls in implementing the EIDL program. We also are conducting a review to inspect PPP loans that may have invalid social security numbers. Congress should ensure that a whole of government approach can be leveraged to protect losses to the taxpayer and to promote oversight of the programs by OIG.

23. The OIG's Top Management report stated that improper payments in the SBA's loan programs continue to be widespread, despite the recommendations your office gave SBA in October 2020's OIG Report.

- **Could you please articulate your reasoning as to why these improper payments are continuing?**

  Since the publication of OIG's *Report on the Most Serious Management and Performance Challenges Facing SBA in FY 2020*, the volume, breadth and delivery scope of SBA assistance programs has increased dramatically due to COVID-19. The need to provide this assistance in an emergency timeframe through new delivery vehicles (such as third-party software applications) resulted in increased risk for a proportion of this assistance being identified as improper payments. For example, in Report 21-06, OIG found that SBA did not establish front-end do not pay controls in its EIDL assistance program. We found SBA's lack of adequate pre-award controls in this area, between March and November 2020, led to 75,180 COVID-19 EIDLs totaling over $3.1 billion and 117,135

emergency EIDL grants totaling over $550 million, being disbursed to potentially ineligible recipients.

- **Your report said SBA staff must be better trained to recognize improper payments, and that SBA's inadequate verification systems must be strengthened.**

- **Has the SBA made any progress at all in addressing these failures? And if so, what has been done and is it enough?**

Our February 2020 report on the improper payment appeals process found the appeal process was effective, but the initial process to identify improper payments was inefficient. In response to that report's recommendation, SBA has improved its training for the Office of Disaster Assistance personnel who perform the Improper Payment Appeals process.

As stated in the management challenges report, the agency has made numerous changes in response to our report, including:

- creating guidance for the quality assurance leadership team on the quarterly improper payment audit review process;
- providing team training based on the guidance, as well as additional specific training to keep staff abreast of updated changes to processing systems;
- developing detailed auditing checklists for accounts and loan processing to ensure consistency;
- updating the quality assurance database;
- hiring additional staff to handle increased workflow and creating two separate groups within quality assurance, one for COVID-19 lending and one for other lending.

Questions for the Record from Rep. Beth Van Duyne (TX-24):

24. Inspector General Ware, in your estimation, what is the total monetary amount of fraud and improper payments given out by the SBA's pandemic response?

OIG's oversight of the EIDL program has identified approximately $80 billion in potential fraud, $4.5 billion in questioned costs, and $1.1 billion in loans to ineligible entities. OIG is developing a compilation report on all the potential fraud reported to date in the EIDL program, the status of recommendations, and new controls established by SBA. OIG also has identified approximately $4.6 billion in potential fraud within PPP loans made in 2020.

Additionally, OIG's EIDL and PPP oversight and investigative work resulted in 366 indictments, 294 arrests, and 142 convictions related to PPP or EIDL by December 2021, with associated amounts totaling more than $460 million. Additionally, OIG collaboration with SBA and the U.S. Secret Service has resulted in the seizure of more than $1 billion stolen by fraudsters in the EIDL program. We also played a key role in assisting financial institutions in the return of another $3.1 billion to the SBA's EIDL program.

In your estimation, what is the total amount that has been recovered?

SBA would have the most accurate estimate regarding the amounts recovered due to the various mechanisms by which money can be recovered/returned.

Based upon the program there are different ways the funds may have been returned. For PPP, the lender may have received the funds directly from the financial institutions the funds were disbursed to, the borrower may have returned the funds directly to the lender, the funds may have been seized by law enforcement and awaiting forfeiture to the lender or SBA, and the funds could be part of a restitution order from a civil/criminal case.

25. What amount of the improper funds do you believe we will be able to recover in total?

OIG does not have an estimate on potential recoveries absent an accurate estimate of the improper payments and potential fraud. Our oversight work is ongoing, and we anticipate fraud will be uncovered over the next 10 years.

26. What is the process for fraudulent or improper payments once the money is recovered? Does it get returned to the pool of money? Theoretically, if the SBA was able to return fraudulently obtained money, could they then provide that money to other, more deserving applicants?

SBA would have the most accurate information regarding recoveries due to the various mechanisms by which money can be recovered/returned. Both EIDL and PPP ended receiving applications with remaining available funds; however, OIG certainly

understands that the availability and timeliness of funds presented challenges to borrowers throughout the open borrowing time periods.

27. Who would be good witnesses for this committee to discuss oversight with? Either in the public or private sector.

OIG has strong partnerships with the law enforcement and prosecutive communities to combat fraud. OIG also is a key player in the interagency oversight community and collaborates with them to provide effective oversight of SBA's programs. OIG also engages with SBA's stakeholders to raise awareness of fraud schemes and to ensure allegations of wrongdoing can be directed to OIG. As such, these entities would provide unique perspectives to this Committee, and I would be happy to share additional insights on these partners.

28. Do you believe the SBA OIG has the resources it needs to do its job thoroughly? How can Congress aid you in your efforts?

OIG requests that Congress support the President's budget for OIG. A significant portion of our supplemental funds will be exhausted by the end of FY 2024, which will coincide with hundreds of billions of dollars in EIDL loans coming due for payment. We anticipate this will be a key moment for realizing the true scope of fraud in the program, which already is expansive. We believe our annual resource levels will need to be rightsized to match this fraud landscape and to provide necessary oversight of SBA's management challenge areas.

SBA OIG OPEN FRAUD RECOMMENDATIONS as of Jan 12, 2022				
	REPT NUMBER	ISSUE DATE	TITLE	RECOMMENDATION
1	21-02	10/28/2020	Inspection of SBA's Initial Disaster Assistance Response To The Coronavirus Pandemic	Review all loans that had a bank account number changed from that shown on the original application to determine if the changes were legitimate or fraudulent. If not legitimate, work to recover the funds, deobligate any undisbursed funds, and refer to the OIG.
2	21-02	10/28/2020	Inspection of SBA's Initial Disaster Assistance Response To The Coronavirus Pandemic	Review duplicate loans to IP addresses, email addresses, business addresses, and bank accounts to determine if there are undisbursed funds that should be suspended until the duplicate loans are assessed for eligibility.
3	21-02	10/28/2020	Inspection of SBA's Initial Disaster Assistance Response To The Coronavirus Pandemic	Strengthen or establish controls to ensure multiple loans are provided only to eligible applicants and prevent the erroneous duplication of loans.
4	21-02	10/28/2020	Inspection of SBA's Initial Disaster Assistance Response To The Coronavirus Pandemic	Strengthen data integrity to make it possible to determine if the inaccurate information allowed loans to be made to ineligible entities and to strengthen SBA's ability to service loans appropriately.
5	21-06	1/11/2021	Paycheck Protection Program Loan Recipients on the Department of Treasury's Do Not Pay List	Promptly identify PPP loans that have not been fully disbursed and follow-up with the lenders to stop $280 million in potential improper loan disbursements.
6	21-06	1/11/2021	Paycheck Protection Program Loan Recipients on the Department of Treasury's Do Not Pay List	Strengthen SBA controls to ensure that loans to ineligible recipients are not forgiven.
7	21-07	1/14/2021	Inspection of SBA's Implementation of the Paycheck Protection Program	Review the loans identified as potentially ineligible to determine if the businesses met eligibility requirements. If not, take appropriate action related to loan guaranty and forgiveness.
8	21-09	3/15/2021	Duplicate Loans Made Under the Paycheck Protection Program	Review the OIG identified potential duplicate disbursements for eligibility and take action to recover any improper payments as applicable.
9	21-09	3/15/2021	Duplicate Loans Made Under the Paycheck Protection Program	Review SBA controls related to all PPP loan reviews to ensure that duplicate loans are not forgiven and not subject to an SBA guaranty, as appropriate.
10	21-09	3/15/2021	Duplicate Loans Made Under the Paycheck Protection Program	Review the issues that SBA identified involving the actions of lenders, such as providing incorrectly formatted data and submitting the same application through multiple platforms, and determine how to strengthen controls and guidance as appropriate to ensure lenders meet program requirements for future PPP type programs.
11	21-15	5/6/2021	SBA's Handling of Identity Theft in the COVID-19 Economic Injury Disaster Loan Program	Develop a process to remove any fraudulent loans and related UCC filing fees from its financial records.
12	21-15	5/6/2021	SBA's Handling of Identity Theft in the COVID-19 Economic Injury Disaster Loan Program	Review over 150,000 returned billing statements and resolve any that involve identity theft, then refer fraudulent loans to OIG.

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National Association of Federally-Insured Credit Unions

January 11, 2022

The Honorable Nydia Velázquez
Chairwoman
Committee on Small Business
U.S. House of Representatives
Washington, DC 20515

The Honorable Blaine Luetkemeyer
Ranking Member
Committee on Small Business
U.S. House of Representatives
Washington, DC 20515

Re: Tomorrow's Hearing "Review of the SBA's Top Management Performance Challenges in Fiscal Year 2022 and SBA OIG's Semiannual Report to Congress"

Dear Chairwoman Velázquez and Ranking Member Luetkemeyer:

I am writing on behalf of the National Association of Federally-Insured Credit Unions (NAFCU) in conjunction with tomorrow's Committee hearing entitled "Review of the SBA's Top Management Performance Challenges in Fiscal Year 2022 and SBA OIG's Semiannual Report to Congress" to express our ongoing concerns about, and opposition to, provisions in the *Build Back Better Act* (BBBA) that could allow the Small Business Administration (SBA) to directly offer a 7(a) loan product to market, circumventing current partners and community lenders such as credit unions. As you are aware, NAFCU advocates for all federally-insured not-for-profit credit unions that, in turn, serve over 127 million consumers with personal and small business financial service products.

Section 100502, "Funding for Credit Enhancement and Small Dollar Loan Funding," creates a new small dollar lending program that would allow the SBA Administrator to originate and disburse loans directly to small businesses. NAFCU has serious concerns that this provision does not require the SBA to work with lenders as they do with other 7(a) loan products and would allow them to make loans on their own should they so choose. Even though the SBA has authority to make direct loans now, they have not exercised this authority, with the exception of disaster loans and loans to Microloan program intermediaries, since 1998 due to the challenges associated with them, including a history of higher rates of fraud and defaults. These problems with direct lending programs are once again recognized in the OIG's report before the Committee for this hearing. This is another example of why we believe they should not be granted new authority in this area.

NAFCU and our credit union members support the concept of expanding access to small dollar business loans as credit unions have always focused on servicing this market. Credit unions have been recognized as doubling their efforts in providing small business lending post-recession, despite considerable consolidation in the marketplace and statutory limitations on member business lending (MBL). The Paycheck Protection Program (PPP) is a prime example of the role that credit unions played in filling a need in this area, as the average credit union PPP loan was under $50,000. Many credit unions stepped in to provide these loans to small businesses that were turned away from other financial institutions that did not want to make these smaller loans. Some credit unions that previously did no business lending swiftly sought authority from their boards of directors to offer business loans so they could provide businesses in need with PPP loans. The PPP was an example of how a public-private partnership can work effectively and efficiently to meet the needs of communities. The small dollar loan programs

envisioned in the BBBA also provide the option for such a partnership between the SBA and lenders. Such an option is far superior to allowing the SBA to go directly to small businesses with these loans as the SBA has limited history working directly with small businesses and does not have the requisite experience as a lender nor established lending infrastructure to successfully carry out a program of this magnitude.

NAFCU recognizes the need for smaller loans for small businesses, and that is why we have supported legislation such as H.R. 5189, the *Member Business Loan Expansion Act*, which would make it easier for credit unions to offer smaller business loans under $100,000 by ensuring these loans do not count toward the arbitrary credit union MBL cap. We believe bipartisan approaches such as this legislation provide small businesses a better alternative to get the support they need in a timely manner. Allowing lenders that have relationships with small businesses, such as credit unions, to do more to help is a better approach to addressing this need.

In recent years, NAFCU members have worked to increase the number of SBA lending partners despite statutory limitations imposed on credit union's ability to provide small business loans. Moreover, credit unions continue to focus on providing credit to our nation's small businesses, regardless of size. Over the past five years, 57 percent of business loans made by credit unions were under $150,000, compared to 46 percent of loans under $150,000 for other lenders. Early in the pandemic, 70 percent of NAFCU members that were not already involved in SBA lending but did participate in the PPP expressed an interest in becoming a regular SBA lender. Given this increased interest in SBA lending programs and the expected demand in small business lending, it is imperative that credit unions have all options available to provide capital for small business members.

It is with these thoughts in mind that we continue to oppose giving the SBA the authority to offer this new 7(a) small dollar loan product directly to small businesses. An SBA direct lending program could serve to reduce the level of lending partners at a time when business lending is greatly needed. NAFCU believes that there are better ways to encourage the SBA to work with existing lenders to address the stated need of access to smaller loans to small businesses and we stand ready to work with you to achieve that goal.

We thank you for the opportunity to share our concerns on this important topic. Should you have any questions or require any additional information, please contact me or Lewis Plush, NAFCU's Associate Director of Legislative Affairs, at lplush@nafcu.org.

Sincerely,

Brad Thaler

Brad Thaler
Vice President of Legislative Affairs

cc: Members of the House Committee on Small Business

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