Agency Financial Report

| FISCAL YEAR 2024







U.S. Small Business Administration

ABOUT THIS REPORT

The U.S. Small Business Administration (SBA's) Agency Financial Report (AFR) for fiscal year (FY) 2024 provides an overview of the Agency's financial and performance data to help Congress, the President, and the public assess the SBA's stewardship over the resources entrusted to it. The AFR is the first of two required annual reports for Federal agencies. The FY 2024 Annual Performance Report (APR) is the other report and is part of the FY 2026 Congressional Budget Justification (CBJ). The CBJ/APR is scheduled for publication in early 2025. The reports can be found at: www.sba.gov/performance.

FY 2024 Highlights (Dollars in Thousands)	FY 2021 (unaudited)	FY 2022 (unaudited)	FY 2023 (unaudited)	FY 2024 (unaudited)
Principal Program Portfolio[1]	$ 713,196,138	$ 559,170,974	$ 412,215,125	**$ 453,838,614**
Total Assets	$ 562,417,681	$ 378,012,365	$ 316,328,584	**$ 276,181,925**
Total Liabilities	$ 503,539,063	$ 395,123,603	$ 346,035,882	**$ 280,436,013**
Total Net Position	$ 58,878,618	$ (17,111,238)	$ (29,707,298)	**$ (4,254,088)**
Total Net Cost of Operations	$ 346,283,553	$ 47,096,949	$ 35,322,586	**$ (308,916)**
Total Budgetary Resources	$ 1,347,118,849	$ 420,033,718	$ 107,153,718	**$ 67,918,113**

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

FOR MORE INFORMATION

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

The SBA's plans and reports are available at: www.sba.gov/performance

Para información acerca de los programas de la SBA: www.sba.gov > "Translate" > "Select Language"

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Questions and comments regarding the content, presentation, and usefulness of this report are welcome and may be addressed to: performance.management@sba.gov

Or, you may write to:

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Office of Performance, Planning, and the Chief Financial Officer
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U.S. Small Business Administration

SBA'S MISSION

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

HOW THIS REPORT IS ORGANIZED

The U.S. Small Business Administration's *FY 2024 Agency Financial Report* provides financial and performance information for the fiscal year beginning October 1, 2023, and ending September 30, 2024. This report presents the SBA's operations, accomplishments, and challenges. Following a message from the SBA Administrator are four principal sections: Management's Discussion and Analysis, Financial Reporting, Other Information, and Appendices.

Management's Discussion And Analysis

The Management's Discussion and Analysis section provides a report of the Agency's overall financial position, program performance, and results of operations. It presents the SBA's history, organization, and principal programs. This section highlights financial results and analysis; performance results; and analysis of systems, controls, and legal compliance.

Financial Reporting

The Financial Reporting section provides a detailed report of the SBA's finances. It includes a message from the Chief Financial Officer, the audit transmittal memorandum from the Inspector General, the Independent Auditors' report, and the Financial Statements and Notes. Additionally, the required supplementary information provides a combining statement of budgetary resources.

Other Information

The Other Information section includes the Inspector General's report on the Agency's most serious management and performance challenges along with recommended actions. This section also includes a summary of the financial statement audit and management assurances.

Appendices

The Appendices provide supplementary information— in the form of a contact list of useful websites and telephone numbers, a glossary, and a detailed report on audit follow-up activity.

MESSAGE FROM THE ADMINISTRATOR



November 15, 2024

On behalf of our dedicated and mission-driven team at the U.S. Small Business Administration, I am pleased to present our FY 2024 Agency Financial Report.

This report highlights the SBA's substantial impact and important gains over the previous fiscal year as the federal agency responsible for helping our nation's more than 34 million small businesses and innovative startups access the tools, resources, and support they need to start and grow successful businesses, and as the agency that helps disaster survivors recover and rebuild their communities.

Throughout FY 2024, America's small businesses continued to help propel our nation's economy, reflecting historic support and program improvements across the SBA. During this period, the United States has enjoyed strong job creation, historically high rates of new business application filings, historically low unemployment, generational investments in American infrastructure, manufacturing, and clean energy, and an economic recovery unparallelled across the globe.

The SBA's dedicated staff and their mission-driven implementation of both core and emergency programs and services – including small business lending, federal contracting support, technical and skills training, investment and innovation, and disaster response – are at the heart of this success, opening doors of opportunity for entrepreneurs nationwide and helping countless small businesses, startups, and recovering communities seize opportunities to start, rebuild, and grow.

The Agency also achieved significant regulatory and programmatic reforms during FY 2024, including the most significant regulatory reforms in more than 40 years. The simplification of SBA lending and the expansion of lending partners through the permanence of Community Advantage and expansion of SBLCs will help support SBA's ongoing efforts to increase access to affordable capital for business owners in underserved markets across America, expanding on the Administration's agenda to advance equity and build an inclusive economy.

Access to capital is a vital aspect of economic development. The SBA achieved a record 100,000 financings to America's small businesses and disaster survivors. In lending products, we work with approved lenders and community development organizations to guarantee loans to small businesses that are unable to obtain credit in the conventional lending marketplace. The SBA approved more than 76,000 loans in the 7(a) and 504 loan programs, providing $37.7 billion to small businesses. The SBA has doubled its smallest-sized loans since FY 2020, increasing these loans by one-third since FY 2023, while addressing capital gaps in underserved markets including to minorities, women and veterans. The Agency also saw growth in its Community Advantage and Lender Match programs. Additionally, the SBA's microloan program, which offers loans up to $50,000, approved $94 million in new loans, underscoring our commitment to expanding small dollar loans. Thanks to regulatory reform permanence, overall lending through the Community Advantage program increased by 41 percent in loans approved and 40 percent in dollars awarded. Additionally, with technological modernization, Lender Match saw the number of enrolled Community Financial Institutions increase by 10 percent.

In debt and equity products, the SBA supports the Small Business Investment Company program, in which we partner with private investors to finance innovative and growth-oriented small businesses through professionally managed investment funds. As of June 30, 2024, the SBA supported over 890 small businesses with approximately $5 billion in financing. The SBA also increased SBIC financings to women-, minority-, and veteran-owned small businesses, as well as those in underserved geographic areas, by 28 percent this year.

The SBA ensures that America's small business owners can access the entrepreneurial training, counseling, and resources to tackle the challenges they face every day. Our combined SBA network offers free or low-cost programs to help entrepreneurs plan their business, research market trends, expand their customer base, and secure funding. These efforts are powered by our 68 district offices and funded resource partner network made up of Small Business Development Centers (SBDC), Women's Business Centers (WBC), Veterans Business Outreach Centers (VBOC), SCORE chapters, Regional Innovation Cluster, and Growth Accelerators. In FY 2024, hundreds of thousands of American small businesses took advantage of counseling, mentoring, and training assistance through the SBA's targeted networks. The SBA now has a total of 152 WBCs in all 50 states, the District of Columbia, and Puerto Rico, as well as 31 VBOCs.

Thanks to the SBA's efforts, in FY 2023, federal agencies collectively awarded an all-time high of 28.4 percent of federal contract dollars totaling $178.6 billion that went to small businesses. That is an over $15.7 billion increase from the previous fiscal year and exceeded the federal small business contracting goal of 23 percent for FY 2023. This marks the tenth consecutive year in a row that the Federal Government has exceeded this goal. The SBA continues to promote equity in federal contracting, and for the third year in a row, Small Disadvantaged Business (SDB) spending exceeded its goal.

When disaster strikes, the SBA joins with our federal partners to respond by helping businesses, nonprofits, homeowners, and renters recover from declared disaster events. Direct low-interest loans from the SBA have enabled borrowers to replace or repair uninsured losses, whether through physical damage or economic injury. The SBA also assists borrowers in financing improvements to their homes or businesses to mitigate future disaster damages. The SBA has worked with federal, state, and local partners to enhance and improve the disaster response and ensure we are assisting the economic recovery as expediently as possible. In FY 2024, the SBA approved more than 27,000 direct disaster loans for natural disasters such as wildfires, floods, hurricanes, and tornadoes, totaling $1.7 billion.

The financial and performance data published in this report are reliable, complete, and in accordance with the U.S. Office of Management and Budget Circulars A-136 and A-11. Under my leadership, the SBA has taken action to implement internal controls to ensure that all the SBA's programs are carried out at the highest standard and with the utmost integrity. My team and I remain committed to ensuring proper management of Agency resources by addressing the issues our auditor identified and continuing to strengthen management controls.

The SBA works across the whole of the agency, and with our private and government partners and stakeholders to ensure that we are performing at the highest levels, and delivering streamlined, tech-enabled operations for a strong customer experience for all America's entrepreneurs in every corner of our nation. As the agency looks toward the future, I remain confident that the mission-driven teams at the SBA will continue to deliver even greater and more equitable results to help advance America's economy.

Sincerely,



Isabel Casillas Guzman
27th Administrator







Section I

Management's Discussion and Analysis

| Unaudited

THE SBA'S HISTORY, GOALS, AND ORGANIZATION

In 1953, Congress created the SBA to aid, counsel, assist, and protect the interests of small businesses. As the nation's only go-to resource and voice for small businesses, the SBA provides programs and services that help small businesses confidently start, grow, expand, or recover. The SBA is backed by the Federal Government and is the only cabinet-level Federal agency fully dedicated to small business. The SBA's headquarters is in Washington, D.C., whereas its business products and services are delivered through field personnel and a network of private sector and nonprofit partners in every U.S. state and territory. Major SBA offices contribute to one or more Agency-wide strategic goals as outlined in the SBA's *FY 2022-2026 Strategic Plan*:

MISSION STATEMENT

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

GOAL 1	GOAL 2	GOAL 3
Ensure equitable and customer-centric design and delivery of programs to support small businesses and innovative startups	Build resilient businesses and a sustainable economy	Implement strong stewardship of resources for greater impact
1.1 Ensure all entrepreneurs have access to capital to start and grow their businesses	**2.1** Help small businesses recover from the pandemic and become more resilient	**3.1** Strategically manage resources by integrating quality data, evidence, and risk in decision-making processes
1.2 Build a thriving national innovation ecosystem that promotes investments in all small business communities	**2.2** Prepare small businesses and rebuild communities affected by natural disasters	**3.2** Build an inclusive and high-performing workforce
1.3 Increase exporting opportunities to help small businesses across the country expand into new markets		**3.3** Develop and deploy technology-driven solutions to enhance mission delivery
1.4 Build back an inclusive and proficient small business contracting base ready to compete for all federal procurement opportunities		
1.5 Build an equitable entrepreneurial ecosystem through tailored training and counseling		

Strategic Goal One

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

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

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

The *Office of Investments and Innovation* assists small businesses through initiatives such as the Small Business Investment Company, Small Business Innovation Research, Small Business Technology Transfer, and other tailored programs that drive innovation and competitiveness.

The *Office of International Trade* enhances the ability of small businesses to export and compete in the global marketplace by facilitating access to capital, providing technical assistance, ensuring the consideration of small

business interests in trade negotiations, and contributing to the U.S. government's international commercial and economic agenda.

The *Office of Government Contracting and Business Development* assists small businesses in competing for federal contracting opportunities through the government-wide prime and subcontracting programs. The office also sets size standards for small businesses, which determine the size a business must be to be considered a small business. Additionally, business development assistance includes the HUBZone, 8(a) business development, Empower to Grow management and technical assistance, and Mentor-Protégé programs.

The *Office of Entrepreneurial Development* provides business advising, mentoring, and training assistance through its resource partner network composed of Small Business Development Centers, Women's Business Centers, SCORE, Community Navigator Pilot Program, and through Entrepreneurship Education programs.

The *Office of Veterans Business Development* ensures the applicability and usability of all the Agency's small business programs for active-duty military personnel, National Guard and Reservists, veterans, and veteran or military spouses through Veterans' Business Outreach Centers, Boots to Business, and other grant programs.

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

Strategic Goal Two

Build Resilient Businesses and a Sustainable Economy

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

The *Office of Capital Access* administers disaster loans through the Disaster Assistance Program, the only SBA program not limited to small businesses. Also, the SBA continues to administer Paycheck Protection Program (PPP) loans, Restaurant Revitalization Fund (RRF) grants, and COVID-19 Economic Injury Disaster Loans (COVID-19 EIDL) in support of pandemic relief. The SBA's COVID-19 programs have transitioned to long-term servicing and administration. New loans and grants are not being issued.

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

Strategic Goal Three

Implement Strong Stewardship of Resources for Greater Impact

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

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

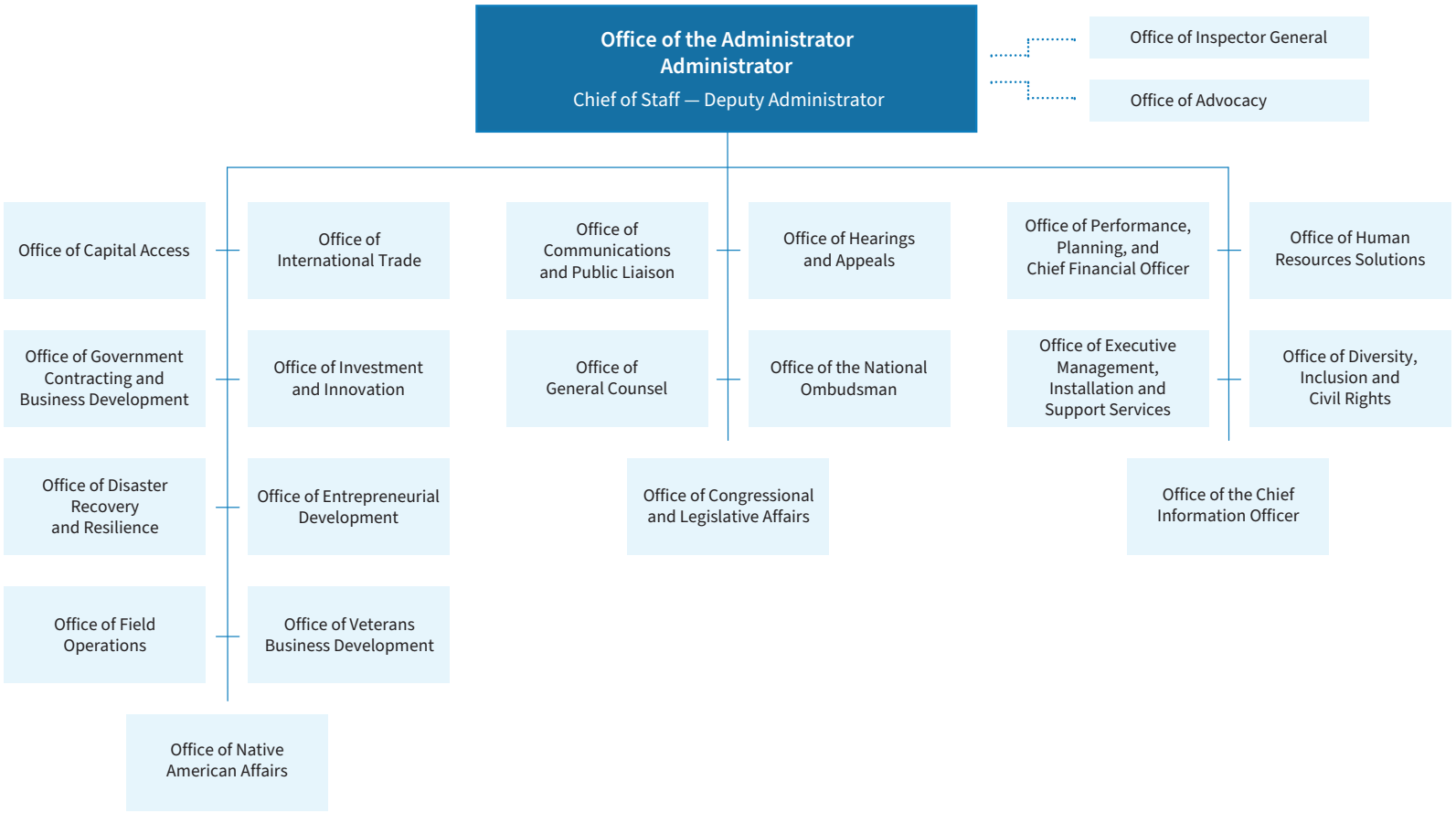
The Office of Executive Management, Installations, and Support Services supports resource and core administrative functions, including grant management, facilities, records management, and personnel security.

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

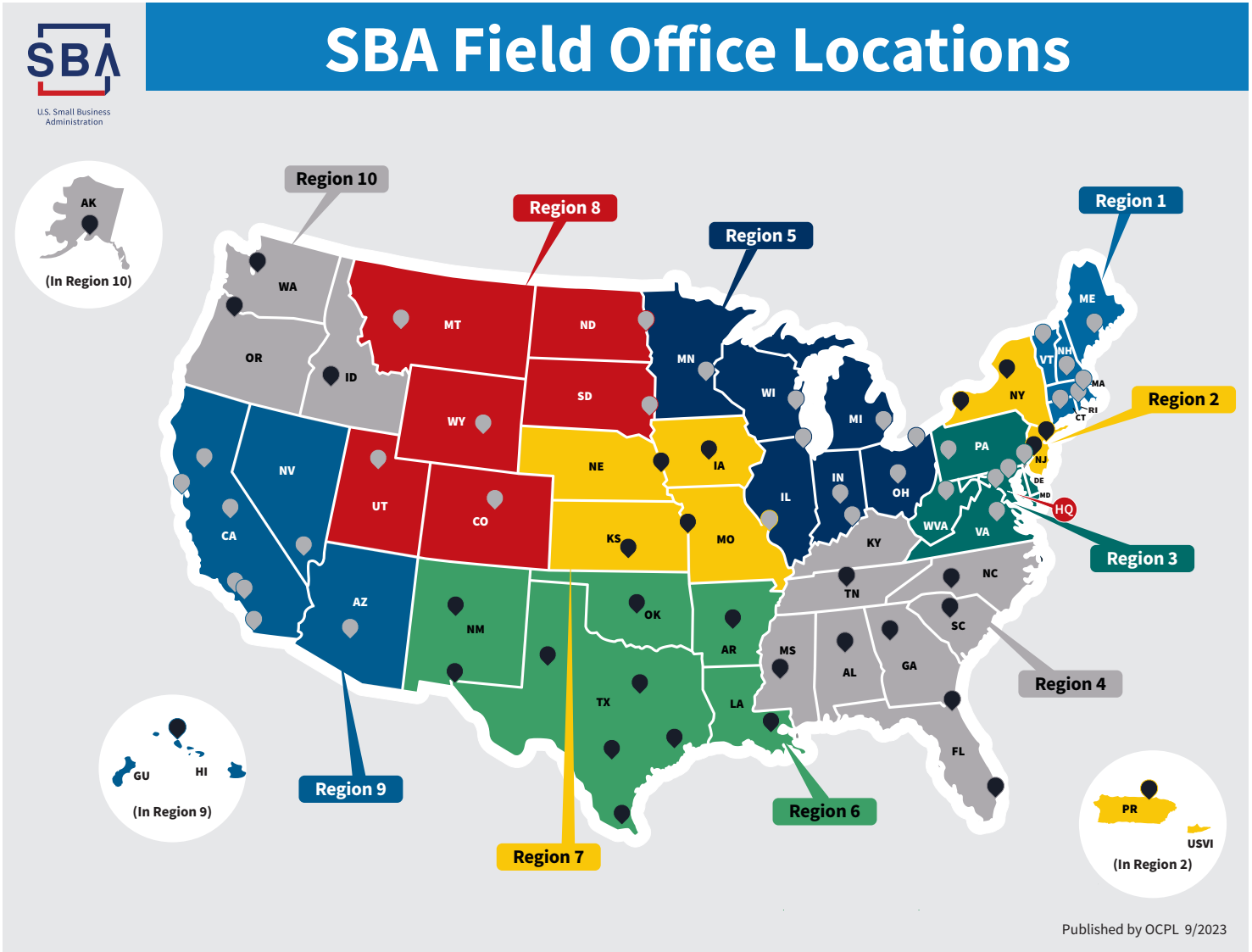
The *Office of the Chief Information Officer* provides information technology leadership, product services, and operational support so that the SBA can maximize internal efficiency and responsiveness to small businesses.

Other offices that support the SBA's strategic goals and objectives include the *Office of the National Ombudsman; Office of Diversity, Inclusion, and Civil Rights; Office of Native American Affairs; Office of Communications and Public Liaison; Office of Congressional and Legislative Affairs; Office of General Counsel;* and *Office of Hearings and Appeals.*

SBA ORGANIZATION CHART



SBA FIELD OFFICE LOCATIONS



EXECUTIVE SUMMARY

America's 34 million small businesses play critical roles in job creation and retention. During the past two decades, small businesses have created two of every three net new jobs. In turn, the U.S. Small Business Administration's assistance to those firms and entrepreneurs helps drive a healthy economy.

The SBA applies a variety of methods to support America's small businesses. These methods include promoting equitable access to capital, Federal contracting, counseling, and disaster assistance.

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

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

The following sections highlight the Agency's financial and performance results. Additional information can be found in the Analysis of Financial Results and Summary of Performance Results sections. The complete set of performance results will be reported in the Annual Performance Report to be published in early 2025.

Financial Results

For FY 2024, the SBA's total budgetary resources used for staffing, operations, and loan subsidy costs were $36.6 billion. Total nonbudgetary resources for loan financing used to make direct loans and purchase guaranteed loans in default were $15.6 billion. The SBA's guaranteed portion of the outstanding loan principal decreased $.7 billion in FY 2024 to $139.5 billion. During FY 2024, new guaranties disbursed by SBA participating banks were $27.3 billion, a $.3 billion increase from last year. In FY 2024, purchases of defaulted guaranteed loans decreased from $12.2 billion last year to $4.5 billion. The loans receivable portion of the SBA credit program portfolio decreased in FY 2024 to $258.1 billion from $272.0 billion in FY 2023. SBA's response to the COVID pandemic led to unprecedented increases in loan activity which peaked in FY 2022. As Disaster lending returned to pre-pandemic levels the outstanding loan balances have declined.

Performance Results

Capital — In FY 2024, the SBA approved nearly $38 billion in the form of more than 76,000 7(a) and 504 loans to small businesses. Those 7(a) loans and 504 loans, together with microloans and surety bonds, helped support more than 823,000 American jobs. During FY 2024, as of June 30, 2024, the SBA invested more than $5 billion in more than 890 small businesses through the Small Business Investment Company Program, which supported more than 80,000 jobs.

Contracting — The SBA continued partnering with agencies across the Federal Government to expand small business contracting opportunities. From FY 2018 through FY 2023, small businesses were awarded more than $890 billion in Federal contracts. FY 2024 contracting numbers continue to be collected and certified. The Federal Government continued to exceed its small disadvantaged and service-disabled veteran-owned small business contracting goals but will continue to face challenges meeting its HUBZone and women-owned small business contracting goals.

Counseling — The SBA helped entrepreneurs start more than 26,000 new businesses in FY 2024 and served more than 737,000 unique clients. Also, in FY 2024 hundreds of thousands of American small businesses took advantage of counseling, mentoring, and training assistance through the SBA network, which includes 152 Women's Business Centers, the largest WBC network in the SBA's history, and 31 Veterans Business Outreach Centers.

Disaster Assistance — In FY 2024, the SBA approved more than 27,000 direct disaster loans for events such as floods, hurricanes, and tornadoes, totaling nearly $1.7 billion. The Agency managed 427 disaster assistance declarations during FY 2024. In addition to supporting communities before, during, and after natural disasters, the SBA continued its oversight of COVID-19 relief programs in every State and territory.

PRIMER OF THE SBA'S PRINCIPAL PROGRAMS

Capital

7(a) Loans — The SBA offers Government guaranties up to $5 million on loans made by lenders to help expand access to capital for business owners who face challenges getting approved for financing. The SBA guarantees a portion of 7(a) loans made and administered by commercial lending institutions. Loans can be guaranteed for a variety of general business purposes.

504 Certified Development Company (CDC) Loans — The SBA works with CDCs — which are private nonprofit corporations — and private lenders to provide long-term financing (up to $5.5 million) to support investment in major assets, such as real estate and heavy equipment. The SBA guarantees the CDC's portion of these loans.

Microloans — The SBA provides loans to nonprofit intermediary lenders — which are community-based organizations with experience in lending and providing technical assistance — that in turn make loans — up to $50,000 — to small businesses needing small-scale financing and technical assistance for startup or expansion.

Surety Bond Guarantees (SBG) —A surety bond is a type of contract that guarantees the performance of a contractor. If one party does not fulfill its end of the bargain, the Surety Bond Guarantee Program financially compensates the other party. To encourage surety companies to provide bonds for small businesses, the SBA guarantees a surety company's bonds up to $6.5 million for non-Federal contracts and up to $10 million for Federal contracts.

Investment And Innovation

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

Small Business Innovation Research (SBIR) — The SBIR program stimulates high-tech innovation by reserving a specific percentage of Federal research and development (R&D) funds for small businesses.

Small Business Technology Transfer (STTR) — The STTR program reserves a specific percentage of Federal R&D funding to award to small-business and nonprofit-research-institution partners.

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

Growth Accelerator Fund Competition (GAFC) Program — GAFC provides $50,000 to $200,000 in funding to accelerators, incubators, co-working communities, makerspaces, and other organizations that offer entrepreneurial support, mentorship, and assistance to science, technology, engineering, and mathematics entrepreneurs (STEM) and/R&D entrepreneurs.

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

Exporting

Export Loans — The SBA provides several types of export loans, including SBA Export Express loans up to $500,000, Export Working Capital loans up to $5 million, and International Trade loans up to $5 million that offer enhanced export financing options for small businesses to develop foreign markets, fund their export transactions, or support business expansion due to exporting success. In FY 2024, the SBA began the Working Capital Pilot (WCP) Program, which is a modified version of the Export Working Capital Program. The WCP provides a new working capital tool geared toward the new-to-export market.

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

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

Contracting And Business Development

Contracting Assistance to Small Businesses — Small business contracts represent the largest form of direct monetary support for small business in the Federal Government. The SBA provides certifications for four subgroups:

- **Small Disadvantaged Businesses** — This program provides assistance through the 8(a) Business Development Program and set-aside contracting for businesses owned and controlled by socially- and economically disadvantaged individuals. For nine years, a firm can be assisted in gaining resources to compete for Federal contracts and private sector contracts.
- **HUBZone Small Businesses** — This program provides sole-source and set-aside contracting for firms located in designated economically disadvantaged geographic areas.
- **Veteran-Owned Small Businesses (VOSB) and Service-Disabled Veteran-Owned Small Businesses (SDVOSB)** — Certified VOSBs have additional opportunities to pursue sole-source and set-aside contracts at the Department of Veteran's Affairs. The SDVOSB program authorizes Federal agencies to set aside contracts for competition among only service-disabled veteran-owned small businesses.
- **Women-Owned Small Businesses (WOSB)** — This program authorizes Federal agencies to set aside certain contracts for competition only among small businesses owned by women.

Empower to Grow (formerly 7(j) Management and Technical Assistance) — This program provides training to small businesses owned and controlled by economically and socially disadvantaged individuals; to small businesses located in areas of high unemployment and low income; to 8(a) and HUBZone small businesses; and to economically disadvantaged Women-Owned Small Businesses.

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

Counseling And Training

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

Women's Business Centers — WBCs provide advising and training through more than 150 nonprofit educational centers across the nation. Many WBCs provide multilingual services, and some offer flexible hours allowing mothers with children to attend training classes.

Boots to Business (B2B) — B2B is an entrepreneurial education and training program that the SBA offers as part of the Department of Defense Transition Assistance Program (TAP). The course provides an overview of entrepreneurship and applicable business ownership fundamentals. Active-Duty Service members (including National Guard and Reserve), veterans of all eras, and military/veteran spouses are eligible to participate.

Native American Outreach — The program supports American Indians, Alaska Natives, and Native Hawaiians seeking to create, develop, and expand small businesses. It engages in outreach, technical assistance, and education, formulates and administers training programs, and coordinates entrepreneurial development opportunities through cosponsorship agreements with entities and other Federal agencies.

Veterans Business Outreach Centers — The SBA's 31 VBOCs provide counseling and training services to veteran-owned and service-disabled veteran-owned small businesses and entrepreneurs, along with reserve component members who have an interest in either starting a new small business or expanding an established small business.

SCORE — SCORE is a nonprofit association comprising nearly 10,000 volunteer business mentors who serve entrepreneurs via in-person mentoring and local training workshops. As the largest volunteer business mentor network in the Federal Government, SCORE adapts its structure and services to meet the needs of small businesses.

Learning Center and Ascent — The SBA Learning Center is an online portal that hosts a variety of self-paced online training courses, quick videos, web chats, and other helpful tools to assist small business owners to explore and learn about business ownership. Ascent is an online learning portal with materials and tools for women entrepreneurs.

Community Navigator Pilot Program (CNPP) — Through CNPP, the SBA engaged in targeted outreach to underserved communities through States,

local governments, resource partners, and nonprofit organizations. As of May 31, 2024, the program ended its No Cost Extension Period, and all program-related activities have concluded. The program is now in the full program closeout phase of the grant's lifecycle.

Disaster Assistance

Disaster Assistance — The SBA is the Federal Government's primary source of financing of the long-term repair and rebuilding of the disaster-damaged private property for homeowners, renters, businesses of all sizes, and private nonprofit organizations. SBA Disaster Assistance is the only form of SBA assistance not limited to small businesses.

Paycheck Protection Program — The Coronavirus Aid, Relief, and Economic Security (CARES) Act established this loan of up to $10 million designed to provide a direct incentive for small businesses to keep their workers on payroll because of the COVID-19 pandemic. These loans can be forgiven if the funds are used for payroll costs, interest on mortgages, rent payments, and utility payments. The SBA continues to provide loan servicing and oversight of this program.

COVID-19 EIDL Loans — The CARES Act modified the existing Economic Injury Disaster Loan within the Disaster Assistance program. In response to the COVID-19 pandemic, small businesses owners, including agricultural cooperatives and nonprofit organizations, could apply for these loans, which went up to $2 million and must be repaid. The SBA continues to provide loan servicing and oversight of this program.

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

Restaurant Revitalization Fund — The American Rescue Plan Act (ARPA) established the RRF to provide funding so that restaurants and other eligible businesses could keep their doors open. The program funded restaurants in amounts equal to pandemic-related revenue losses up to $10 million per business and no more than $5 million per physical location. Recipients are not required to repay the funding if funds were spent for eligible uses. The SBA continues to provide servicing and oversight of this program.

Shuttered Venue Operators Grants (SVOG) — The Economic Aid to Hard-Hit Small Businesses, Nonprofits, and Venues Act established these grants to support shuttered venues because of the COVID-19 pandemic. Recipients were not required to repay the grants if funds were spent for eligible uses within established timeframes. The SBA continues to provide servicing and oversight of this program.

SUMMARY OF COVID-19 FINANCIAL IMPACTS

In FY 2024, the SBA serviced and oversaw functions for the Coronavirus Aid, Relief, and Economic Security Act, Economic Aid Act, and American Rescue Plan Act programs that saved millions of jobs and kept small businesses in operation. The SBA will continue to serve, oversee and monitor activities on pandemic-related programs, such as requests for loan forgiveness, required reporting for grant recipients, recoveries, and other activities.

The SBA approved more than 11 million applications for the Paycheck Protection Program and provided more than $799 billion in lending for the lifetime of the program. The program ended in May 2021, and existing borrowers may be eligible for and request PPP loan forgiveness. As of September 2024, the SBA has forgiven $756.7 billion in PPP loans which represents 92% of the value of all PPP loans. Approximately 97% of the total PPP loan value has been forgiven, in full or in part.

By April 2022, the SBA approved nearly 4 million COVID-19 Economic Injury Disaster loans totaling nearly $378 billion. The COVID-19 EIDL Program also issued more than 601,000 Targeted Economic Injury Disaster Loans (EIDL) Advance payment (grants) totaling more than $5 billion, and more than 453,000 Supplemental Targeted EIDL Advance payment (grants) totaling more than $2 billion. In May 2022, the SBA's COVID-19 EIDL funds were exhausted; the SBA stopped accepting COVID-19 EIDL loan increase requests or requests for reconsideration; and the application portal closed on May 16, 2022. The SBA continues to service more than 2.3 million COVID-19 EIDL loans. Approximately 626,000 COVID-19 EIDL loans are 30 or more days delinquent.

The Shuttered Venue Operators Grant Program, established by the Economic Aid Act and amended by ARPA, included over $16 billion in grants for shuttered venues. The Agency completed all grant processing for the SVOG program in FY 2022, after awarding more than $14.6 billion in grants. The SBA continues to monitor and deliver required compliance activities for these grants. Approximately 10,500 grants have been closed for proper expenditure of funds, representing $9.9 billion in awarded funds. The SBA will continue to work with grantees to close grants in a timely manner.

The Restaurant Revitalization Fund Program was established in March 2021 and the Agency awarded more than $28.6 billion in direct payments to more than 100,000 restaurants, bars, and other businesses. The SBA stopped accepting applications for RRF program funds in July 2021. The Agency continues to manage the annual reporting requirement under which venues report fund use.

In addition to the aforementioned programs, the SBA manages other pandemic relief support it has provided, such as oversight of business loan fee waiver and debt relief, close out of the Community Navigator pilot program, and expansion of the microloan program. The SBA continues to communicate the need for administrative funding in support of the prudent oversight and management of all pandemic relief programs. Without certainty of the necessary administrative resources, the SBA will not be able to continue providing effective oversight as designed and will need to continue making risk-based operational tradeoffs in its management efforts.

ANALYSIS OF PERFORMANCE RESULTS

Summary of Performance Results

This section presents key FY 2024 performance data. The presentation is organized by strategic objective, which follows the SBA's *FY 2022-2026 Strategic Plan*. Detailed information on all SBA program performance data, including explanations of variances, will be presented in the FY 2024 Annual Performance Report to be published in early 2025.

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

S.O.	Performance Measure	FY 2021 Actual	FY 2022 Actual	FY 2023 Actual	FY 2024 Goal	FY 2024 Actual
1.1	Number of Jobs Supported by 7(a) Loans, 504 Loans, Microloans, and Surety Bonds	729,034	621,856	743,501	728,000	776,965
1.2	Number of Jobs Supported by SBIC Financings	126,431	129,098	130,281	135,000	Data Lag[1]
1.3	Number of Jobs Supported by Businesses Receiving Export Grants and Loans	25,159	23,869	27,013	26,000	25,776[2]
1.4	Number of Jobs Supported by Federal Contract Set-Asides	691,700	727,800	790,500	700,000	Data Lag[3]
1.5	Number of New Business Starts through SBA Counseling and Training Programs	28,771	27,757	29,749	25,710	26,040[4]

Strategic Goal 2: Build Resilient Businesses and a Sustainable Economy

S.O.	Performance Measure	FY 2021 Actual	FY 2022 Actual	FY 2023 Actual	FY 2024 Goal	FY 2024 Actual
2.1	Small Business Employment in the United States (Millions)	62.1	65.2	66.3	66	Data Lag[5]
2.2	Number of Loans that Include Mitigation Measures	N/A	522	1,358	626	909

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

S.O.	Performance Measure	FY 2021 Actual	FY 2022 Actual	FY 2023 Actual	FY 2024 Goal	FY 2024 Actual
3.1	Customer Satisfaction Rate of Financial Management Services for SBA Employees	4.7	4.3	4.5	4.0	4.3
3.2	Federal Employee Viewpoint Survey Global Satisfaction Rate	70%	76%	74%	73%	75%
3.3	Inspector General Maturity Rating	3	2.58	2.8	3.4	2.7

1 SBIC data are not yet available. Full year data will be published in the FY 2024 Annual Performance Report.

2 FY 2024 Q4 STEP grant data not yet available. Full year data will be published in the FY 2024 Annual Performance Report.

3 Federal Contracting data continues to be certified by the SBA and will be available by summer 2025.

4 Preliminary data. Full year data will be published in the FY 2024 Annual Performance Report.

5 Full year data for FY 2024 have not yet been published. Source: Bureau of Labor Statistics; Business Employment Dynamics Data by Firm Size Class https://www.bls.gov/web/cewbd/table_f.txt

Verification and Validation of Performance Data

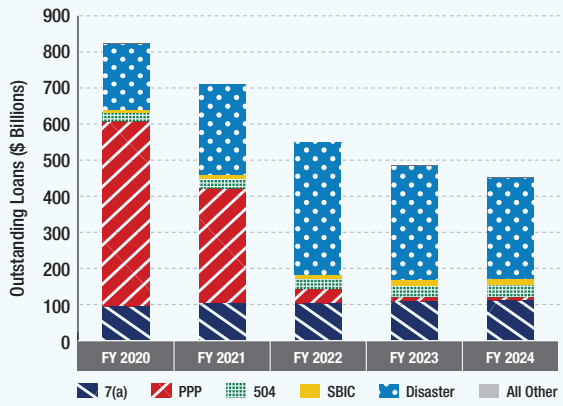
Managing for results and integrating performance, financial, and budgetary information require valid, reliable, and high-quality performance measures and data. The SBA continues to prioritize the improvement of data quality. The SBA's performance analysts work with program office leads across the Agency to acquire high-quality data. In addition to using output data internally from its own systems, the SBA relies on data from resource partners, other Federal agencies, and other Government entities to assess its accomplishments and effectiveness.

The SBA rigorously pursues strategies that ensure data quality as follows: ensuring the validity of performance measures and data; fostering organizational commitment and capacity for data quality; assessing existing data quality; and responding to data limitations. For additional information regarding the SBA's approach to verifying and validating performance data, see the Congressional Budget Justification and Annual Performance Report, which are updated annually.

Operational Portfolio Analysis

The Operational Portfolio Analysis provides information on the SBA's credit programs and does not reference the Agency's financial statements. The SBA is taxpayers' custodian of small-business-loan guaranties and small-business direct loans through a portfolio of $458.9 billion in FY 2024.[6] During FY 2024, the portfolio decreased year over year by $22.5 billion, or 5.7 percent. The largest decrease was in the Agency's disaster loan portfolio, which decreased by $24.3 billion (a 7.8 percent decrease). Because the COVID-19 EIDL program stopped accepting applications during FY 2022, the disaster portfolio is now trending downward. The PPP loan program — authorized in 2020 through the CARES Act in response to the COVID 19 pandemic— also experienced a continued reduction. PPP's portfolio decreased by $4.3 billion, or 49 percent, and the 504 loan portfolio decreased by $1.5 billion, or 4.4 percent. The SBA's 7(a) portfolio expanded by $5.8 billion, or 5.3 percent. The Small Business Investment Company portfolio increased by $1.4 billion, or 10.1 percent. All other portfolios increased by $240 million, or 8.2 percent (see **Chart I**).

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

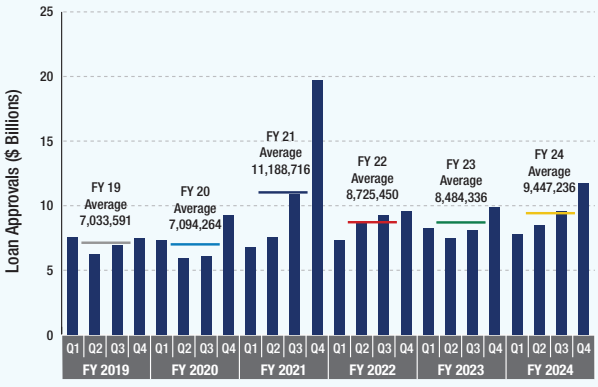


FY = fiscal year. PPP = Payment Protection Program. SBIC = Small Business Investment Company.

New Guaranteed Loans

Quarterly average loan volume increased in FY 2024 with an average of $9.4 billion. **Chart II** demonstrates the trend in loan approvals since FY 2019.

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



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

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

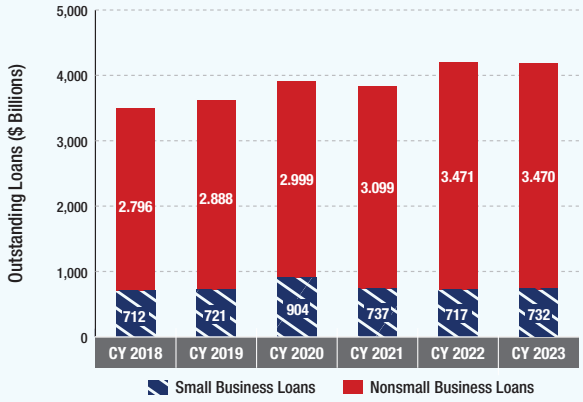
At least three main factors contributed to the loan guaranty portfolio's recent changes:

Continuous growth in the economy: Real gross domestic product (GDP) in the United States increased throughout 2023 and continued to grow during the beginning of 2024 and at a rate of 3 percent in the second quarter of 2024. The increase in the second quarter of 2024 primarily reflected increases in consumer spending, inventory investment, and business investment. Imports, which are subtractions in the calculation of GDP, increased. [7]

Changes in Market Volatility: Inflation remained low throughout 2020 — at a monthly average of 1.7 percent[8] — but picked up sharply in April 2021 and continued to increase, leading to an average monthly increase of 3.6 percent for that year. In 2022, the monthly inflation rate continued to climb, peaking at 6.6 percent in September 2022 to end the year with a 6.2 percent monthly average before coming down during 2023 to an annual monthly average of 4.8 percent. Finally, in 2024 inflation has continued to ease with a monthly average of 3.6 percent through the first six months of the year. Inflationary pressures have significantly increased interest rates across the commercial and consumer loan markets. Conversely, even though the unemployment rate surged to a peak of 14.8 percent in April 2020, it decreased significantly throughout the 2021-2023 period, averaging 3.6 percent annually for both 2022 and 2023. So far in 2024, the unemployment rate has increased slightly to an average of 4 percent during all of 2024 and 4.1 percent as of September 2024.[9]

Market for Small Business Lending: Federal Deposit Insurance Corporation (FDIC) data showed that the total market for business loans increased from 2018 to 2023 by 20 percent, or $693 billion. However, 97.3 percent, or $674 billion, of that increase came from loans to non-small businesses,[10] whereas total small business loans increased by only $19 billion. Thus, the ratio of small business loans compared with the total bank market decreased from 2018 to 2023, with a marked decrease during the pandemic years of 2021–2022 (**Chart III**). Furthermore, the banking industry's trend toward consolidation, reflected in reduction of the number of commercial banks by 15 percent[11] from 2018 to 2023, makes the SBA's guaranty products more critical for growing small businesses that may be denied credit in the private loan market.

Chart III: Outstanding Commercial Loans to Small versus Nonsmall Businesses

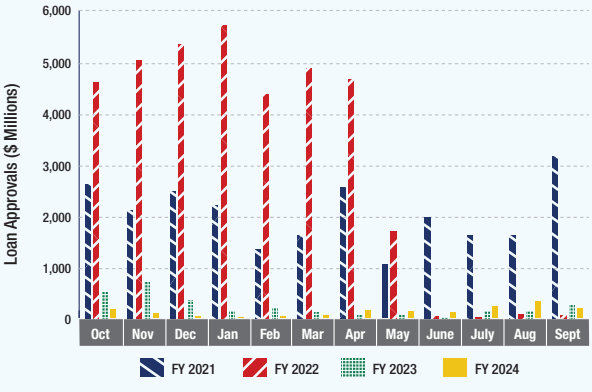


CY = calendar year.

New Direct Loans

In FY 2024, the SBA's gross approvals for the Disaster Assistance loan program decreased by 44 percent to $1.7 billion against an FY 2023 total of $3 billion. As of FY 2023, the COVID-19 EIDL program is no longer approving COVID-19 loans, so disaster loan approvals are returning to a level comparable to that of the pre-pandemic period. **Chart IV** illustrates the relative sum of disaster loans in FY 2024 by month, compared with the three prior fiscal years.

Chart IV: Monthly Gross Disaster Assistance Loan Approvals



FY = fiscal year.

7 U.S. Department of Commerce, Bureau of Economic Analysis: www.bea.gov/newsreleases/glance.htm.

8 U.S. Department of Labor, Bureau of Labor Statistics: www.bls.gov/cpi/home.htm.

9 U.S. Department of Labor, Bureau of Labor Statistics: data.bls.gov/timeseries/LNS14000000.

10 Nonsmall businesses are firms that have more than 500 employees. https://www.fdic.gov/analysis/quarterly-banking-profile/index.html.

11 https://www.fdic.gov/bank/statistical/stats/.

Aside from the FY 2020 -2022 COVID-19 EIDL loans, most of the Disaster Assistance loan portfolio's outstanding balance consists of lending from FY 2006 (Hurricane Katrina), FY 2013 (Hurricane Sandy), FY 2018 (Hurricanes Harvey, Irma, and Maria), FY 2021 (Hurricane Ida), and FY 2022 (Hurricane Ian). The SBA will continue to make disaster loans an important recovery tool for businesses, homeowners, and renters that survive a disaster.

Portfolio Performance: Delinquencies

Delinquency rates (i.e., of borrowers late on their payments) are leading indicators of the Agency's charge-off rate (i.e., the rate of dollars spent to cover loans that defaulted). Thus, delinquency rates are general indicator of the Agency's and taxpayers' future liabilities in these programs. A declining delinquency rate (**Chart V**) is a positive indicator for the financial performance of any loan portfolio.

Strong economic growth, strong profit performance, and financial institutions' tighter lending standards during the past several years have reduced the delinquency rates of all business loans, whose delinquency rates have been steadily declining since reaching cyclical peaks in 2009. Delinquency rates for the Agency's major loan programs followed this national downward trend. Delinquency rates for the 7(a) loan program declined from a 3.8-percent peak in January 2009 to 0.84 percent in February 2020, before the start of the COVID-19 pandemic. Similarly, delinquency rates for the 504 loan program likewise declined from a 5-percent peak in February 2010 to 0.9 percent in February 2020.

The CARES Act provided pandemic debt relief to current borrowers of 7(a) and 504 loans, authorizing the SBA to pay the principal, interest, and associated fees on existing loans for six months. The debt relief led to a delinquency rate of near zero percent during the last six months of FY 2020. With the expiration of CARES Act funds, both programs saw more variability in their delinquency rates during FY 2021-2022.

As of July 2024, the FY 2024 average year-to-date 7(a) delinquency rate of 0.85 percent was higher than the FY 2023 average delinquency rate of 0.58 percent. The 7(a) rate remained low throughout FY 2024 though, staying below one percent every month despite generally trending slightly upwards.

Monthly 504 delinquency rates decreased during 2023 after a period of greater variability in FY 2021-2022, peaking at 3.4 percent in September, 2021. During FY 2022, the delinquency rate trended downward, but experienced high variability throughout that fiscal year. Starting in FY 2023, the 504 delinquency rate became less volatile, and the average FY 2024 year-to-date 504 delinquency rate of 0.76 percent has been virtually flat with an FY 2023 average delinquency rate of 0.73 percent. The SBA will continue to monitor the variability and level of 504 delinquency rates closely post-CARES Act.

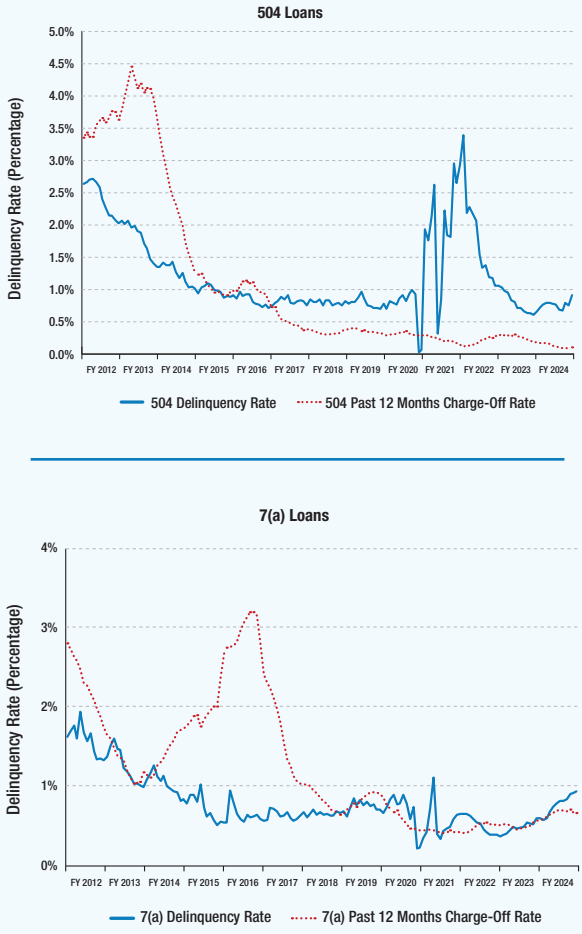
Portfolio Performance: Charge-Offs

The 12-month charge-off rate for the 7(a) loan program sharply declined from FY 2010 to FY 2013, falling from 4.3 percent in the fourth quarter of 2010 to 1.2 percent in the third quarter of 2013. The rate increased but ultimately decreased by July 2024 to 0.73 percent (**Chart V**). The 7(a) loans not sold on the secondary market become charge-offs after all efforts to recover a delinquent balance were exhausted, such as the liquidation of the underlying collateral. The latent rise of the 7(a) charge-off rate in 2013 was attributable to recession-era loans that were charged-off after efforts to recover delinquent balances had been exhausted. Now that this effort to charge-off recession-era loans is complete, the charge-off rate again closely trends with the delinquency rate in FY 2024.

The 12-month charge-off rate for the 504 loan program continuously increased from FY 2008 to FY 2013, peaking at 4.4 percent in January 2013, but dropping to 0.11 percent by July 2024. This trend is not surprising, because the 504 loan program is an economic development program with a commercial real estate focus. As such, recovery rates of defaulted 504 loans are, with some noticeable time lag, significantly affected by the pricing trend in this sector. The continued downward trend in the 504 delinquency rate during FY 2024 indicates that the volatility during the FY 2021-2022 period had little impact on the trajectory of 504 charge-off rates and as of July 2024, does not appear to have been a significant factor.

Quarterly information on the status of the SBA's loan portfolio, including outstanding balances and approvals by loan program and purchase rates, is available on the SBA website at www.sba.gov/performance.

Chart V: Delinquency and Charge-Off Rates for the 7(a) and 504 Loan Programs by Fiscal Year



FY = fiscal year.

FORWARD LOOKING ANALYSIS

The SBA equips America's small-business owners with the tools, resources, and support they need to start, manage, and grow their small businesses and innovative start-ups. The SBA continues to administer and oversee programs implemented to reduce the COVID-19 pandemic's impacts on small businesses and reimagine the Agency's service delivery in virtual and hybrid spaces while improving underserved populations' access. The following sections describe areas that represent both challenges and opportunities that factor into the SBA's strategies for delivering on outcomes and using taxpayer resources efficiently. The Agency will continue to review these areas while managing its programs to ensure optimal performance.

Risk Management And Audit Remediation

Although the emergency declaration of the COVID-19 pandemic is past, the SBA continues to fulfill the requirements of long-term oversight, servicing, litigation, audit remediation, and fraud risk management in support of what has been a historic response by the Agency to the COVID-19 pandemic. The heightened response to the pandemic exposed gaps in the SBA's financial management internal control protocols. The SBA's Office of Inspector General (OIG) Audits, U.S. Government Accountability Office (GAO) Audits, and Financial Advisors cited the need to have an elevated and well-established Enterprise Risk Management (ERM) Program, a Fraud Risk Management (FRM) Program, and a Chief Risk Officer (CRO) function. To fulfill those needs, the SBA established a CRO-led Office of Enterprise Integrity (OEI) to promote agency-wide risk management through oversight of enterprise risk, fraud risk, audit management, and internal controls — in collaboration with SBA offices. OEI is building discipline into risk awareness through consultation, education, guidance, assessments, and strategic partnerships to support compliance and foster good stewardship of SBA resources.

The SBA is working diligently to mature its ERM and FRM programs in accordance with the U.S. Office of Management and Budget's (OMB) Circular No. A-123 Management's Responsibility for Enterprise Risk Management and Internal Control and the Government Accountability Office's *A Framework for Managing Fraud Risks in Federal Programs* (GAO-15-593SP). The SBA will continue to prioritize audit remediation and identify and assess risks at all levels of the organization and develop risk response strategies to build an agency-wide portfolio of internal and external risks facing the Agency. This comprehensive view of risks to the organization will position the SBA to better prioritize resources and efforts to manage risk. The SBA will also increase risk management training, with an emphasis on fraud risks and build on the progress made in FY 2024. Additionally, the SBA will continue to mobilize resources across programs to remediate audit findings and to maximize the recovery of pandemic funds that were not used in accordance with program requirements and from recipients that were deemed ineligible.

Climate Crisis

A natural disaster can destroy lives, businesses, and communities. Moreover, natural disasters have become more intense and more costly. In 2023, the United States experienced 28 separate weather and climate disasters costing at least one billion dollars each, becoming the year with the highest number of billion-dollar disasters in a calendar year.[12] Although the SBA has programs that can respond to hurricanes, tornados, forest fires, and floods, the growing threats and numbers of those occurrences remain serious concerns. Disaster preparedness is a key component of the SBA's Disaster Assistance program and has helped many small businesses prepare for the unexpected. Research shows that for every $1 spent on hazard mitigation, up to $6 in future disaster recovery costs are saved.[13] The SBA will continue to support disaster-resilient communities and reduce future disaster damage by promoting the disaster mitigation loan option. By financing property improvements that help prevent future damage caused by flooding, fires, severe winds, or other natural disasters, businesses and homeowners can proactively reduce the impact of future disasters and shorten recovery time when disasters do occur. The SBA continues to modernize its response in communities that have experienced a natural disaster event by updating technology and streamlining its ability to onboard staff. As part of the Agency's efforts to advance equity and environmental justice, the SBA will use Portable Loan Outreach Centers (PLOCs) to better serve underserved and hard-to-reach communities affected by disasters.

12 2023: A historic year of U.S. billion-dollar weather and climate disasters | NOAA Climate.gov

13 Source: National Institutes for Building Sciences, 2018.

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

Technology And Automation

As small businesses experienced rapid evolution of technology and automation during the COVID-19 pandemic, the SBA undertook significant programmatic improvements across the Agency. The SBA will continue its multi-year initiative to unite the customer experience of SBA programs and harmonize processes while retaining critical functions unique to each program area. This initiative, referred to as MySBA, is a whole-of-agency approach that works toward improvements in SBA programs and services. The Agency will streamline access to programs by small-business owners and disaster survivors, empower SBA personnel to better understand and serve small business owners, and leverage shared services to improve operational efficiency. Virtual training platforms and online tools enable the SBA to reach further into communities and reduce barriers to services for previously underserved populations. Not all entrepreneurs have access to broadband internet services, and some face challenges connecting to resources. The SBA will continue adapting existing platforms and developing new ones to reach entrepreneurs in emerging markets. The Agency will also continue to streamline processes, increase accessibility, and deliver broad and equitable support across programs to more communities and entrepreneurs who have faced historical barriers to small-business ownership.

A Changing Federal Work Environment

The Federal workforce landscape continues to evolve as persistent challenges — such as a growing percentage of Agency employees eligible for retirement — confront new planning efforts for the future of work and workplace modernization. As the nation continues to recover from the COVID-19 pandemic, the SBA will evaluate the Agency's work environment plan in alignment with requirements specified in OMB M-23-15, *Measuring, Monitoring, and Improving Organizational Health and Performance in the Context of Evolving Agency Work Environments*. The Agency will assess its organizational health and performance to inform the human capital policies and workplace space requirements that would enable an effective mission-based hybrid workforce. The Agency has also conducted a survey of space considerations for headquarters, which will inform how the SBA could configure its space in the future.

The SBA continues to search for ways to recruit and retain the best talent. Competition with private industry and other agencies is strong, and retention is challenging. The SBA needs a workforce that is representative of the public it serves and that can effectively communicate with, and meet the needs of, entrepreneurs and small business owners. The SBA has developed and aligned training for its field staff to ensure that they have the tools needed to help small businesses succeed. By providing SBA employees with the necessary tools and resources, the Agency will be able to better support America's small businesses.

ANALYSIS AND HIGHLIGHTS OF FINANCIAL STATEMENTS AND RESULTS

Highlights of Financial Results (as of September 30)

(Dollars in Thousands)

At End of Fiscal Year	2024	2023	$ Change
CONDENSED BALANCE SHEET DATA			
Fund Balance with Treasury	$ 17,845,756	$ 44,081,291	$ (26,235,535)
Credit Program Receivables and Related Foreclosed Property, Net	258,107,817	271,944,994	(13,837,177)
All Other Assets	228,352	302,299	(73,947)
Total Assets	**$ 276,181,925**	**$ 316,328,584**	**$ (40,146,659)**
Debt	264,662,710	334,320,210	(69,657,500)
Downward Reestimate Payable to Treasury	9,902,199	2,724,486	7,177,713
Liability for Loan Guaranties	4,827,018	7,895,498	(3,068,480)
All Other Liabilities	1,044,086	1,095,688	(51,602)
Total Liabilities	**$ 280,436,013**	**$ 346,035,882**	**$ (65,599,869)**
Unexpended Appropriations	3,092,566	3,724,113	(631,547)
Cumulative Results of Operations	(7,346,654)	(33,431,411)	26,084,757
Total Net Position	**$ (4,254,088)**	**$ (29,707,298)**	**$ 25,453,210**
Total Liabilities and Net Position	**$ 276,181,925**	**$ 316,328,584**	**$ (40,146,659)**
For the Fiscal Year			
STATEMENT OF NET COST BY STRATEGIC GOAL			
Goal 1: Ensure Equitable and Customer-Centric Design and Delivery of Programs to Support Small Businesses and Innovative Startups			
Net Cost	$ 596,029	$ 799,140	$ (203,111)
Goal 2: Build Resilient Businesses and a Sustainable Economy			
Net Cost	(1,245,257)	34,120,775	(35,366,032)
Goal 3: Implement Strong Stewardship of Resources for Greater Impact			
Net Cost	170,880	169,534	1,346
Costs Not Assigned	169,432	233,137	(63,705)
Net Cost of Operations	**$ (308,916)**	**$ 35,322,586**	**$ (35,631,502)**
CONDENSED STATEMENT OF NET POSITION			
Beginning Unexpended Appropriations	$ 3,724,113	$ 10,558,338	$ (6,834,225)
Total Budgetary Financing Sources	(631,547)	(6,834,225)	6,202,678
Ending Unexpended Appropriations	**$ 3,092,566**	**$ 3,724,113**	**$ (631,547)**
Beginning Cumulative Results of Operations	$ (33,431,411)	$ (27,669,576)	$ (5,761,835)
Total Financing Sources	25,775,841	29,560,751	(3,784,910)
Less: Net Cost of Operations	(308,916)	35,322,586	(35,631,502)
Ending Cumulative Results of Operations	**$ (7,346,654)**	**$ (33,431,411)**	**$ 26,084,757**
Ending Net Position	**$ (4,254,088)**	**$ (29,707,298)**	**$ 25,453,210**
CONDENSED STATEMENT OF BUDGETARY RESOURCES			
Unobligated Balance Brought Forward	$ 25,400,613	$ 54,834,396	$ (29,433,783)
Appropriations (discretionary and mandatory)	35,212,958	24,899,206	10,313,752
Borrowing Authority (discretionary and mandatory)	2,655,914	5,903,912	(3,247,998)
Spending Authority from Offsetting Collections	4,648,628	21,516,204	(16,867,576)
Total Budgetary Resources	**$ 67,918,113**	**$ 107,153,718**	**$ (39,235,605)**
Obligations Incurred, Budgetary	$ 36,577,358	$ 32,264,241	$ 4,313,117
Obligations Incurred, Nonbudgetary	15,607,348	32,336,647	(16,729,299)
Unobligated Balances, Available and Unavailable	15,733,407	42,552,830	(26,819,423)
Total Status of Budgetary Resources	**$ 67,918,113**	**$ 107,153,718**	**$ (39,235,605)**

Analysis of Financial Results

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

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

During FY 2024, the SBA continued to support the recovery of the American economy from the COVID-19 pandemic. No new pandemic relief funding was available in FY 2024. The SBA continues to service the COVID-19 programs that ended in FY 2022 or before.

Background

The SBA is a major Federal credit reform agency of the U.S. Government, and most of its $67.9 billion budgetary resources support the SBA's credit programs. When apportioned by the OMB, budgetary resources are available to enter new obligations and to liquidate them. Budgetary resources are made up of new budget authority and unobligated balances of budget authority provided in previous years. The loan financing funds record all cash flow activity resulting from post-1991 direct loans and loan guaranties and are not budgetary costs. The financing accounts are reported separately in the *Budget of the United States Government* and are excluded from the budget surplus/deficit totals.

The Federal Credit Reform Act (FCRA) governs the SBA's accounting for direct loans and loan guaranties made in FY 1992 and thereafter. Under FCRA, direct loans outstanding are reported net of an allowance by using the present value of forecasted cash flows in subsidy models that are OMB approved.

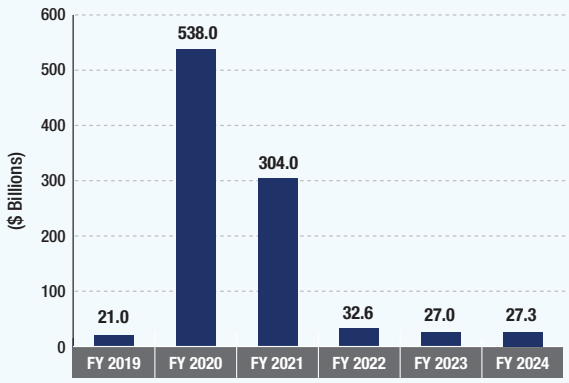
Liability for loan guaranties is also reported using subsidy models with forecasted cash flows from user fees and defaulted guaranteed loans. The direct loan allowance and liability for loan guaranties for each loan program cohort is adjusted annually under FCRA through a subsidy model reestimation process. The SBA's FCRA accounting is discussed further in this section and in Notes 1 and 6.A of the financial statements.

Credit subsidy cost is the net present value of expected cash inflows and outflows during the life of a guaranteed loan or the difference between the net present value of expected cash flows and the face value of a direct loan. The SBA receives budget authority annually to fund its credit programs and when loans get disbursed, the SBA records subsidy expenses for non-zero subsidy loan programs.

In accordance with FCRA, subsidy costs are reestimated annually. Reestimates update original loan program cost estimates to reflect actual experience and changes in forecasts of future cash flows for each annual cohort of loans. An upward reestimate occurs when the present value of future expected cash flows results in liabilities that exceed assets. A downward reestimate occurs when the present value of future expected cash flows results in assets that exceed liabilities.

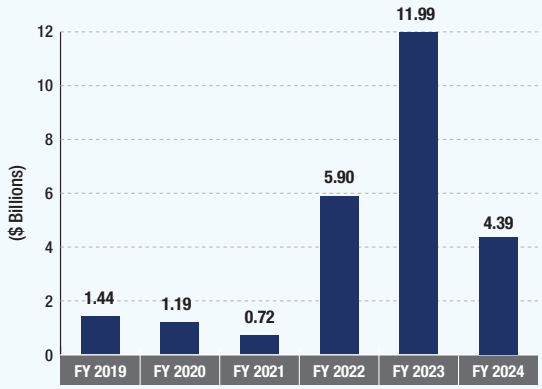
Increased reestimated costs are funded in the following year by permanent indefinite budget authority, whereas decreased reestimated costs are returned by the SBA to a U.S. Treasury general fund. The portion of the outstanding principal guaranteed by the SBA was $139.5 billion as of September 30, 2024, a decrease of $.7 billion from the $140.3 billion guaranteed as of September 30, 2023 (see Note 6.C in the financial statements). As shown in **Chart VI**, new guaranteed loans disbursed by the SBA participating banks during FY 2024 were $27.3 billion, a $.3 billion increase compared with the FY 2023 figure of $27.0 billion.

Chart VI: Guaranteed Loans Disbursed



FY = fiscal year.

Chart VII: Purchases of Guaranteed Loans



FY = fiscal year.

SBA's credit program receivables comprise business and disaster direct loans and defaulted business loans purchased per the terms of the SBA's loan guaranty programs, which are offset by an allowance for the subsidy. The allowance for the subsidy cost of the gross loan receivable is recorded as a contra asset, and the net asset is reported on the Balance Sheet. The subsidy allowance is determined by modeling the projected future cash inflows and outflows of SBA credit programs by using discounted cash-flow methodology. The subsidy allowance for each loan program cohort is reestimated annually. Increases are funded by Treasury, whereas decreases are returned to Treasury by the Agency. Loan losses, the costs of loan servicing, and loan interest rates are factors that affect the subsidy allowance.

SBA credit program receivables were valued at $258.1 billion in FY 2024 — a decrease of $13.8 billion from FY 2023. The change in credit program receivables resulted from a decrease in direct disaster loans because of recoupment of loans previously disbursed, and current year write-offs. As reflected in **Chart VII**, guaranteed loan purchases decreased $7.6 billion in FY 2024 to $4.4 billion as the SBA honors its guaranties.

Financial Position

Assets

The SBA had total assets of $276.2 billion at the end of FY 2024, down $40.1 billion from FY 2023. Fund Balance with Treasury decreased $26.2 billion because of the timing of repayment of debt to Treasury. Financing Fund collections increased $6.0 billion while repayment of debt to Treasury increased $36.6 billion. The remaining change to Fund Balance with Treasury is due to multiple factors. Credit Program Receivables decreased $13.8 billion due to the collection of existing balances exceeded new loans.

Liabilities

The SBA had total liabilities of $280.4 billion at the end of FY 2024, down $65.6 billion from FY 2023. Liabilities consist primarily of the Principal Payable to the Bureau of the Fiscal Service, Liability for Loan Guaranties, and Downward Reestimate Payable to Treasury.

The Principal Payable to the Bureau of the Fiscal Service was $264.7 billion a decrease of $69.7 billion from FY 2023 because of repayment of debt as the SBA collected disaster loans receivable. Note 9 in the financial statements provides additional detail on SBA's Principal Payable to the Treasury.

Loan Guarantee Liabilities is the estimate of the net present value of the future amount that the SBA will pay, net of fee collections, to liquidate expected purchases of guaranteed loans under its guaranteed loan programs. Loan Guarantee Liabilities for each loan program cohort is reestimated annually. Increases are funded by Treasury, whereas the Agency returns decreases to Treasury. Loan Guarantee

Liability is $4.8 billion at the end of FY 2024 — a decrease of $3.1 billion from FY 2023 primarily because of claim payments to lenders and miscellaneous recoveries and costs in FY 2024. Note 6.E in the financial statements provides additional detail.

Downward Reestimate Payable to Treasury was $9.9 billion at the end of FY 2024, representing an increase of $7.2 billion from FY 2023. The increase was a direct result of Disaster Assistance program reestimates. The reestimate is due mostly to higher expected collections than previously anticipated for the 2020 COVID-19 EIDL cohort. Note 6.I in the financial statements provides additional detail.

Net Position

Cumulative Results of Operations is the accumulative difference between expenditures and financing sources since the inception of the Agency. The cumulative results of operations was $ (7.3) billion at the end of FY 2024 a $26.1 billion decrease from FY 2023 primarily because unfunded upward subsidy reestimates at year-end for the disaster loan programs were higher for FY 2024 compared with FY 2023. Upward subsidy reestimates determined at year-end are funded in the following year.

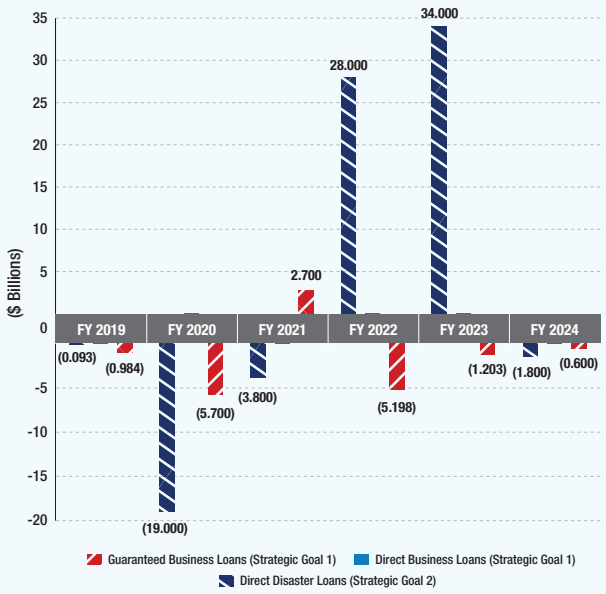
Unexpended Appropriations decreased $.6 billion to $3.1 billion at the end of FY 2024 from FY 2023 primarily because the spending fund by appropriations was greater than the amount of current year appropriations. The decrease affected Budgetary Financing Sources and Ending Net Position.

Net Costs of Operations

Net Cost of Operations decreased from $35.3 billion in FY 2023 to $ (.3) billion in FY 2024. Net Costs of Operations primarily reflects SBA credit programs subsidy expenses during the year for new loans and subsidy reestimates at year-end. The primary change was that net reestimates for disaster loan programs decreased in FY 2024 compared with FY 2023, which affected Strategic Goal 2 costs.

Chart VIII reflects the change in net subsidy reestimates for the guaranteed business and direct disaster loan programs from FY 2019 through FY 2024. The largest driver of the net downward reestimates in FY 2024 for the guaranteed business loan programs is attributable to the PPP program, as other guaranteed loan programs had offsetting net reestimates. The PPP program had a net downward reestimate of $0.6 billion for FY 2024 and is attributable to fewer purchase and forgiveness payments and higher recoveries processed than anticipated in FY 2024. The Disaster Assistance loan program had a net downward reestimate of $1.8 billion in FY 2024 compared to a $34.0 billion upward reestimate in FY 2023. The downward reestimate is primarily due to lower expected costs than previously projected for small COVID-19 EIDL loans net of increased expected costs for large COVID-19 EIDL loans. Further detail on subsidy reestimates can be found in Note 6.I of the financial statements in the Financial Reporting section of this report.

Chart VIII: Credit Program Subsidy Reestimates



FY = fiscal year.

Budgetary Resources

For FY 2024, Total Budgetary Resources for FY 2024 of $67.9 billion decreased by $39.2 billion from $107.2 billion in FY 2023. The decrease was due primarily to a decrease in beginning balance, borrowing authority, and spending authority from offsetting collections as well as other factors shown in the Highlights table and the following discussion.

Unobligated Balance from Prior Year Budget Authority (discretionary and mandatory) decreased $29.4 billion in FY 2024. Borrowing Authority decreased $3.2 billion in FY 2024 because of a decrease in borrowing needed to cover disaster loan making. Spending Authority from Offsetting Collections decreased $16.9 billion in FY 2024 due to repayment of disaster debt from spending authority offset by an increase in the amount of subsidy collected in disaster.

Status Of Budgetary Resources

Total Status of Budgetary Resources decreased $39.2 billion to $67.9 billion in FY 2024 from $107.2 billion in FY 2023. Nonbudgetary obligations decreased by $16.7 billion, from reductions in PPP forgiveness payments and purchases of guaranteed loans.

Budgetary obligations increased $4.3 billion to $36.5 billion in FY 2024 from $32.3 billion in FY 2023 due primarily to increased Disaster Assistance subsidy reestimates. Non-budgetary obligations decreased to $15.6 billion from $32.3 billion due to a decline in default payment during FY 2024.

Unobligated balances as of September 30, 2024, and September 30, 2023, were $15.7 billion and $42.6 billion, respectively, which included $5.7 billion and $23.8 billion of unavailable unobligated balances. The balances were unavailable because they were unapportioned by the OMB. The SBA accumulates most of the unobligated balances in its nonbudgetary financing accounts ($5.5 billion in FY 2024 and $23.5 billion in FY 2023) from subsidy estimates and reestimates used primarily to pay default claims in future years. However, most of the unobligated balances in FY 2024 and FY 2023 were for Disaster Assistance and will be returned to Treasury to repay debt that financed disaster lending.

ANALYSIS OF SYSTEMS, CONTROLS, AND LEGAL COMPLIANCE

Internal Control Environment

The SBA believes that maintaining integrity and accountability in all programs and operations is critical for demonstrating consistently responsible stewardship of assets and resources and is a sign of responsible leadership. The SBA's commitment to integrity, ethical values, and an effective system of internal controls helps ensure that every employee remains dedicated to the efficient delivery of services to customers and maximizes desired program outcomes. Accordingly, the SBA has developed and put in place certain management, administrative, and financial system controls to reasonably ensure that:

- Programs and operations achieve intended results efficiently and effectively;
- Resources get used in accordance with the Agency's mission;
- Programs and resources get protected from waste, fraud, and mismanagement;
- Program and operation activities are in compliance with laws and regulations; and
- Reliable, complete, and timely data are maintained and used for decision making at all levels.

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

The Office of Performance, Planning, and the Chief Financial Officer's (OPPCFO) Internal Controls Division (ICD) provides training and tools designed specifically for program support offices and District Offices so as to aid management in assessing and documenting the effectiveness of internal controls within their respective areas of responsibility. The assessments are performed based on the five components and 17 principles of the internal control framework prescribed in GAO's *Standards for Internal Control in the Federal Government*, known as the Green Book.

The SBA's Senior Management Council (SMC) was established to oversee the Agency's internal control system. The SMC is chaired by the CRO and composed of SBA managers from the major program and support offices. The SMC plans and executes the Agency's internal control activities which include assessing and improving compliance with applicable guidance (e.g., OMB Circular A-123, titled Management's Responsibilities for Enterprise Risk Management and Internal Control), monitoring and remediating identified deficiencies, and communicating the results of reviews to senior management.

The SMC's activities in FY 2024 included planning the annual internal controls assessments; identifying key processes and related control activities; documenting the scope, design, and methodology of risk and internal control assessments; testing internal controls; and monitoring corrective action plans for remediation. In addition, the SMC discussed material information that should be considered for inclusion in the Administrator's annual statement of assurance with the Enterprise Risk Management Board.

In 2024, the SBA continued its oversight and monitoring efforts related to the pandemic programs created by legislation. The methodology applied to all programs established by the Coronavirus Aid, Relief, and Economic Security Act, Economic Aid Act, and the American Rescue Plan Act. Although the pandemic programs have ceased making disbursements they are still included in SBA's oversight and monitoring efforts. Internal control assessments were conducted to assess the impacts and likelihoods of different risk factors and to identify deficiencies for remediation. Internal control assessments will continue in FY 2025 for programs that exceed the materiality threshold.

Furthermore, the SBA continued the development and execution of the FY 2024 Annual Assessment Plan. Internal control assessments were conducted for the following programs: COVID-19 EIDL, PPP Loan Forgiveness, Debt Relief Modification (Subsidy Payments), Shuttered Venue Operators Grant, Restaurant Revitalization Fund, Targeted EIDL Advance Grants, Entity Level Controls (ELC), IT General Controls, Financial Reporting, Small Business Development Center Grants, Disaster Loans – El Paso, SBA Payroll, and Congressional Earmarks.

The FY 2023 Financial Statement Audit identified weaknesses and deficiencies that required corrective actions. The SBA worked with officials to develop corrective actions and process documentation in support of remediation of existing deficiencies. The Agency continues to collaborate with program offices to support remediation via corrective actions and establish new controls related to PPP, COVID-19 EIDL, SVOG, RRF, Financial Reporting, Service Organization, ELC, Debt Relief Program, Information Technology, and Subsequent Events. Efforts will continue beyond FY 2024 until remediation is complete.

The SBA's Enterprise Risk Management Board is chaired by the Deputy Administrator and composed of senior leaders (Senior Executive Service members) from the SBA's major program and support offices. The board generally meets monthly to discuss management of the Agency's top risks and to exchange views on risk management best practices. The Chief Risk Officer and the Senior Risk Officer, the SBA's senior advisor for Enterprise Risk Management, in the Office of Enterprise Integrity advise the ERM Board, facilitate the ERM Board Meetings, and implement ERM agency-wide efforts. The SBA took several steps to strengthen ERM efforts this past fiscal year:

- Hired a CRO to oversee and manage the ERM, FRM, Internal Controls, and audit management functions across the Agency;
- Updated the SBA risk appetite statement and ERM framework guide;
- As directed by OMB, approved an Agency-wide risk profile that identified cross-cutting risks related to fraud, technology, and operations;
- Continued to implement the FY 2023-2026 ERM Strategic Plan to mature the ERM program;
- Continued to integrate the ERM process into existing management processes.

The SBA delivers enterprise level cybersecurity and privacy services that empower the Agency to better support the small business community through robust yet flexible processes and mechanisms. In FY 2024, the Agency saw a decrease in its overall Federal Information Security Management Act of 2014 (FISMA) maturity rating from 2.80 to 2.70 for the core questions. However, the Agency scored a 2.84 for the FY 2024 supplemental questions which was an increase from 2.68 in FY 2023.

The Information Security Division is in the process of procuring a new Governance Risk Platform tool and Security Training Platform that will allow the SBA to mature its Security Program, thereby enhancing its security posture. Also, the Office of the Chief Information Officer (OCIO) successfully closed several audit findings pertaining to user separations and network multi-factor authentication (MFA). The improvements are expected to result in an increased FISMA maturity rating for FY 2025.

The SBA will continue incorporating changes derived from evaluation criterion and developing its cybersecurity program in the areas of configuration management; cybersecurity training; asset management; vulnerability management; supply chain risk evaluation and management; red team penetration testing; network segmentation; development, security, and operations; risk quantification; and automation of controls assessments.

FINANCIAL MANAGEMENT SYSTEMS STRATEGY

The SBA's financial management systems are designed to support effective internal controls, produce reliable and timely financial information, and ensure cost-effective loan guaranty processing. Management remains focused on robust financial management systems that support the SBA's ability to comply with laws and regulations. SBA systems must also provide timely and accurate data to support management analysis and decision making, enable the Agency to keep pace with its lending partners, and effectively use automation to achieve operational efficiency. As demonstrated throughout the *FY 2024 Agency Financial Report*, the SBA seeks to comply with all Federal financial management system requirements, including the Federal Financial Management Improvement Act of 1996, which requires that the Agency's financial management systems comply with Federal financial management systems requirements, applicable Federal accounting standards, and the U.S. Standard General Ledger at the transaction level. [14]

The SBA has continued to build on incremental improvement projects designed to modernize the financial management system environment, improve financial system controls, reduce sustainment costs, provide additional functionality for external lending partners, and improve system reliability. Projects included migration of the hosting platform from legacy systems to more modern technology platforms as well as use and integration with SBA enterprise IT services. The SBA has also been working with the Quality Service Management Office (QSMO) at the U.S. Department of Health and Human Services (HHS) for improvements in grants management systems and integration. The SBA continued to implement an Interagency Agreement (IAA) to integrate SBA's financial system with the HHS GrantSolutions systems. In addition, the SBA has been working closely with the QSMO for Financial Management at the U.S. Treasury as they continue their efforts in establishing a marketplace that can help in modernization efforts for the SBA's core financial system.

The SBA's financial systems continued to process a high volume of transactions this fiscal year. A large part of the focus during FY 2024 was on improved collections processes for repayments and other recoveries. During FY 2024, the systems processed more than 30 million general ledger transactions in support of collections primarily related to the various pandemic emergency relief programs.

The SBA has continued taking steps to enhance its financial system controls of lending programs and to improve accessibility to common information, financial and budget management, and financial reporting. The SBA's tightly integrated financial systems enable the Agency to respond quickly to both internal and external financial information inquiries and requirements.

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

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

14 The Federal Financial Management Improvement Act of 1996 promotes more effective Federal financial management by ensuring that financial management systems provide accurate, reliable, and timely financial management information to the Government's managers. Compliance with the FFMIA provides the basis for the continuing use of reliable financial management information by program managers, the President, Congress, and the public.

MANAGEMENT ASSURANCES: FMFIA AND FFMIA ASSURANCE STATEMENT FOR FY 2024

The Small Business Administration (SBA or Agency) continued to strengthen its internal controls over core and COVID-related programs and operations during FY 2024. Creating and sustaining a culture of responsibility and accountability while eliminating and preventing waste, fraud, and abuse is critical to meeting our mission at the SBA. While the SBA continued to strengthen internal controls, the SBA's independent auditor has issued a disclaimer of opinion on the Agency's FY 2024 Consolidated Balance Sheet and reported material weaknesses in internal controls. The SBA provided responses outlining proposed corrective actions for identified deficiencies to the auditor in an effort to remediate.

SBA management is responsible for managing risks and maintaining effective internal controls and financial management systems to meet the objectives of Sections 2 and 4 of the Federal Managers Financial Integrity Act (FMFIA). The SBA conducted its assessment of risk and internal controls in accordance with OMB Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*. Agency managers have issued assertions to me as to the status of the FY 2024 internal controls in their areas of responsibility. These assertions are supported by internal testing, checklists, and other management reviews.

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

(i) A statement on whether there is reasonable assurance that the agency's controls are achieving their intended objectives, and

(ii) A report on material weaknesses in the Agency's controls.

Based on the results of the SBA managers assessments, I can provide modified assurance over the internal controls over operations, reporting, and compliance with applicable laws and regulations, as of September 30, 2024. The internal controls over operations, reporting, and compliance with applicable laws and regulations were operating effectively except for certain controls noted below. Internal assessments identified areas for improvement that align with existing deficiencies or are being addressed internally and are not of a material nature. The SBA developed and implemented controls to remedy the material weaknesses identified in the FY 2023 audit. The material weaknesses identified through the prior year's audit remain because of the timing of the corrective action plan's implementation. During FY 2024, material weaknesses in the following areas were identified:

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

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

The Federal Financial Management Improvement Act (FFMIA) requires federal agencies to implement and maintain financial management systems that are in substantial compliance with federal financial management systems requirements, federal accounting standards, and the United States Standard General Ledger. The SBA evaluated its financial management systems to determine conformance; however, the auditor identified that it does not comply with Federal Financial Systems Requirements and Federal Accounting Standards. Based on the FFMIA criteria and audit report, the SBA provides a modified assurance that its financial management systems substantially comply with FFMIA for FY 2024. The Agency is committed to continuing to evaluate identified material weaknesses and non-conformances to make any adjustments necessary to bring its programs into compliance.



Isabel Casillas Guzman

Administrator
November 15, 2024

Summary of Material Weaknesses

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

   The auditor identified deficiencies in the design and implementation of controls related to COVID-19 EIDL. Specifically, the auditor identified deficiencies in: (a) the SBA's process to identify a complete and accurate COVID-19 EIDL population of outstanding loans disbursed due to portfolio fluctuations resulting from charge offs, reinstatements, or changes in deferment status, (b) the SBA's controls around the review of the COVID EIDL portfolio resulting in incomplete and inaccurate identification of the hold code population, (c) the SBA's controls around the charge-off and reinstatement process. The SBA will continue to develop corrective actions to identify the outstanding loans and evaluate controls related to the charge-off and reinstatement process.

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

   The auditor identified deficiencies in the design and implementation of controls related to the review of PPP loan guarantees. Specifically, the auditor identified that the SBA did not retroactively review purchase requests that required a manual review, and the SBA's evaluation of hold code population was not complete and accurate. In addition, the SBA did not have adequate oversight over screening, reviewing, monitoring, and fund recovery related to PPP loan forgiveness. The SBA continues to implement a Corrective Action Plan (CAP) that includes the implementation of a detailed review process to ensure the PPP Loan Guarantees and PPP Loan forgiveness are accurately, implemented, monitored and reported.

3. **Controls over Accounting and Monitoring, of Shuttered Venue Operators Grant (SVOG) and Restaurant Revitalization Fund (RRF) Need Improvement**

   The auditor identified deficiencies in the design and implementation of monitoring controls to ensure that recipients' uses of funds were in accordance with related legislation and program terms. Specifically, the auditor noted: (a) the SBA did not ensure grantee compliance with reporting requirements, (b) the SBA did not ensure grant recipients submitted expense reports as required, (c) the SBA did not initiate or complete all Cost Compliance or Quality Assurance Monitoring reviews, (d) the SBA process for fund recoveries was not fully implemented, and (e) the SBA's process surrounding the grantee's single audit report is not fully implemented (in the case of SVOG). The SBA will continue to develop corrective actions to ensure that grantees are in compliance with reporting requirements and complete monitoring reviews.

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

   The auditor identified deficiencies in the design and implementation of controls related to financial reporting in the areas of Funds Recovery, Reporting Contingencies, and Reestimates. Specifically, the auditor noted: (a) the SBA did not establish or document adequate policies and procedures for fund recovery and accounts receivable recognition in CARES Act programs, including RRF, SVOG, EIDL, and PPP, (b) the SBA did not have timely processes nor adequate documentation for preparing contingency disclosures and did not consistently apply the materiality policy when assessing financial impacts or ensure accurate financial reporting of contingent liabilities, and (c) the SBA did not design adequate controls over the review and monitoring of reestimates, nor controls to ensure the data inputs used within the COVID-19 EIDL and PPP reestimate models were complete and accurate. The SBA will continue to implement corrective actions to ensure policies and procedures are designed to address recoveries, contingent liabilities, and reestimates for the pandemic related programs.

5. Controls over the Evaluation of Service Organizations Need Improvement

The auditor identified deficiencies in internal controls for service organizations. Specifically, the auditor noted: (a) the SBA did not appropriately design and implement controls to identify, address, and resolve risks from the service organization's control environment in a timely manner, (b) the SBA did not obtain and review a Service Organization Control (SOC) report for all required service organizations, and (c) the SBA did not obtain and review the SOC report for subservice organizations. The SBA will continue to implement corrective actions to address timely receipt of SOC reports, complementary design controls, exception reporting, and impact analysis. The implementation will ensure required organizations provide SOC reports for evaluation and monitoring of identified controls.

6. Entity Level Controls Need Improvement

The auditor identified deficiencies in the entity level controls system to produce reliable and accurate financial reporting. Specifically, the auditor identified deficiencies in: (a) the SBA's establishment of an effective control environment and effective risk assessment, and and (b) the SBA's design and implementation of an effective monitoring process. The SBA will engage and communicate with the program offices early to assess, monitor, and address identified risks and associated controls and the effects on financial reporting and compliance with relevant laws and regulations.

7. Controls over General Information Technology Need Improvement

The auditor identified deficiencies in the SBA's ability to effectively manage its information system risks. Specifically, the auditor identified deficiencies in: (a) the SBA's design, implementation, and operation of access controls for applications, databases, operating systems, and tools, and (b) the SBA's design and implementation of a process for recertifying user accounts that require validation by an independent individual with the necessary knowledge and authority to recertify access. The SBA will review the process and controls around access rights for applications, databases, operating systems, and tools, as well as the process surrounding the recertification of user accounts requiring validation and update as needed.

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Section II

Financial Reporting

Unaudited

MESSAGE FROM THE CHIEF FINANCIAL OFFICER



November 15, 2024

I am pleased to issue the SBA's FY 2024 Agency Financial Report as of September 30, 2024. This report presents the Agency's financial results in accordance with U.S. Office of Management and Budget guidance, and the financial statements have been developed within Generally Accepted Accounting Principles.

In FY 2024, the SBA continued the management and oversight of the $1.2 trillion in COVID-19 pandemic programs that were implemented to mitigate the pandemic's impact on small businesses. The execution of CARES Act programs, the Economic Aid Act, and the American Rescue Plan Act were essential to saving millions of jobs and helping small businesses stay open, preserving the vitality of small businesses, and strengthening the economic recovery of communities after disasters.

The SBA continues to focus on serving small businesses and entrepreneurs while strengthening controls to prevent fraud, waste, and abuse. The Fraud Risk Management Board (FRMB) serves as the SBA's anti-fraud entity. Since its inception in FY 2022, the FRMB has made significant progress in the development of SBA's fraud risk management program through the performance of fraud risk assessments of key programs and the development of a fraud risk management strategy. In addition, the Agency documented processes for new programs and implemented new controls to prevent fraud and strengthen the reliability of the values presented in the Agency's financial statements. In FY 2024, the Agency continued to mature its fraud risk management by hiring a Chief Risk Officer (CRO) and establishing a new Office of Enterprise Integrity (OEI) to elevate and consolidate audit management, internal controls, improper payments, fraud risk management and Enterprise Risk Management. The CFO and CRO will co-Chair the FRMB until 2025 when the leadership will transition to the CRO consistent with other CFO Act agency risk oversight. The Agency understands implementation and oversight of these significant efforts are crucial to ensuring taxpayer dollars are appropriately awarded.

The SBA continues to work towards improving its audit outcomes through collaborative partnerships across the Agency, along with a forward-leaning strategy that prioritizes the most critical corrective action needs and optimizes resources. In FY 2024, the Agency implemented a more centralized financial statement audit management structure to provide the Agency additional support and oversight to improve financial statement audit posture, improving partnerships across the Agency and providing more proactive considerations to strengthen the Agency's confidence of its financial standing.

I look forward to supporting the mission of the SBA and sharing those achievements next year. I also thank the dedicated SBA team that achieved these great successes and developed the FY 2024 Agency Financial Report.

Sincerely,

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

INSPECTOR GENERAL'S AUDIT REPORT

OFFICE OF INSPECTOR GENERAL
U.S. SMALL BUSINESS ADMINISTRATION

DATE: November 15, 2024

TO: Isabella Casillas Guzman
Administrator

FROM: Hannibal "Mike" Ware
Inspector General

SUBJECT: Independent Auditors' Report on SBA's Fiscal Year 2024 Financial Statements (Report 25-05)

I am pleased to present the attached independent auditors' report on the U.S. Small Business Administration's (SBA) financial statements for fiscal year (FY) 2024, as required annually by the Chief Financial Officers Act of 1990, as amended.

We contracted with the independent certified public accounting firm KPMG LLP to conduct an audit of SBA's consolidated balance sheets as of September 30, 2024 and 2023 and the related notes to these statements. Our contract with KPMG required that the audit be performed in accordance with auditing standards generally accepted in the United States of America, *Government Auditing Standards* issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Bulletin No. 24-02, Audit Requirements for Federal Financial Statements.

KPMG's responsibility was to express an opinion on the consolidated balance sheets based on their audit. KPMG was not engaged to audit the consolidated statements of net cost and changes in net position and combined statements of budgetary resources for the years that ended September 30, 2024 and 2023 and the related notes to these statements.

In the audit, KPMG reported significant matters for which they were unable to obtain sufficient and appropriate audit evidence to provide a basis for an audit opinion on SBA's balance sheet as of September 30, 2024. Accordingly, KPMG issued a disclaimer of opinion on the consolidated balance sheets as of September 30, 2024 and 2023.

The basis for the disclaimer was that due to inadequate processes and controls, SBA was unable to provide adequate evidential matter in support of a significant number of transactions and

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

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

- Credit program receivables and related foreclosed property,
- Other than intragovernmental accounts receivable,
- Downward re-estimate payable to Treasury, and
- Loan Guarantee Liabilities and the related notes.

For the period that ended September 30, 2024, KPMG identified seven material weaknesses and two significant deficiencies in internal control over financial reporting. Appendixes I and II of this report describe details of KPMG's conclusions about the material weaknesses and significant deficiencies. Appendix III describes instances of noncompliance with applicable laws or other matters required to be reported under *Government Auditing Standards* or OMB Bulletin No. 24-02.

We reviewed KPMG's report and related documentation and inquired of its representatives. Our oversight protocols included evaluation of major work products, attendance at critical meetings, review of significant findings, and examination of related evidential matter. Our review, as differentiated from an audit of the financial statements in accordance with government auditing standards, was not intended to enable us to express, and we do not express, opinions on SBA's financial statements or internal control over financial reporting or conclusions on SBA's compliance with applicable laws and other matters. Our review disclosed no instances where KPMG did not comply in all material respects with auditing standards. KPMG is responsible for the attached auditors' report dated November 15, 2024 and the conclusions expressed. However, the Office of Inspector General provides negative assurance of this audit.

We provided a draft of the KPMG report to SBA's Chief Financial Officer, who concurred with its findings and recommendations and agreed to implement the recommendations. The Chief Financial Officer stated that SBA has undergone tremendous effort to strengthen internal controls, policies, and procedures and will continue remediation efforts in the coming audit year. The Chief Financial Officer's response is included in Appendix IV.

We appreciate the cooperation and assistance of SBA and KPMG during the audit. Should you or your staff have any questions, please contact me or Andrea Deadwyler, Assistant Inspector General for Audits, at (202) 205-6586.

cc: Dilawar Syed, Deputy Administrator, Office of the Administrator
Arthur Plews, Chief of Staff, Office of the Administrator
Isabelle James, Deputy Chief of Staff, Office of the Administrator
Katherine Aaby, Associate Administrator and Chief Financial Officer, Office of Performance, Planning, and the Chief Financial Officer
Kathryn Frost, Associate Administrator, Office of Capital Access
John Miller, Deputy Associate Administrator, Office of Capital Access
Francisco Sanchez Jr., Associate Administrator, Office of Disaster Recovery and Resilience
Therese Meers, General Counsel, Office of General Counsel
Michael Simmons, Attorney Advisor, Office of General Counsel
Cynthia Pitts, Director, Office of Administrative Services
Anna Maria Calcagno, Director, Office of Strategic Management and Enterprise Integrity
Tonia Butler, Director, Office of Internal Controls

Attachment

INDEPENDENT AUDITORS' REPORT ON FY 2024 FINANCIAL STATEMENTS

KPMG LLP
Suite 12000
1801 K Street, NW
Washington, DC 20006

Independent Auditors' Report

Inspector General
U.S. Small Business Administration:

Administrator
U.S. Small Business Administration:

Report on the Audit of the Consolidated Financial Statements

Disclaimer of Opinion

We were engaged to audit the consolidated balance sheets of the United States (U.S.) Small Business Administration (SBA) as of September 30, 2024 and 2023, and the related notes to the consolidated balance sheets (the consolidated financial statements).

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

Basis for Disclaimer of Opinion

The SBA's pandemic relief programs include the Paycheck Protection Program, Economic Injury Disaster Loan program, Restaurant Revitalization Fund program, and Shuttered Venues Operators Grant program, which were authorized by the Coronavirus Aid, Relief, and Economic Security Act of 2020 and related legislations. These programs affect a substantial proportion of SBA's consolidated financial statements. As of the date of our audit report, management was still in the process of designing and implementing corrective actions to remediate control deficiencies identified in the prior and current years. These control deficiencies contributed to SBA's inability to provide relevant and reliable information to support a significant number of transactions and account balances related to these programs. As a result of this matter, we were unable to determine whether any adjustments might have been necessary related to the Credit Program Receivables and Related Foreclosed Property, Net; Other than Intragovernmental Accounts Receivable, Net; Downward Reestimate Payable to Treasury; Loan Guarantee Liabilities; and the related notes.

Other Matters

Report on Certain Fiscal Year 2024 and 2023 Information

We were not engaged to audit the consolidated statements of net cost and changes in net position, and combined statements of budgetary resources for the years ended September 30, 2024 and 2023, and the related notes to these statements. Accordingly, we express no opinion on them.

Interactive Data

Management has elected to reference to information on websites or other forms of interactive data outside the Agency Financial Report to provide additional information for the users of its consolidated financial statements. Such information is not a required part of the consolidated financial statements or supplementary information

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required by the Federal Accounting Standards Advisory Board. The information on these websites or the other interactive data has not been subjected to any of our auditing procedures, and accordingly we do not express an opinion or provide any assurance on it.

Responsibilities of Management for the Consolidated Financial Statements

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our responsibility is to conduct an audit of the SBA's consolidated financial statements in accordance with auditing standards generally accepted in the United States of America (GAAS), Government Auditing Standards, issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Bulletin No. 24-02, Audit Requirements for Federal Financial Statements, and to issue an auditors' report. However, because of the matter described in the Basis for Disclaimer of Opinion section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these consolidated financial statements.

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

Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

Report on Internal Control Over Financial Reporting

In connection with our engagement to audit the SBA's consolidated financial statements as of September 30, 2024, we considered the SBA's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the SBA's internal control. Accordingly, we do not express an opinion on the effectiveness of the SBA's internal control. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Appendices I and II, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct,

misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in the accompanying Appendix I to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Appendix II to be significant deficiencies.

Report on Compliance and Other Matters

In connection with our engagement to audit the SBA's consolidated financial statement as of September 30, 2024, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the consolidated financial statement. However, providing an opinion on compliance with those provisions was not an objective of our engagement, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 24-02, and which are described in accompanying Appendix III as items A and B.

We also performed tests of the SBA's compliance with certain provisions referred to in Section 803(a) of the *Federal Financial Management Improvement Act of 1996* (FFMIA). Providing an opinion on compliance with FFMIA was not an objective of our engagement, and accordingly, we do not express such an opinion. The results of our tests disclosed instances, described in the accompanying Appendix III as item C, in which the SBA's financial management systems did not substantially comply with the (1) Federal financial management systems requirements, and (2) applicable Federal accounting standards. The results of our tests disclosed no instances in which the SBA's financial management systems did not substantially comply with the United States Government Standard General Ledger at the transaction level.

Additionally, if the scope of our work had been sufficient to enable us to express an opinion on the consolidated financial statements, other instances of noncompliance or other matters may have been identified and reported herein.

SBA's Response to Findings

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

Purpose of the Other Reporting Required by Government Auditing Standards

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

KPMG LLP

Washington, DC
November 15, 2024

Appendix I

U.S. Small Business Administration

Material Weaknesses

The following deficiencies are considered to be material weaknesses in internal controls over financial reporting.

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

Background

The COVID-19 EIDLs, PPP, RRF, and SVOG programs were authorized and funded by the Coronavirus Aid, Relief, and Economic Security Act of 2020, the Paycheck Protection Program and Health Care Enhancement Act, the Economic Aid to Hard-Hit Small Businesses, Nonprofits, and Venues Act, and the American Rescue Plan Act. The referenced laws are collectively referred to as the CARES Act and related legislation. The CARES Act and related legislation were passed by Congress to provide emergency assistance in response to the extensive effects of the public health and economic crisis arising from the COVID-19 pandemic. The COVID-19 EIDLs, PPP, RRF, and SVOG programs affect a substantial proportion of the consolidated financial statements.

1. **Controls over COVID-19 EIDLs Need Improvement**

The COVID-19 EIDLs transactions were approved in fiscal years 2020 through 2022. These loans have a 30-year term, and the originating payment start date was deferred by the SBA for up to 30 months after the loan disbursement. The payment deferral period ended for a significant number of COVID-19 EIDLs beginning in fiscal year 2023 and continued into fiscal year 2024.

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

Management did not properly design the review controls over loans with existing hold codes. Specifically, management did not document sufficient evidence about the identification, research, and resolution of hold codes to support management's reliance for financial reporting purposes as of the end of the fiscal year.

Further, management did not identify and research COVID-19 EIDLs with unresolved hold codes for loans charged-off, in deferment, repayment, and delinquent stages as of the end of the fiscal year.

During fiscal year 2024, management expanded the Hardship Accommodation Plan (HAP) that is offered to COVID-19 EIDLs borrowers experiencing short-term financial challenges to help bring them into compliance and avoid default. The expansion included allowing COVID-19 EIDLs that were previously charged-off to be reinstated with temporarily modified payment terms. However, management did not design and implement effective controls over the review of reinstated loans resulting from HAP enrollments. Management did not provide sufficient evidence on the completeness and accuracy of the reinstated population as of the fiscal year-end. The COVID-19 EIDLs that were reinstated due to HAP enrollments were not subsequently monitored to ensure those loans continued to meet HAP eligibility. In addition, management did not consistently reinstate loans receivable for COVID-19 EIDLs that were enrolled in a HAP, which were previously charged off, and in certain instances the borrowers were making payments.

The monitoring controls over the servicing and review of the COVID-19 EIDLs portfolio were not adequately documented or updated timely to reflect process changes throughout the fiscal year. Management implemented significant policy changes in fiscal year 2024, however, management did not update the COVID-19 EIDLs servicing manual to reflect the current processes and related controls in operation including the expansion of the HAP and the changes to the charge off process.

These deficiencies were caused by an inadequate risk assessment process to identify and mitigate relevant risks and design appropriate controls at a sufficient level of precision to ensure a complete and accurate population of COVID-19 EIDLs that were disbursed to eligible recipients. In addition, management's information systems were not designed to properly update the loan status of COVID-19 EIDLs which were previously charged-off but that required reinstatement due to HAP enrollments. The monitoring controls over the active HAP population were not designed to ensure COVID-19 EIDLs enrolled in HAP meet the eligibility requirements. Finally, management did not update and review the documentation of existing policies and procedures in a timely manner to ensure the most current operating environment was reflected in its documentation.

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

- GAO's Green Book, Principle 3, Establish Structure, Responsibility, and Authority; Principle 6, Define Objectives and Risk Tolerances; Principle 7, Identify, Analyze, and Respond to Risks; Principle 9, Identify, Analyze, and Respond to Change; Principle 10, Design Control Activities; and Principle 12, Implement Control Activities

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

The deficiencies described above may result in a material misstatement of the Credit Program Receivables and Related Foreclosed Property, Net and Downward Reestimate Payable to Treasury line items, and related elements in the consolidated financial statements.

Recommendations – Controls over COVID-19 EIDLs Need Improvement

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

1. Perform and update the program's internal control risk assessment to identify and respond to changes to risks that may require updates to the design and implementation of effective monitoring controls over the review of the COVID-19 EIDLs portfolio.

2. Design and implement sufficient controls to identify COVID-19 EIDLs disbursed to ineligible recipients and implement an effective funds recovery plan to ensure COVID-19 EIDLs funds

disbursed to ineligible recipients are recovered and reported accurately and in a timely manner. The plan should include an effective process to provide the information necessary to the Office of Planning, Performance, and the Chief Financial Officer to record any required accounting adjustments for accurate and timely financial reporting.

3. Identify all COVID-19 EIDLs with an incorrect status. Research and update the status of the identified COVID-19 EIDLs within the applicable systems of record for loan accounting.

4. Review and update the design, implementation, and operating effectiveness of controls over information technology program changes within the applicable systems of record for loan accounting to ensure changes are appropriate and function as intended.

5. Update existing process and controls documentation over the servicing and review of COVID-19 EIDLs to ensure they are relevant, reliable, and based on implemented policies and procedures. Perform a regular review of implemented processes and controls to ensure they are in line with documented policies and procedures.

2. Controls over PPP Loan Guarantees Need Improvement

A. Forgiveness Review of PPP Loan Guarantees

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

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

Also, management did not design and implement an effective review and monitoring process for the 2021 cohort of PPP loan guarantees, which comprises the majority of the outstanding principal balance of PPP loan guarantees as of September 30, 2024. The case management system contained a comprehensive series of validation checks to identify potential ineligible PPP loan guarantees; however management only used the system to perform a limited number of validation checks against program eligibility requirements for the 2021 cohort of PPP loan guarantees. Further, management did not implement the appropriate monitoring process to ensure that lenders followed established procedures to adequately resolve the eligibility concerns identified by the case management system's limited automated screening.

The design and implementation of monitoring and review controls to determine the accuracy and completeness for the sample of PPP loan guarantee forgiveness transactions were not effective. The review of the sample from the largest subset of PPP loan forgiveness transactions did not address the eligibility for forgiveness and the accuracy of the approved loan guarantee and forgiveness amounts. In addition, management's review process did not include a requirement to follow-up when differences existed between the sample loan approval amount and the loan forgiveness amount within an acceptable variance threshold. As a result, management's sample review process was not properly designed to evaluate and quantify the magnitude of the actual error amounts for the loan guarantee approval and loan guarantee forgiveness variances.

Management did not adequately design and implement the post payment review control to determine the appropriate status and financial reporting impacts of PPP loan guarantees forgiven as of the end of the fiscal year. Management's process and related control activities for funds recovery of PPP loan guarantees that may have been erroneously forgiven is not documented or effectively implemented.

Management did not fully implement a process to update the outstanding principal balance of PPP loan guarantees subsequent to the forgiveness payments in its loan accounting system. Also, management did not document the automated and manual process that was partially implemented. Further, the outstanding principal balance for certain PPP loan guarantees were not accurate because the balances were not updated subsequent to forgiveness payments.

These deficiencies were caused by management's reliance on the contractor's automated and manual loan review processes without adequate monitoring controls to evaluate and assess their work. Also, management placed undue reliance on the lenders' self-certifications prior to the approval of the 2021 cohort of PPP loan guarantees without adequate monitoring controls. An adequate risk assessment process to identify and mitigate relevant risks and design appropriate controls to ensure a complete and accurate portfolio of PPP loan guarantees that were disbursed to eligible recipients was not effectively performed by management. Finally, management did not document or implement an effective process for updating the outstanding principal loan balance for PPP loan guarantees subsequent to forgiveness.

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

- GAO's Green Book, Principle 3, Establish Structure, Responsibility, and Authority; Principle 6, Define Objectives and Risk Tolerances; Principle 7, Identify, Analyze, and Respond to Risks; Principle 10, Design Control Activities; and Principle 16, Perform Monitoring Activities
- OMB Circular No. A-123, Management's Responsibility for Enterprise Risk Management and Internal Control

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

Recommendations – Forgiveness Review of PPP Loan Guarantees

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

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

10. Document, design, and implement an effective process and controls to update the outstanding principal balance for PPP loan guarantees subsequent to forgiveness.

B. Purchases of PPP Loan Guarantees

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

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

The PPP loan guarantee purchases review process relies on the identification of flags indicating that the lender may not have fulfilled the program requirements. The design and implementation of monitoring and review controls to ensure that the completeness and accuracy of flags identified and resolved for outstanding PPP loan guarantees was not adequate. In addition, management added additional flags that require a manual review of PPP purchases at various stages of the program. However, management did not retroactively review PPP loan guarantee purchase requests that were previously automatically approved that subsequently required a manual review.

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

These deficiencies were caused by an inadequate risk assessment performed to ensure the appropriate controls were designed and implemented for the review of PPP loan guarantee purchase transactions.

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

- GAO's Green Book, Principle 3, Establish Structure, Responsibility, and Authority; Principle 6, Define Objectives and Risk Tolerances; Principle 7, Identify, Analyze, and Respond to Risks; and Principle 10, Design Control Activities

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

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

Recommendations – Purchases of PPP Loan Guarantees

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

11. Perform a thorough and complete analysis of all requirements communicated to lenders for the PPP program and determine whether lenders met the requirements prior to disbursing a PPP loan. The analysis should include evidence to support the adequacy of management's review process when determining which purchase requests will require additional review.

12. Develop and implement an effective process to review purchase requests for outstanding PPP

loan guarantees and for loans that were previously purchased that address whether the lender met their requirements in accordance with the program requirements.

13. Develop and implement an effective funds recovery plan to ensure funds related to PPP purchases disbursed to ineligible recipients are recovered and reported accurately in a timely manner. The plan should include an effective process to provide the information necessary to the Office of Performance, Planning, and the Chief Financial Officer to record any required accounting adjustments.

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

A. Monitoring of RRF Awards

The period to use RRF awards for eligible purposes expired in fiscal year 2023. SBA relies on award recipients to submit Post Award Reports to disclose the amount of the award used on eligible purposes prior to expiration. If any amount of the award was not used for eligible purposes before expiration, the unused funds must be returned to SBA.

Management did not design and implement the appropriate monitoring controls over RRF awards to ensure that the funds were used in accordance with the CARES Act and related legislation and accurate financial reporting as of the end of the fiscal year. Specifically, a Post Award Report was not submitted for a significant number of awards as of September 30, 2024. While management performed follow-up procedures to ensure the outstanding Post Award Reports were submitted by the remaining recipients, the procedures were not substantial enough to support the completeness and accuracy of financial reporting as of the end of the fiscal year. During the fiscal year, management selected a sample of RRF awards for review to determine the accuracy of submitted Post Award Reports. However, management did not initiate or fully complete reviews for a significant number of samples to ensure accurate financial reporting as of the end of the fiscal year. Further, management's process for funds recovery was not fully implemented for RRF awards that had eligibility concerns.

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

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

- GAO's Green Book, Principle 10, Design Control Activities; Principle 12, Implement Control Activities; and Principle 13, Use Quality Information
- OMB Circular No. A-123, Management's Responsibility for Enterprise Risk Management and Internal Control

The deficiencies described above may result in a material misstatement to the Other than Intragovernmental Accounts Receivable, Net, line item and the related elements in the consolidated financial statements.

Recommendations – Monitoring of RRF Awards

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

14. Continue to perform and update the program's internal control assessment to identify changes to risks that may require the design and implementation of effective monitoring controls and review processes of RRF awards to identify recipients that may not have been eligible to receive awards or that may have spent awards on ineligible expenses in accordance with the program's terms.

15. Design and implement effective follow-up procedures for RRF award recipients that are not complying with the program's terms and to ensure complete, accurate, and timely reporting for the use of the award.

16. Design and implement an effective funds recovery plan and controls to ensure RRF awards disbursed to ineligible recipients or spent on ineligible expenses are recovered and reported accurately and in a timely manner. In conjunction with the Office of Planning, Performance, and the Chief Financial Officer, design and implement an effective process to provide the information necessary to record any required accounting adjustments.

B. Monitoring of SVOG Awards

The time period to use SVOG funds for eligible purposes expired for all SVOG awards. The SBA relies on award recipients to submit an Expense Report and Standard Form (SF) 425, Federal Financial Report, to disclose the amount of the award used for eligible purposes prior to expiration. If any amount of the award was not used for eligible purposes before expiration, the unused funds must be returned to SBA.

Management did not design and implement appropriate monitoring controls over SVOG awards to ensure that the funds were used in accordance with the CARES Act and related legislation and accurate financial reporting as of the end of the fiscal year. Specifically, as of September 30, 2024, an Expense Report or SF-425 was not submitted for certain awards. In addition, management selected samples of SVOG awards to review the accuracy of report submissions and eligibility of award recipients. However, management did not initiate or fully complete the sample reviews for a significant number of samples.

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

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

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

- GAO's Green Book, Principle 10, Design Control Activities; Principle 12, Implement Control Activities; and Principle 13, Use Quality Information

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

The deficiencies described above may result in a material misstatement to the Other than Intragovernmental Accounts Receivable, Net, line item and the related elements in the consolidated financial statements.

Recommendations – Monitoring of SVOG Awards

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

17. Continue to implement effective monitoring controls and review processes of SVOG awards to identify recipients that may not have been eligible to receive awards or that may have spent awards on ineligible expenses in accordance with the program's terms.

18. Design and implement effective follow-up procedures for SVOG award recipients that are not complying with the program's terms and to ensure complete, accurate, and timely reporting for the use of the award.

19. Design and implement an effective funds recovery plan and controls to ensure SVOG awards disbursed to ineligible recipients or spent on ineligible expenses are recovered and reported accurately and in a timely manner. In conjunction with the Office of Planning, Performance, and the Chief Financial Officer, design and implement an effective process to provide the information necessary to record any required accounting adjustments.

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

A. Accounting for Funds Recovery

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

Management did not adequately design and implement controls to account for the recovery of funds related to these programs. Management did not provide evidence of implemented and documented accounting policies and procedures for the recovery of funds related to the RRF and SVOG programs and the recording of the related accounts receivable and allowance for estimated uncollectible amounts. For example, management was not able to demonstrate the application of the accounts receivable recognition criteria for the determination of a claim to cash or other assets due to recovery of funds for each program. Also, management did not maintain adequate documentation supporting the estimation methodology used to determine the accounts receivables and the related allowance for estimated uncollectible amounts based on the status of the awards in the post award review stage or how the post award review sample results would be utilized. Moreover, management did not fully develop and implement the financial reporting considerations related to the recovery of funds for the RRF and SVOG programs including the respective accounting entries.

The accounting policies for the recovery of funds related to the COVID-19 EIDLs and PPP loan programs were not determined by management and documented as of the end of the fiscal year. Further, management did not have adequate documentation to support an analysis of the appropriate accounting treatment with the respective accounting entries in accordance with generally accepted accounting principles, for each step of the recovery life cycle once loan forgiveness and charge-off transactions have been determined to be improper and recovery efforts are initiated. Also, management did not fully complete the evaluation of when the charge-off of a loan should occur.

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

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

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

The deficiencies identified above may result in a material misstatement to the Other than Intragovernmental Accounts Receivable, Net, Credit Program Receivables and Related Foreclosed

Property, Net, Loan Guarantee Liabilities, and Downward Reestimate Payable to Treasury line items, and related elements in the consolidated financial statements.

Recommendations – Accounting for Funds Recovery

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

20. Develop, document, and implement the accounting policies and procedures for the recovery of funds, the accounts receivable, and the allowance for estimated uncollectible amounts related to the programs created or expanded by the CARES Act and related legislation.

21. Inquire and continue to obtain guidance from standard setting bodies to confirm the appropriate accounting treatment for COVID-19 EIDLs and the PPP loans that have been improperly forgiven or charged-off and for which recovery has been initiated. Memorialize the response by updating management's documented policies and procedures including the respective accounting entries under generally accepted accounting principles for all applicable scenarios.

22. Design and implement effective controls and communication processes to timely obtain the information necessary from program offices to record any required accounting adjustments for programs created or expanded by the CARES Act and related legislation.

B. Subsidy Reestimate

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

We found that management did not design and implement adequate review controls over the data inputs used in the PPP subsidy reestimate. Specifically, management did not adequately design and implement controls to ensure the data inputs used in the PPP subsidy reestimate methodology that are derived from the forgiveness and purchases processes are complete and accurate.

Also, management did not design and implement adequate review controls over the data inputs used for COVID-19 EIDLs subsidy reestimate. The reviews were in process as of the end of the fiscal year and not appropriately designed to identify a complete and accurate COVID-19 EIDLs population of outstanding loans disbursed to eligible recipients.

The loan-level projection datasets included projected cash flows for loans that were charged-off without an outstanding loan receivable balance as of September 30, 2024, for various programs' subsidy reestimates. The projected cash flows for these charged-off loans inappropriately affected the allowance for subsidy balances without the related recognition of the gross loans receivable.

Management did not fully document the considerations made for potential impacts to the estimation methodology for the COVID-19 EIDLs subsidy reestimates due to significant program changes that occurred during the fiscal year. Specifically, the Hardship Accommodation Plan was expanded in fiscal year 2024 resulting in a significant increase in enrollments and loan reinstatements. Discussions were held with the program office related to this change and included in the model documentation where the changes impacted implemented model enhancements. However, management did not fully document the assessment performed to determine if any enhancements should be made to the estimation methodology.

These deficiencies were caused by an inadequate entity wide control environment related to the design, implementation, and operating effectiveness of controls related to the review of the loan portfolio at a precision level necessary to ensure the data inputs used for the reestimate models are complete and

accurate. In addition, the deficiencies were caused by the implementation and development of subsidy reestimate models for programs that do not have a significant volume of historical data or precedence. The deficiencies were caused by the inadequate design and implementation of review controls to ensure the impact of significant program changes on the reestimate were adequately documented. Also, there were inadequate accounting policies and procedures to assess the appropriate timing of loan charge-off to ensure the reestimate output and resulting financial reporting impact complied with applicable accounting standards for charged-off loans.

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

- GAO's Green Book, Principle 3, Establish Structure, Responsibility, and Authority; Principle 10, Design Control Activities; and Principle 13, Use Quality Information
- OMB Circular No. A-123, Management's Responsibility for Enterprise Risk Management and Internal Control

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

Recommendations – Subsidy Reestimate

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

23. Continue implementing review controls in collaboration with relevant program offices for the PPP and COVID-19 EIDLs portfolios to accumulate relevant, complete, and accurate data on which to base the subsidy reestimate.
24. Design and implement adequate review and approval controls over the reestimate for the PPP and COVID-19 EIDLs portfolios by appropriate levels of management, and to coordinate with relevant program offices to assess the integrity of relevant data inputs used in the development of assumptions, and reasonableness for the selected assumptions used and the resulting estimates.
25. Refine existing review and approval controls to ensure the documentation of the impact of significant program changes is adequate.
26. Inquire and continue to obtain guidance from standard setting bodies to confirm the appropriate accounting and financial reporting treatment for projected cash flows of charged-off loans in the reestimates. Memorialize the responses as part of a documented policy.

5. Controls over the Evaluation and Monitoring of Service Organizations Need Improvement

A. Service Organizations Used for Loan Guarantee Programs

Management did not obtain reasonable assurance on the operating effectiveness of internal controls in multiple service organizations' control environments relevant to the 7(a) loan guarantee program fiscal transfer agent, the financial service providers for the 7(a) and 504 loan guarantee programs, and the PPP forgiveness and purchases platform. With regards to the financial service providers for the 7(a) and 504 loan guarantee programs, the relevant control environments include the facilitation, maintenance, and reporting of the account balances for the respective secondary market programs. With regards to the PPP forgiveness and purchases platform, the relevant control environment includes the operation of the PPP loan forgiveness and PPP loan purchase modules, the data transmissions over the internet between the relevant modules and SBA systems used in the configured checks, the cloud-based infrastructure hosting provider, and the application controls within the application intake platform.

In addition, management did not provide evidence of adequate monitoring activities performed over the relevant internal control environment for certain subservice organizations identified in the service organization control (SOC) 1 Type 2 report.

Management did not provide evidence of adequate monitoring and evaluation activities performed for the complementary user entity controls identified in the service organization control (SOC) 1 Type 2 reports obtained for the 504 loan guarantee program central servicing agent and the financial service provider. In addition, the evaluations of the complementary user entity controls and control objectives were not complete.

These deficiencies identified above were caused by inadequate monitoring controls over the relevant service organizations for their assigned internal control responsibilities to obtain reasonable assurance on the operating effectiveness of internal controls in the service organizations' control environments. Management made an incorrect determination that the sub-service organization's controls were included and evaluated by an independent auditor, however the controls were carved out (i.e. not inclusive).

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

- GAO's Green Book, Section 4, Additional Considerations: Service Organizations; Principle 5, Enforce Accountability; Principle 10, Design Control Activities; and Principle 16, Perform Monitoring Activities
- OMB Circular No. A-123, Management's Responsibility for Enterprise Risk Management and Internal Control

The deficiencies described above prevent SBA from obtaining an understanding of relevant service organization controls and their operating effectiveness to identify all relevant control gaps and deficiencies that require a complementary user control to mitigate the risk of error to the Loan Guarantee Liabilities line item and related elements in the consolidated financial statements.

Recommendations – Service Organizations Used for Loan Guarantee Programs

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

27. Assess the risk posed by the service organizations' control environments and obtain sufficient assurance over the operating effectiveness of relevant and significant controls to ensure the integrity of transactions processed on behalf of and recorded by management. To achieve this, consider obtaining and assessing SOC 1 reports for the relevant control environments at the service organizations to determine that:
    - SOC 1 reports are sufficiently scoped to address transaction processing and related control activities performed by the service organizations on behalf of management.
    - All exceptions noted in the SOC 1 reports – not just those described in the independent service auditor's report – are evaluated to determine applicability to management's internal controls over financial reporting, the potential impact to management's financial statements, and mitigating controls considerations made during their risk assessment.
    - All complementary user entity controls described in the SOC 1 reports are evaluated using current information and with consideration to their applicability to SBA's internal controls over financial reporting.
    - Evaluation of controls to document the results that include an assessment about whether all relevant complementary user entity controls and other management-performed controls were tested on a frequency determined by management and found operating effectively and, if they

are not, assess the impact of such deficiencies on management's internal controls over financial reporting.

- All complementary subservice organization controls described in SOC 1 reports are evaluated to determine whether they provided services and performed controls considered relevant to management's internal controls over financial reporting and, if relevant subservice organizations were identified, an evaluation is performed to obtain an understanding of the subservice organization(s) and their controls.

- SOC 1 reports are evaluated to determine whether their reporting periods and corresponding gap letters provide sufficient coverage to assess impacts on management's internal controls over financial reporting and include matters requiring additional follow up by management.

B. Service Organization Used for the SVOG Program

Management did not obtain reasonable assurance on the operating effectiveness of internal controls in the control environments of the subservice organizations utilized by the service organization for the SVOG platform in monitoring the status of awards.

Management did not provide evidence of adequate monitoring and evaluation activities performed for the complementary subservice organization controls listed in the service organization's SOC 1 report. Also, management did not provide evidence of adequate monitoring and evaluation activities performed for the complementary user entity controls and complementary subservice organization controls listed in the SOC 1 reports of the subservice organizations. Specifically, the evaluation of complementary user entity controls and complementary subservice organization controls was not complete as there was not documentation of the significance and relevance of each control to SBA's internal controls over financial reporting. In addition, management did not evaluate whether the complementary user entity controls and complementary subservice organization controls were designed, implemented, and operating effectively. For one subservice organization, management did not obtain and review the SOC 1 report in a timely manner as of fiscal year-end.

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

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

- GAO's Green Book, Section 4, Additional Considerations: Service Organizations; Principle 5, Enforce Accountability; Principle 10, Design Control Activities; and Principle 16, Perform Monitoring Activities

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

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

Recommendations – Service Organizations Used for the SVOG Program

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

28. Assess the risk posed by the service organizations' and subservice organizations' control environments to determine which subservice organization controls are relevant to SBA and

obtain sufficient assurance over the operating effectiveness to determine the integrity of SVOG program transactions processed on behalf of and recorded by SBA. To achieve this, obtain a SOC 1 report for the relevant control environments at the service organizations, and perform and document the following:

- Verify that the SOC 1 report is sufficiently scoped to cover transaction processing and related control activities performed by the service organizations on behalf of SBA.
- Evaluate all exceptions noted in the SOC 1 report – not just those described in the independent service auditor's report – to determine applicability to SBA's internal controls over financial reporting, the potential impact to SBA's financial statements, and mitigating controls considerations made during their risk assessment.
- Evaluate all complementary user entity controls described in the SOC 1 reports using current information and with consideration to their applicability to SBA's internal controls over financial reporting.
- Evaluate controls and clearly document the results that include an assessment over whether all complementary user entity controls and other SBA-performed controls were tested on a frequency determined by SBA and operating effectively. Assess the impact of such deficiencies on SBA's internal controls over financial reporting.
- Evaluate all complementary subservice organization controls described in SOC 1 reports to determine whether they provided services and performed controls considered relevant to SBA's internal controls over financial reporting and, if relevant subservice organizations were identified, an evaluation is performed to obtain an understanding of the subservice organization(s) and their controls.
- Verify that the SOC 1 reports cover the appropriate period or corresponding gap letters provide sufficient coverage to assess impacts on SBA's internal controls over financial reporting.

C. Service Organizations Used for Payroll and Personnel

Management did not implement a process to annually review the SOC 1 reports over its payroll and personnel systems to determine the reliability of information produced by the system. The SOC 1 reports are not monitored and reviewed to assess whether complementary user entity controls that users of the service organization (e.g., management) should have in place are designed, implemented, and operating effectively to supplement the service organization's internal controls.

These deficiencies were caused by management not evaluating the standard operating procedures over the review and assessment of SOCs to determine the required procedures related to systems and reports utilized by management.

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

- GAO's Green Book, Section 13, Use Quality Information; and Principle 16, Perform Monitoring Activities
- OMB Circular No. A-123, Management's Responsibility for Enterprise Risk Management and Internal Control

By not monitoring services provided by third-party service providers, this increases the risk that management may be unaware of control failures that could impact the reliability of those systems and accuracy of data used to prepare the consolidated financial statements.

Recommendations – Service Organizations Used for populations of Separated Users

We recommend the Office of Human Resources Solutions to:

29. Assess the risk posed by the service organization's control environments to identify the relevant significant controls, including determining the relevant of any subservice organizations.

30. Implement procedures to review the SOC 1 report for the service organization's control environment in accordance with management's standard operating procedures. Additionally, evaluate the effectiveness of complementary user entity controls to determine the reliability of controls and reports provided by the service organization.

6. Entity Level Controls Need Improvement

Management faced challenges in maintaining an adequate entity level controls system that produces reliable and accurate financial reporting. The significance of the internal control matters indicated weaknesses across several entity level control categories. The following conditions were identified.

A. Control Environment and Risk Assessment

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

- Management did not adequately develop and document the materiality threshold considered and applied by program offices when key decisions regarding controls and review processes were implemented. The controls within the relevant offices were not designed, implemented, and operating effectively to a sufficient precision level to ensure the reporting objective of preparing the financial statements free of material misstatement could be achieved. For example, the COVID-19 EIDLs and PPP loan review processes were not designed to ensure the reviews performed were to a sufficient level of precision to ensure the related balances were free of material misstatement.

- Management did not implement adequate risk assessment processes to identify, analyze, and respond to relevant risks for FY2024. For example, management did not adequately respond to the increased risk of noncompliance with applicable laws (e.g., DCIA) due to the large volume of COVID-19 EIDLs entering delinquency and subsequent charge off in FY2024. Additionally, management did not evaluate the risks related to the mass reestablishment of COVID-19 EIDLs due to the increased enrollment in the Hardship Accommodation Plan (HAP).

B. Monitoring

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

- PPP lenders.

- Internal control over processes performed by service organizations.

- RRF and SVOG program award recipients.

- The COVID-19 EIDLs portfolio to identify a complete and accurate population of loans disbursed to eligible recipients for financial reporting purposes as of fiscal year-end.

These deficiencies were caused by the prioritization of the continued execution and servicing of the CARES Act and related legislation programs over internal control processes and related remediation of prior year control

deficiencies. In addition, these deficiencies were caused by the lack of available resources needed to perform an adequate risk assessment, appropriately remediate prior year control deficiencies, implement, and monitor the operating effectiveness of controls, and operationally service large-scale programs effectively.

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

- GAO's Green Book, Principle 6, Define Objectives and Risk Tolerances; Principle 7, Identify, Analyze, and Respond to Risks; Principle 9, Identify, Analyze, and Respond to Change; Principle 10, Design Control Activities; Principle 12, Implement Control Activities; Principle 16, Perform Monitoring Activities; Principle 17, Evaluate Issues and Remediate Deficiencies

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

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

Recommendations – Entity Level Controls Need Improvement

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

31. In conjunction with the Office of the Chief Financial Officer, review and evaluate the completed internal control risk assessments for programs that have a material impact on the financial statements at a process level. Develop a plan to respond in a timely manner, including the consideration of whether entity level controls, manual controls, general information technology controls, and system application controls are designed, implemented, and are operating at a sufficient precision level in accordance with management's materiality threshold and will be sufficient for financial reporting purposes.

32. Design, implement, and monitor the operating effectiveness of key controls that respond to significant risks of material misstatements and compliance with relevant laws and regulations.

7. Controls over General Information Technology Need Improvement

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

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

- GAO's Green Book, Principle 7, Identify, Analyze, and Respond to Risks; Principle 10, Design Control Activities; Principle 11, Design Activities for the Information System; and Principle 12, Implement Control Activities

- National Institute of Standards and Technology Special Publication 800-53, Revision 5, Security and Privacy Controls for Federal Information Systems and Organizations

Management did not effectively design, implement, and operate access controls for applications, databases, operating systems, and tools, particularly those related to the authorization, provisioning, monitoring, and

deactivation of user accounts. Specifically, management did not have adequate controls designed, implemented, and operating effectively for the timely removal of access to SBA systems for separated employees and contractors. Management also did not consistently implement and enforce controls across multiple systems regarding the configuration of application password security, and authentication to the SBA network and applications.

Management did not properly design and implement a process for recertifying user accounts that required validation by an independent individual with the necessary knowledge and authority to recertify access. Further, user recertifications did not always contain sufficient user identifier information, preventing reviewers from associating accounts with individuals and assessing the appropriateness of their access based on their roles and responsibilities.

These deficiencies were caused by several factors: a lack of enforcement of account management controls for the authorization, provisioning, monitoring, and deprovisioning of user accounts; inadequate implementation of password, and authentication controls; insufficient monitoring and accountability of individuals performing control responsibilities; inconsistent validation of the continued operating effectiveness of controls ensuring data is completely and accurately captured and recorded; and an inadequate risk assessment process to identify and mitigate the risk of inappropriate access.

The deficiencies described above increases the risk that unauthorized users may retain access to the system resulting in unauthorized modification, destruction, or exposure to SBA systems and data, including manipulation of financial transactions and erroneous financial reporting.

Recommendations – Logical Access Controls

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

33. Implement procedures to validate that SBA network access for separated users, per the authoritative source listings, is removed within the required timeframes.

34. Establish a plan to implement multi-factor authentication for non-privileged users.

35. Implement a process to track compliance with the plan to implement multi-factor authentication requirements.

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

36. Document within the system security plan the control implementation for all tools and layers within the authorization boundary.

37. Develop and provide training to the control operators to reinforce the existing policies and procedures for requesting, approving, and provisioning new or modified user access.

38. Establish a backup for the individual responsible for operating system account management to remove single points of failure.

39. Revise the account recertification script so data is retrieved from the correct fields.

40. Update the account review and recertification procedures to include quality control steps to validate that complete and accurate account listings are used for all user accounts within the authorization boundary, including the operating system servers.

41. Update the user access review control to include an attribute to ensure that the reviewer has the knowledge, authority, and independence to conduct the review. Additionally, formalize these procedures within the existing account management policies and procedures.

42. Improve controls over personnel actions to ensure timely separation of employees and removal of system access privileges.

43. Provide training to control operators to reinforce the existing policies and procedures for requesting and approving user access for employees dependent upon their employment status (e.g. temporary employee, full-time employee and contractor).

44. Implement separation of duties between roles and functions within the organization to prevent circumvention of controls.

Appendix II

U.S. Small Business Administration

Significant Deficiencies

The following deficiencies are considered to be significant deficiencies in internal controls over financial reporting.

1. **Controls over Payments for Covered Loans under the Debt Relief Program Need Improvement**
2. **Controls over Reporting of Contingencies Need Improvement**

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

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

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

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

These deficiencies were caused by management's reliance on the contractor's work without adequate monitoring controls. Also, management did not perform an adequate risk assessment to identify and mitigate relevant risks and design appropriate controls to ensure an effective post payment review of payments for covered loans under the Debt Relief Program caused the deficiency identified above.

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

- GAO's Green Book, Principle 3, Establish Structure, Responsibility, and Authority; Principle 6, Define Objectives and Risk Tolerances; Principle 10, Design Control Activities; Principle 12, Implement Control Activities and Principle 16, Perform Monitoring Activities
- OMB Circular No. A-123, Management's Responsibility for Enterprise Risk Management and Internal Control

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

Recommendations – Payments for Covered Loans under the Debt Relief Program

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

45. Design and implement controls that require oversight over contractors, including maintenance of documentation, that provides evidence over the adequate review and validation of the contractor's work product.

46. Perform and document a thorough risk assessment of the payments for covered loans under the Debt Relief Program.

47. Design and implement the appropriate review controls to identify payments that may have been improper or inaccurate. Implement an effective funds recovery plan that includes an effective process to provide the information necessary to record any required accounting adjustments for accurate and timely financial reporting based on the results of the risk assessment.

2. Controls over Reporting of Contingencies Need Improvement

Statement of Federal Financial Accounting Standards Number 5, *Accounting for Liabilities of the Federal Government*, establishes the accounting and financial reporting requirements for contingencies. A contingency is an existing condition, situation, or set of circumstances involving uncertainty as to possible gain or loss that will ultimately be resolved when one or more future events occur or fail to occur. Contingencies should be recognized as a liability when a past transaction or event has occurred, a future outflow or other sacrifice of resources is probable, and the related future outflow or sacrifice of resources is measurable. Contingencies should be disclosed if any of the conditions for liability recognition are not met and there is a reasonable possibility that a loss or an additional loss may have been incurred.

Management did not design and implement monitoring controls to ensure the timely and complete recognition and disclosure of contingent liabilities. A detailed listing of pending or threatened litigation and unasserted claims against the SBA was not obtained or maintained by the office responsible for financial reporting. The office responsible for financial reporting received a summary of cases by program; however, the information did not include the name and description of each case, the amount claimed, likelihood of loss, and estimated amount or range of potential loss. The information and communication process between the office responsible for communicating the legal matters did not provide the necessary information to those responsible for the financial reporting to perform a complete assessment of the financial reporting impact.

Also, management did not report the summary of cases in accordance with a newly implemented materiality policy. Further, management did not document the quantitative and qualitative evaluation performed to determine that recognition or disclosure was not warranted in accordance with its policy.

The deficiency was caused by the lack of an effective communication and information process between the offices responsible for providing all relevant information regarding legal matters to the respective office responsible for the financial reporting to perform the appropriate assessment of legal matters and the impact to SBA consolidated financial statements. Also, management did not adequately implement the new materiality policy.

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

- GAO's Green Book, Principle 3, Establish Structure, Responsibility, and Authority; Principle 10, Design Control Activities; Principle 13, Use Quality Information; and Principle 14, Communicate Internally

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

The deficiency described above may result in misstatements or omissions to the Other than Intragovernmental Liabilities line item and the Commitments and Contingencies disclosure and other related elements in the consolidated financial statements.

Recommendations – Reporting of Contingencies

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

48. Design and implement effective communication processes with the Office of General Counsel to obtain relevant and complete information to ensure complete, accurate, and timely recognition and disclosure of contingencies.

49. Update the new materiality policy to specify the application criteria and design and implement controls to ensure that the application of the policy is effective and documented.

Appendix III

U.S. Small Business Administration

Compliance and Other Matters

A. Debt Collection Improvement Act of 1996, as amended (DCIA)

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

Management did not refer delinquent loans to the Treasury for collection within the required timeframe. Management identified and communicated that approximately 755,725 COVID-EIDLs and 363,863 PPP loans were noncompliant with DCIA requirements for the fiscal year ended September 30, 2024.

In addition, management did not design and implement effective controls to identify a complete population of delinquent loans that meet the criteria for referral to Treasury to ensure compliance with DCIA requirements.

The conditions identified were caused by inadequate design and implementation of risk assessment and monitoring processes that enable management to identify, analyze, and respond to the relevant risks of noncompliance and to ensure delinquent loans were identified and referred to Treasury within the required timeframe. Also, the deficiencies were caused by inadequate system infrastructure in place to understand and respond to the root causes of noncompliance.

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

- DCIA
- GAO's Green Book, Principle 9, Identify, Analyze, and Respond to Change; and Principle 10, Design Control Activities

As a result of delays and absence of referrals of delinquent borrowers and guarantors to Treasury, SBA did not comply with DCIA requirements.

Recommendations – DCIA

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

50. Perform a regular review and risk assessment of the implemented policies to ensure they are responding to relevant risks of noncompliance for the current fiscal year.
51. Design, implement, and document appropriate monitoring controls to address compliance with DCIA.
52. Reevaluate the operational infrastructure and system controls to address relevant risks of noncompliance and ensure that borrowers are notified timely of delinquency, and if applicable, subsequently referred to Treasury timely.

B. Federal Managers' Financial Integrity Act of 1982 (FMFIA)

Management performed an internal control assessment as required under FMFIA. However, management's assessment did not substantially comply with FMFIA and the related OMB Circular No. A-123 requirements. Specifically, management did not:

- Thoroughly document a comprehensive evaluation of internal control over financial reporting regarding current programs while giving consideration to relevant risks during the fiscal year.
- For the risks significant to financial reporting, consistently document financial statement risks and assertions covered, testing procedures performed, extent of sampling performed, testing results, corrective action plans to respond to deficiencies identified, and provide evidence of management review.
- Ensure their own assurance process was sufficient to identify material weaknesses that existed during the fiscal year in addition to those identified by external auditors.

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

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

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

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

Recommendations – FMFIA

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

53. In conjunction with relevant program offices, perform and document a comprehensive internal control evaluation over all programs. This should include entity level controls, manual controls, general information technology controls, and system application controls covering key financial statement line items and risks.
54. Work with relevant program office management to communicate and respond to control testing results and update corrective action plans to remediate control deficiencies identified.
55. Update the existing policy and implement adequate controls to ensure that the statement of assurances provided by the program offices are adequately documented and reviewed for completeness and accuracy to provide a sufficient basis to support the Administrator's statement of assurance.

C. Federal Financial Management Improvement Act of 1996 (FFMIA)

Management did not establish and maintain financial management systems that substantially comply with the following FFMIA requirements:

- Federal Financial Management Systems Requirements. As discussed in Appendix I – Material Weaknesses, control deficiencies over transactions arising from the implementation of the CARES Act and related legislation do not enable reliable and accurate financial reporting, do not ensure compliance objectives are met, and do not ensure budgetary resources are safeguarded against waste, loss, and misuse.

- Federal Accounting Standards. The deficiencies identified and reported in Appendix I – Material Weaknesses, provide an indication that SBA's financial management systems were substantially noncompliant with applicable federal accounting standards. Specifically, management was unable to provide evidence that the accounting treatment and financial reporting of the recovery of funds related to the RRF, SVOG, COVID-19 EIDLs, and PPP programs were in accordance with U.S. generally accepted accounting principles.

Management did not substantially meet FFMIA requirements because of the reasons discussed in Appendix I – Material Weaknesses and due to an inadequate entity wide control environment to implement the provisions of the CARES Act and related legislation with sufficiently designed and implemented controls.

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

- Section 803(a) of FFMIA

- GAO's Green Book, Section 2, Establishing an Effective Internal Control System

- Appendix D to OMB Circular No. A-123, Compliance with the Federal Financial Management Improvement Act of 1996

Management did not substantially comply with FFMIA increasing the risk that transactions are incorrectly recorded to the general ledger, impacting the completeness, existence, and accuracy of the balances in the consolidated financial statements.

Recommendations – FFMIA

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

56. Address the control deficiencies over transactions arising from the implementation of the CARES Act and related legislation by working with the Office of Capital Access and the Office of Disaster Recovery and Resilience to implement the recommendations in Appendix I – Material Weaknesses.

CFO RESPONSE TO DRAFT AUDIT REPORT ON FY 2024 FINANCIAL STATEMENTS

Appendix IV

CFO Response to Audit Report on FY 2024 Financial Statements

DATE: November 15, 2024

TO: Hannibal M. Ware, Inspector General

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

SUBJECT: FY 2024 Financial Statement Audit

The Small Business Administration has reviewed the Independent Auditors' Report from KPMG that includes the auditors' disclaimer of opinion on the Agency's FY 2024 and FY 2023 Consolidated Balance Sheets. The independent audit of the Agency's financial statements and related processes is a core component of SBA's financial management program, and we are concerned by this result.

The FY 2024 Agency Financial Report includes pandemic relief programs: the Paycheck Protection Program, the COVID-19 Economic Injury Disaster Loan program, the Restaurant Revitalization Fund program, and the Shuttered Venue Operators Grant program, which were authorized by the Coronavirus Aid, Relief, and Economic Security Act of 2020, the Economic Aid Act, the American Rescue Plan Act, and related legislations. As in FY 2023, the management of these programs during prolonged unprecedented times continued to emphasize the importance of serving small businesses as they navigate extraordinary circumstances.

The SBA has continued making tremendous progress strengthening internal controls for pandemic-focused programs and is dedicated to accountability and transparency to the American public. In FY 2024, SBA hired a Chief Risk Officer (CRO) and established a new Office of Enterprise Integrity (OEI) to evaluate and consolidate audit management, internal controls, improper payments, fraud risk management and Enterprise Risk Management (ERM). SBA's Fraud Risk Management Board (FRMB) mitigates, manages, and monitors fraud risks aligned with GAO's Fraud Risk Management Framework. The FRMB is co-chaired by the CFO and CRO and members include Deputy Associate Administrators of key program offices, who are supported by an advisory team of SBA leaders with subject matter expertise across cybersecurity, data, systems, learning and development, and more.

In FY 2024, SBA implemented a more centralized financial statement audit management structure to provide the Agency additional support and oversight to improve financial statement audit posture, improving partnerships across SBA and providing more proactive considerations to strengthen SBA's confidence of its financial standing. The CFO and key SBA program offices have partnered in the development and implementation of corrective actions that will strengthen internal controls as well as address audit identified deficiencies. This was all accomplished and prioritized within existing resources.

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

The auditors identified material weaknesses related to the internal controls over seven areas: COVID-19 Economic Injury Disaster Loans, Paycheck Protection Program Loan Guarantees, the Restaurant Revitalization Fund and Shuttered Venue Operators Grant Program, Financial reporting for programs funded by CARES Act and related legislation, Evaluation of Service Organizations, Entity Level Controls, and General Information Technology Controls. The SBA has undergone tremendous efforts to strengthen internal controls, policies and procedures and will continue remediation efforts in the coming audit year.

In FY 2024, SBA re-engaged the Federal Accounting Standards Advisory Board (FASAB) to obtain clarification on the appropriate accounting treatment for various scenarios within the COVID-19 Economic Injury Disaster and Paycheck Protection Program loan portfolios. Due to the unique programs and scope of the standards, FASAB has redirected our inquiry to Treasury and OMB. These discussions will occur in FY 2025 and will be a critical milestone in SBA's remediation.

In addition, SBA implemented Single Sign-On for the Financial Management System in FY 2024. This streamlined multi-factor authentication process enhanced the efficiency, security, and user experience associated with accessing the Financial Management System.

We appreciate your efforts and those of your colleagues in the Office of the Inspector General, as well as those of KPMG. The independent audit process continues to provide us with beneficial recommendations that support our efforts to further enhance the SBA's financial management practices. We remain committed to excellence in financial management and look forward to furthering progress in the coming year.

FINANCIAL STATEMENTS AND NOTES (UNAUDITED)

The U.S. Small Business Administration prepares its financial statements as a critical aspect of ensuring accountability and stewardship for the public resources entrusted to the SBA. Preparation of these statements is also an important part of SBA's financial management goal of providing accurate and reliable information that may be used to assess performance and allocate resources.

SBA's management is responsible for the accuracy and propriety of the information contained in the principal financial statements and the quality of internal controls. The SBA prepares these financial statements from its records in accordance with generally accepted accounting principles in the United States as well as formats prescribed by the Office of Management and Budget. While these statements have been prepared from SBA's records in accordance with generally accepted accounting principles for federal entities and the formats prescribed by the OMB, they are in addition to the financial reports used to monitor and control budgetary resources, which are prepared from the same records. The statements should be read with the realization that they are a component of the U.S. Government.

The financial statements include the following reports.

The **Consolidated Balance Sheet** summarizes the assets, liabilities, and net position by major category as of the reporting date. Intragovernmental assets and liabilities resulting from transactions between federal agencies are presented separately from assets and liabilities resulting from transactions with the public.

The **Consolidated Statement of Net Cost** shows, by strategic goal, the net cost of operations for the reporting period. Net cost of operations consists of full program costs incurred by the SBA less the exchange revenues earned by those programs.

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

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

The **Notes to the Financial Statements** provide information to explain the basis of the accounting and presentation used to prepare the statements and to explain specific items in the statements. They also provide information to support how particular accounts have been valued and computed.

The **Required Supplementary Information** presents a Combining Statement of Budgetary Resources report by principal functional area.

U.S. SMALL BUSINESS ADMINISTRATION

CONSOLIDATED BALANCE SHEET

As of September 30, 2024 and 2023

(Dollars in Thousands)	2024	2023
ASSETS		
Intragovernmental		
Fund Balance with Treasury (Note 2)	$ 17,845,756	$ 44,081,291
Accounts Receivable, Net (Note 5)	324	-
Advances and Prepayments	7,260	6,303
Total Intragovernmental Assets	17,853,340	44,087,594
Other than Intragovernmental Assets		
Cash and Other Monetary Assets (Note 3)	8,618	10,460
Accounts Receivable, Net (Note 5)	119,910	165,487
Loans Receivables, Net:		
Credit Program Receivables and Related Foreclosed Property, Net (Note 6)	258,107,817	271,944,994
Property, Plant and Equipment, Net (Note 7)	79,875	103,995
Advances and Prepayments	12,365	16,054
Total Other than Intragovernmental Assets	258,328,585	272,240,990
Total Assets	**$ 276,181,925**	**$ 316,328,584**
LIABILITIES (Note 8)		
Intragovernmental Liabilities		
Accounts Payable:		
Accounts Payable, Capital Transfers:		
Net Assets of Liquidating Funds Due to Treasury (Note 10)	$ 8,673	$ 10,960
Accounts Payable	2,418	3,938
Debt:		
Interest Payable – Loans and Other Funds (Note 9)	77	69
Loans Payable:		
Principal Payable to the Bureau of the Fiscal Service (Note 9)	264,662,710	334,320,210
Advances from Others	3,316	2,427
Other Liabilities:		
Benefit Program Contributions Payable	12,052	15,068
Liability to the General Fund of the U.S. Government for Other Non-Entity Assets:		
Downward Reestimate Payable to Treasury (Note 14)	9,902,199	2,724,486
Other (Note 11)	2,032	2,955
Total Intragovernmental Liabilities	274,593,477	337,080,113
Other than Intragovernmental Liabilities		
Accounts Payable	558,090	539,791
Federal Employee Salary, Leave, and Benefits Payable (Note 12)	81,980	103,872
Post-Employment Benefits Payable (Note 12)	29,273	27,477
Loan Guarantee Liabilities (Note 6)	4,827,018	7,895,498
Other Liabilities:		
Accrued Grant Liability	141,473	248,158
Surety Bond Guarantee Program Future Claims (Note 8)	77,268	68,655
Other (Note 11)	127,434	72,318
Total Other than Intragovernmental Liabilities	5,842,536	8,955,769
Total Liabilities	**280,436,013**	**346,035,882**
Commitments and Contingencies (Note 18)		
NET POSITION		
Unexpended Appropriations – Funds from Other Than Dedicated Collections	3,092,566	3,724,113
Cumulative Results of Operations – Funds from Other Than Dedicated Collections	(7,346,654)	(33,431,411)
Total Net Position	**(4,254,088)**	**(29,707,298)**
Total Liabilities and Net Position	**$ 276,181,925**	**$ 316,328,584**

The accompanying notes are an integral part of these statements.

U.S. SMALL BUSINESS ADMINISTRATION

CONSOLIDATED STATEMENT OF NET COST

For the Years Ended September 30, 2024 and 2023

(Dollars in Thousands)	2024	2023
STRATEGIC GOAL 1:		
Ensure Equitable and Customer-Centric Design and Delivery of Programs to Support Small Businesses and Innovative Startups		
Gross Cost	$ 806,568	$ 1,033,792
Less: Earned Revenue	210,539	234,652
Net Cost of Strategic Goal 1	**596,029**	**799,140**
STRATEGIC GOAL 2:		
Build Resilient Businesses and a Sustainable Economy		
Gross Cost	3,704,972	40,040,060
Less: Earned Revenue	4,950,229	5,919,285
Net Cost of Strategic Goal 2	**(1,245,257)**	**34,120,775**
STRATEGIC GOAL 3:		
Implement Strong Stewardship of Resources for Greater Impact		
Gross Cost	170,880	169,534
Net Cost of Strategic Goal 3	**170,880**	**169,534**
COST NOT ASSIGNED TO STRATEGIC GOALS		
Gross Cost	169,432	233,137
Net Cost Not Assigned to Strategic Goals	**169,432**	**233,137**
Net Cost of Operations	**$ (308,916)**	**$ 35,322,586**

Note 15

The accompanying notes are an integral part of these statements.

U.S. SMALL BUSINESS ADMINISTRATION

CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION

For the Years Ended September 30, 2024 and 2023

(Dollars in Thousands)	2024	2023
Funds from other than Dedicated Collections		
Unexpended Appropriations:		
Beginning Balance	$ 3,724,113	$ 10,558,338
Appropriations Received	35,227,207	30,739,480
Other Adjustments:		
Rescissions	(43,228)	(5,867,516)
Adjustment – Cancelled Authority	(18,883)	(15,088)
Return of Unrequired Liquidating Fund Appropriation	(494)	(597)
Other Adjustments	(227)	(104)
Appropriations Used	(35,795,922)	(31,690,963)
Adjustment to Cancelled Funds	-	563
Total Unexpended Appropriations	**$ 3,092,566**	**$ 3,724,113**
Cumulative Results of Operations:		
Beginning Balance	$ (33,431,411)	$ (27,669,576)
Other Adjustments:		
Current Year Liquidating Equity Activity	909	(5,932)
Appropriations Used	35,795,922	31,690,963
Donations of Cash and Cash Equivalents	9	-
Imputed Financing	53,796	38,595
Other:		
Non-entity Activity	(10,074,795)	(2,162,312)
Adjustment to Cancelled Funds	-	(563)
Net Cost of Operations	**(308,916)**	**35,322,586**
Net Change in Cumulative Results of Operations	**26,084,757**	**(5,761,835)**
Total Cumulative Results of Operations	**$ (7,346,654)**	**$ (33,431,411)**
Ending Net Position	**$ (4,254,088)**	**$ (29,707,298)**

The accompanying notes are an integral part of these statements.

U.S. SMALL BUSINESS ADMINISTRATION

COMBINED STATEMENT OF BUDGETARY RESOURCES

For the Years Ended September 30, 2024 and 2023

(Dollars in Thousands)

	September 30, 2024		
	Budgetary	**Nonbudgetary Financing**	**Total**
BUDGETARY RESOURCES			
Unobligated Balance from Prior Year Budget Authority, Net (discretionary and mandatory)	$ 4,514,210	$ 20,886,403	$ 25,400,613
Appropriations (discretionary and mandatory)	35,212,157	801	35,212,958
Borrowing Authority (discretionary and mandatory)	-	2,655,914	2,655,914
Spending Authority from Offsetting Collections	389,617	4,259,011	4,648,628
Total Budgetary Resources	**$ 40,115,984**	**$ 27,802,129**	**$ 67,918,113**
STATUS OF BUDGETARY RESOURCES			
New Obligations and Upward Adjustments (total)	$ 36,577,358	$ 15,607,348	$ 52,184,706
Unobligated Balance, end of year:			
Apportioned, unexpired accounts	918,126	6,702,752	7,620,878
Unapportioned, unexpired accounts	244,257	5,492,029	5,736,286
Unexpired Unobligated Balance, end of year	1,162,383	12,194,781	13,357,164
Expired Unobligated Balance, end of year	2,376,243	-	2,376,243
Total Unobligated Balance, end of year	3,538,626	12,194,781	15,733,407
Total Status of Budgetary Resources	**$ 40,115,984**	**$ 27,802,129**	**$ 67,918,113**
OUTLAYS, NET and DISBURSEMENTS, NET			
Net Outlays (discretionary and mandatory)	$ 36,148,630		$ 36,148,630
Distributed Offsetting Receipts	(2,953,774)		(2,953,774)
Agency Outlays, Net (discretionary and mandatory)	**$ 33,194,856**		**$ 33,194,856**
Disbursements, Net (total) (mandatory)		**$ (44,352,632)**	

Note 16

The accompanying notes are an integral part of these statements.

U.S. SMALL BUSINESS ADMINISTRATION

COMBINED STATEMENT OF BUDGETARY RESOURCES

For the Years Ended September 30, 2024 and 2023

(Dollars in Thousands)

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

Note 16

The accompanying notes are an integral part of these statements.

Note 1 Reporting Entity and Summary of Significant Accounting Policies

Reporting Entity

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

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

Basis of Accounting and Presentation

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

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

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

Use of Estimates

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

Budgets and Budgetary Accounting for Loan Programs

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

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

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

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

Advances

Advances are cash outlays made by a Federal entity to its employees, contractors, grantees, or others to cover a part or all of the recipients' anticipated expenses or as advance payments for the costs of goods and services the entity receives. Prepayments are payments made by a Federal entity to cover certain periodic expenses before those expenses are incurred. The SBA has both intragovernmental advances and advances to the public. Advances to the public represent prepaid grants to counseling and training partners.

Accounts Payable

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

Accrued Grant Liability

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

Commitments and Contingencies

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

Cumulative Results of Operations

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

Unexpended Appropriations

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

Classified Activities

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

Fiduciary Activities

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

Employee Benefits

Leave

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

Accrued funded payroll and leave has been moved to Federal Employee Salary, Leave, and Benefits Payable on the Consolidated Balance Sheet in accordance with OMB and Treasury required changes for FY 2024. FY 2023 amounts have been realigned to be comparable to the presentation for FY 2024.

Employee Health and Life Insurance Benefits

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

Employee Pension Benefits

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

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

Imputed Financing Costs

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

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

Federal Employees' Compensation Act

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

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

Actuarial FECA liabilities have been moved to Post Employment Benefits Payable on the Consolidated Balance Sheet in accordance with OMB and Treasury required changes for FY 2024. FY 2023 amounts have been realigned to be comparable to the presentation for FY 2024.

Note 2 Fund Balance with Treasury

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

FBWT is an asset to the SBA and a liability of the General Fund. The amounts represent commitments by the Government to provide resources for particular programs, but they do not represent net assets to the Government as a whole. When disbursements are made, the Treasury will finance the disbursements in the same way it finances all other disbursements, using some combination of receipts, other inflows, and borrowing from the public (if there is a budget deficit).

(Dollars in Thousands)

As of September 30,	2024	2023
Appropriated Funds	$ 4,849,654	$ 5,833,607
Financing Funds	12,756,281	38,060,348
Liquidating Funds	358	344
Revolving Funds	111,458	113,918
Trust Fund	520	552
Total Entity Fund Balance with Treasury	**17,718,271**	**44,008,769**
Budget Clearing Account Balance	127,485	72,522
Total Fund Balance with Treasury	**$ 17,845,756**	**$ 44,081,291**
Status of Fund Balance with Treasury		
Apportioned, unexpired accounts	$ 7,620,878	$ 16,339,728
Unapportioned, unexpired accounts	5,736,286	23,803,697
Obligated Balance Not Yet Disbursed	2,240,324	2,421,001
Expired Unobligated Balance	2,376,243	2,409,405
Borrowing Authority Not Converted to Funds	(255,460)	(965,062)
Nonbudgetary	127,485	72,522
Total Fund Balance with Treasury	**$ 17,845,756**	**$ 44,081,291**

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

Borrowing Authority Not Yet Converted to Fund Balance represents unobligated and obligated amounts recorded at year-end that will be funded by future borrowings.

Note 3 Cash and Other Monetary Assets

The SBA field offices deposit collections from borrowers in SBA's account at the Treasury using an electronic deposit system. At the end of the fiscal year, collections temporarily held by SBA field offices pending deposit are recorded as Undeposited Collections - Cash in Transit and totaled $8.6 million and $10.5 million as of September 30, 2024 and 2023.

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

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

The Master Reserve Fund is a fiduciary activity administered by SBA's 7(a) Fiscal Transfer Agent. The balance in the MRF is invested, according to SBA policy, entirely in Treasury securities. The MRF is an integral part of SBA's 7(a) secondary market program. The MRF was authorized by the Small Business Secondary Market Improvement Act of 1984 to facilitate the pooling of 7(a) guaranteed loans that are purchased by secondary market investors. The MRF receives monthly payments from SBA guaranteed borrowers and disburses monthly to 7(a) secondary market pool investors based on a schedule of amounts due. In FY 2024, the MRF also received $47.5 million in transfers from the SBA to support select older cohort available balances, which have sustained higher distributions to pool certificate holders than collections from remaining pooled loans. The 7(a) secondary market program includes SBA's guaranty of timely payment, as well as a default guaranty, to 7(a) secondary market investors. The MRF supports $38.1 billion of outstanding SBA guaranteed 7(a) secondary market pool principal as of September 30, 2024 and September 30, 2023.

The Master Reserve Account is a fiduciary activity administered by SBA's 504 Central Servicing Agent. The balance in the MRA is invested entirely in Treasury securities. The MRA facilitates the operation of the 504 Certified Development Company secondary market program. The MRA was authorized by Section 505 of the Small Business Investment Act of 1958 as amended, as a vehicle to receive, temporarily hold, and distribute 504 program cash flows. The MRA receives monthly payments from 504 borrowers and retains the payments until a semi-annual debenture payment is due to secondary market investors. The 504 secondary market program includes SBA's guaranty of timely payment, as well as a default guaranty, to 504 secondary market investors. The MRA supports $34.8 billion and $36.1 billion of SBA guaranteed 504 debentures outstanding in the secondary market as of September 30, 2024 and September 30, 2023.

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

Master Reserve Fund and Master Reserve Account

(Dollars in Thousands)

FIDUCIARY ASSETS

As of September 30,	2024			2023		
	MRF	MRA	Total	MRF	MRA	Total
Cash	$ -	$ 17	$ 17	$ -	$ -	$ -
Short Term Securities						
Money Market Funds	404,727	632,313	1,037,040	480,960	584,118	1,065,078
Treasury Bills	128,114	-	128,114	221,905	-	221,905
Total Cash and Short Term Securities	**532,841**	**632,330**	**1,165,171**	**702,865**	**584,118**	**1,286,983**
Long Term Securities						
Treasury Notes/Bonds Including Interest	1,082,771	-	1,082,771	1,191,086	-	1,191,086
Total Long Term Securities	**1,082,771**	**-**	**1,082,771**	**1,191,086**	**-**	**1,191,086**
Net Assets	**$ 1,615,612**	**$ 632,330**	**$ 2,247,942**	**$ 1,893,951**	**$ 584,118**	**$ 2,478,069**

(Dollars in Thousands)

RECONCILIATION OF FIDUCIARY ASSETS

For the Years Ended September 30,	2024			2023		
Line Item	MRF	MRA	Total	MRF	MRA	Total
Beginning Net Assets	**$ 1,893,951**	**$ 584,118**	**$ 2,478,069**	**$ 2,038,889**	**$ 780,155**	**$ 2,819,044**
Receipts						
Earned Income	99,129	43,165	142,294	63,935	36,937	100,872
Contributions	12,086,813	12,937,091	25,023,904	11,312,538	13,238,008	24,550,546
Net Realized Gain (Loss)	127	-	127	-	-	-
Total Receipts	**12,186,069**	**12,980,256**	**25,166,325**	**11,376,473**	**13,274,945**	**24,651,418**
Less Disbursements						
Payments to Investors	12,464,408	12,932,044	25,396,452	11,521,411	13,470,982	24,992,393
Total Disbursements	**12,464,408**	**12,932,044**	**25,396,452**	**11,521,411**	**13,470,982**	**24,992,393**
Ending Net Assets	**$ 1,615,612**	**$ 632,330**	**$ 2,247,942**	**$ 1,893,951**	**$ 584,118**	**$ 2,478,069**

The SBA has four accounts that belong to the 7(a) loan program and are non-MRF in nature. Two of the four non-MRF accounts are fiduciary in nature (7a Escrow & 7a Disbursement). The balances of the two fiduciary accounts are $100.2 million and $151.0 million at September 30, 2024 and September 30, 2023.

Note 5 Accounts Receivable

Accounts receivable include amounts owed by the public for guaranty fees in SBA's loan and surety bond programs, refunds due from employees and others, as well as other amounts owed by lenders for guaranteed loan purchases that lack the required documents. An Allowance for Loss on uncollectible Surety Bond Guaranty fees is based on an aging of delinquent balances. The uncollectible amount for refunds and loan guaranty fees is not significant and no allowance is provided. Amounts over 180 days past due on guaranteed loans purchased by the SBA are written off for financial reporting purposes. The amount shown in "Other" consists primarily of receivables due from lenders and guaranty purchase repairs.

(Dollars in Thousands)

As of September 30,	2024	2023
Intragovernmental		
Administrative Receivables	$ 324	$ -
Total Intragovernmental	**324**	**-**
Other than Intragovernmental		
Guaranty Fees Receivable	$ 42,563	$ 75,764
Refunds	1,393	1,891
Other	78,423	88,990
Total Other than Intragovernmental	**122,379**	**166,645**
Allowance For Loss	(2,469)	(1,158)
Net Other than Intragovernmental	**$ 119,910**	**$ 165,487**

Note 6 Credit Program Receivables and Loan Guarantee Liabilities

A. Loan Program Descriptions and Accounting

Loan Program Descriptions

The SBA provides guaranties that help eligible small businesses obtain loans from participating lenders and licensed small business investment companies to make investments in qualifying small businesses. The SBA also makes loans to microloan intermediaries and provides direct loans that assist homeowners, renters, businesses of all sizes, and private nonprofit organizations recover from disasters.

Major Direct Loan and Loan Guaranty Programs

Program group	Program type	Program
Disaster	Direct	Disaster Assistance Loans
Business	Guaranteed	7(a) Loan Guaranty
Business	Guaranteed	504 Certified Development Company
Business	Guaranteed	Small Business Investment Company Debentures
Business	Direct	7(m) Microloan

SBA's Disaster Assistance Loan program makes direct loans to disaster survivors under four categories: (1) physical disaster loans to repair or replace damaged homes and personal property; (2) physical disaster loans to businesses of any size; (3) economic injury disaster loans to eligible small businesses and nonprofit organizations without credit available elsewhere; and (4) economic injury loans to eligible small businesses affected by essential employees called up to active duty in the military reserves. The maximum interest rate is 4 percent for loan applicants without credit available elsewhere and 8 percent for applicants with credit available elsewhere. The SBA offered low-interest Economic Injury Disaster Loans for working capital to small businesses suffering substantial economic injury as a result of the COVID-19 pandemic. Although SBA stopped accepting new loan applications on January 1, 2022, the program continues to require servicing support.

SBA's business loan programs include its flagship 7(a) Loan Guaranty program in which the SBA guaranties up to 90 percent of the amount of loans made by participating banks and other lending institutions to eligible small businesses not able to obtain credit elsewhere. The CARES Act added the Paycheck Protection Program in the 7(a) loan program which is designed to provide a direct incentive for small businesses to keep their workers on the payroll. Although the Paycheck Protection Program ended on May 31, 2021, there continues to be recovery activity.

The 504 Certified Development Company program guarantees 100 percent of the principal and interest payments on debentures issued by development companies for loans to eligible small businesses secured by real estate or equipment.

The Small Business Investment Company program guarantees principal and interest payments on debentures issued by small business investment companies, which in turn make investments in qualifying small businesses.

The 7(m) Microloan program provides direct loans to nonprofit intermediaries, which use these funds to make loans up to $50,000 to eligible small businesses.

Credit Subsidy Modeling

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

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

Historical data is used as the basis for program performance assumptions. The historical data undergoes quality review and analysis prior to its use in developing model assumptions.

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

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

Subsidy Funding under the Federal Credit Reform Act

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

Credit Program Receivables and Related Foreclosed Property, Net

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

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

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

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

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

Foreclosed property is comprised of real and personal property acquired through foreclosure on direct loans and defaulted loan guaranties. Properties acquired as a result of defaulted loans committed after FY 1991 are shown at recoverable value, which is adjusted to the present value of expected future cash flows for financial statement presentation through the allowance for subsidy. Other foreclosed property is shown at the appraised value. At September 30, 2024 SBA's foreclosed property was $30.7 million related to 83 loans. The properties had been held for an average of 1,466 days. At September 30, 2023 foreclosed property was $27.8 million related to 71 loans. The properties had been held for an average of 1,594 days.

Valuation Methodology for the Liability for Loan Guaranties under FCRA

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

Valuation Methodology for Pre-FCRA Liability for Loan Guaranties

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

B. Credit Program Receivables and Related Foreclosed Property, Net

(Dollars in Thousands)

As of September 30, 2024	Pre-1992 Loans	Post-1991 Loans	Total
Direct Business Loans			
Business Loans Receivable	$ 1,886	$ 229,985	$ 231,871
Interest Receivable	-	1,652	1,652
Foreclosed Property	2,625	-	2,625
Allowance	(4,511)	(17,645)	(22,156)
Total Direct Business Loans	**-**	**213,992**	**213,992**
Direct Disaster Loans			
Disaster Loans Receivable	-	287,021,249	287,021,249
Interest Receivable	-	10,134,085	10,134,085
Foreclosed Property	-	5,779	5,779
Allowance	-	(40,913,937)	(40,913,937)
Total Direct Disaster Loans	**-**	**256,247,176**	**256,247,176**
Defaulted Guaranteed Business Loans & Other Loans Receivable			
Defaulted Guaranteed Business Loans	-	4,035,096	4,035,096
Other Loans Receivable (see note below)	-	44,309	44,309
Interest Receivable	-	22,578	22,578
Foreclosed Property	1,264	20,988	22,252
Allowance	(1,264)	(2,476,322)	(2,477,586)
Total Defaulted Guaranteed Business Loans & Other Loans Receivable	**-**	**1,646,649**	**1,646,649**
Total Credit Program Receivables & Related Foreclosed Property, Net			**$ 258,107,817**

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

(Dollars in Thousands)

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

Note: Other Loans Receivable includes payments advanced by the SBA against future reimbursements in the SBIC and 504 loan programs.

C. Loans Disbursed and Outstanding Loan Obligations

(Dollars in Thousands)

DIRECT LOANS

New Loans Disbursed During the Year Ended September 30,	2024	2023
Business Direct Loan Program	$ 37,996	$ 48,772
Disaster Loan Program	1,450,201	2,097,897
Total Direct Loans Disbursed	**$ 1,488,197**	**$ 2,146,669**

Outstanding Loan Obligations as of September 30,	2024	2023
Business Direct Loan Program	$ 46,748	$ 48,372
Disaster Loan Program	832,793	896,097
Total Direct Loan Obligations	**$ 879,541**	**$ 944,469**

GUARANTEED LOANS

New Loans Disbursed During the Year Ended September 30,	2024	2023
Total Principal Disbursed at Face Value	$ 34,274,318	$ 33,410,769
Total Principal Disbursed Guaranteed by the SBA	27,281,344	26,958,798

Outstanding Loan Obligations as of September 30,	2024	2023
Business Guaranteed Loan Programs	$ 24,606,031	$ 22,600,122

Loans Outstanding as of September 30,	2024	2023
Total Principal Outstanding at Face Value	$ 166,585,501	$ 165,520,099
Total Principal Outstanding Guaranteed by the SBA	139,527,550	140,270,131

Note: Total guaranteed balances as of September 30, 2023 include 504 guaranteed debenture balances which have not been reduced by recent semi-annual scheduled principal payments.

D. Subsidy Cost Allowance Balances

(Dollars in Thousands)

For the Years Ended September 30,	2024	2023
Post-1991 Business Direct and Purchased Guaranteed Loans		
Beginning Balance of Allowance Account	**$ 2,523,631**	**$ 2,362,578**
Current Year's Subsidy (see 6.G for breakdown by component)	3,362	3,650
Loans Written Off	(3,373,755)	(11,227,347)
Subsidy Amortization	(1,517)	(2,102)
Allowance Related to Guaranteed Loans Purchased This Year	2,304,136	10,237,161
Miscellaneous Recoveries and Costs	1,042,700	1,157,900
Balance of Subsidy Allowance Account before Reestimates	2,498,557	2,531,840
Reestimates	(4,590)	(8,209)
Ending Balance of Allowance Account	**$ 2,493,967**	**$ 2,523,631**
Post-1991 Disaster Direct Loans		
Beginning Balance of Allowance Account	**$ 53,947,589**	**$ 61,462,708**
Current Year's Subsidy (see 6.G for breakdown by component)	265,535	251,139
Loan Modification	2,671	57,961
Loans Written Off	(39,906,551)	(49,728,611)
Subsidy Amortization	5,601,960	6,544,909
Miscellaneous Recoveries and Costs	22,765,276	1,291,687
Balance of Subsidy Allowance Account before Reestimates	42,676,480	19,879,793
Reestimates	(1,762,543)	34,067,796
Ending Balance of Allowance Account	**$ 40,913,937**	**$ 53,947,589**

Note: The Disaster Direct Loans Miscellaneous Recoveries and Costs line includes $21.7 billion in loans written off in prior years. These loans were returned to regular servicing in FY 2024 and reestablished as loan receivables. The increase in loans returned to regular servicing is primarily attributed to enrollments in the Hardship Accommodation Program (HAP).

E. Liability for Loan Guaranties

(Dollars in Thousands)

For the Years Ended September 30,	2024	2023
Post-1991 Business Loan Guaranties		
Beginning Balance of Liability for Loan Guaranties	**$ 7,895,498**	**$ 25,708,234**
Claim Payments to Lenders/Guarantee Payments	(4,511,684)	(12,223,993)
Fees	1,150,854	1,244,154
Interest Supplements Paid	(78,810)	(307,695)
Interest Revenue on Uninvested Funds	90,162	113,905
Interest Expense on Entity Borrowings	(62,169)	(62,886)
Current Year's Subsidy (see 6.G for breakdown by component)	19,399	72,371
Upward Reestimates	823,551	408,676
Downward Reestimates	(1,426,005)	(1,611,710)
Adjustment Due to Reestimate & Guaranteed Loan Purchases	2,207,548	1,986,832
Miscellaneous Recoveries and Costs	(1,281,326)	(7,432,390)
Total Ending Balance of Liability for Loan Guaranties	**$ 4,827,018**	**$ 7,895,498**

F. 2024 Subsidy Rates by Program and Component

The subsidy rates in Table F pertain only to loans obligated in the current year. These rates cannot be applied to the loans disbursed during the current year to yield the subsidy expense because loans disbursed during the current year include loans obligated in prior years. Subsidy expenses reported in Note 6.G result from the disbursement of loans obligated in the current year as well as in prior years and include reestimates and modifications.

Loan Program	Total Subsidy	Financing	Default	Other	Fee
Guaranty					
7(a)	**0.00%**	0.00%	3.18%	0.00%	-3.18%
504 CDC	**0.00%**	0.00%	4.08%	0.42%	-4.50%
504 Refi	**0.00%**	0.00%	4.24%	0.42%	-4.66%
SBIC Debentures	**0.00%**	0.00%	3.80%	0.03%	-3.83%
Direct					
Disaster	**20.55%**	12.67%	10.34%	-2.46%	0.00%
Microloan	**10.46%**	8.67%	2.06%	-0.27%	0.00%

G. Subsidy Expense by Component

(Dollars in Thousands)

For the Years Ended September 30,	2024	2023
Business Loan Guaranties		
Defaults	$ 27,702	$ 108,675
Fees	(12,023)	(41,895)
Other	3,720	5,591
Subsidy Expense Before Reestimates and Loan Modifications	19,399	72,371
Components of Subsidy Reestimates		
Technical Assumptions/Default Reestimates	(599,632)	(1,177,584)
Interest Rate Reestimates	(2,822)	(25,450)
Total of the above Components of Subsidy Reestimates	(602,454)	(1,203,034)
Total Guaranteed Business Loan Subsidy Expense	**$ (583,055)**	**$ (1,130,663)**
Business Direct Loans		
Interest	$ 2,648	$ 2,661
Defaults	840	1,161
Other	(126)	(172)
Subsidy Expense Before Reestimates and Loan Modifications	3,362	3,650
Components of Subsidy Reestimates		
Technical Assumptions/Default Reestimates	(5,427)	(7,301)
Interest Rate Reestimates	837	(908)
Total of the above Components of Subsidy Reestimates	(4,590)	(8,209)
Total Business Direct Loan Subsidy Expense	**$ (1,228)**	$ **(4,559)**
Disaster Direct Loans		
Interest	$ 137,250	$ (229,722)
Defaults	155,253	411,396
Other	(26,968)	69,465
Subsidy Expense Before Reestimates and Loan Modifications	265,535	251,139
Loan Modifications	2,671	57,961
Components of Subsidy Reestimates		
Technical Assumptions/Default Reestimates	(1,764,672)	30,167,468
Interest Rate Reestimates	2,129	3,900,328
Total of the above Components of Subsidy Reestimates	(1,762,543)	34,067,796
Total Disaster Direct Loan Subsidy Expense	$ **(1,494,337)**	$ **34,376,896**

Note: In FY 2024, loan modifications were required to waive interest for 6-months on outstanding Disaster loans to borrowers impacted by the Maui wildfires and also to increase the unsecured threshold for new loans approved under Disaster declarations beginning September 9, 2024. For new Disaster loans approved in FY 2023, loan modifications were required to waive interest during the first year and extend the due date for the first required payment to 12 months. Loan modifications were also required to increase home Disaster loan limits.

H. Administrative Expense

The SBA received appropriations to administer its credit programs, including the making, servicing and liquidation of its loans and guaranties. Amounts expensed in the Statement of Net Cost are shown in the following table.

(Dollars in Thousands)

For the Years Ended September 30,	2024	2023
Disaster Direct Loan Programs	$ 165,000	$ 1,014,570
Business Loan Programs	162,420	165,718
Total Administrative Expense	**$ 327,420**	**$ 1,180,288**

I. Credit Program Subsidy Reestimates

Reestimates are performed annually, on a cohort-by-cohort basis. The purpose of reestimates is to update original program cost estimates to reflect actual cash flow experience as well as changes in forecasts of future cash flows. Forecasts of future cash flows are updated based on additional information about historical program performance, revised expectations of future economic conditions, and enhancements to cash flow projection methods. Financial statement reestimates were performed using a full year of performance data for FY 2024 for SBA's large loan programs, with nine months of actual and three months of projected performance data for the Secondary Market Guarantee, Microloan, and the small loan programs.

Business Guaranteed Loan Programs

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

(Dollars in Thousands)

For the Years Ended September 30,	2024	2023
7(a)	$ 525,969	$ 197,242
7(a) – Recovery Act	(7,795)	(5,262)
7(a) – Jobs Act	(3,544)	100
7(a) – COVID Support	(39,125)	(41,981)
504 CDC	(264,651)	(216,797)
504 CDC – Recovery Act	(1,334)	(4,573)
504 CDC – Jobs Act	(34)	(993)
504 CDC – COVID Support	(40,060)	(30,695)
504 CDC – Debt Refinancing	(21,245)	(4,018)
504 CDC – Debt Refinancing – COVID Support	(5,697)	(2,918)
504 First Mortgage Loan Pooling – Recovery Act	134	(4,239)
SBIC Debentures	(182,169)	108,228
SBIC Participating Securities	6,168	10,475
Secondary Market Guaranty Program	43,230	(18,237)
Paycheck Protection Program	(612,132)	(1,186,597)
ARC – Recovery Act	(223)	(266)
All Other Guaranty Loan Programs	54	(2,503)
Total Guaranteed Loan Program Subsidy Reestimates	**$ (602,454)**	**$ (1,203,034)**

The 7(a) Loan Guaranty program, SBA's flagship program, had a net upward reestimate of $526.0 million in FY 2024. The upward reestimate is concentrated in the 2023 and 2024 cohorts. The 2023 and 2024 cohorts have higher actual and future loss projections than previously estimated, in part due to a loan compositional differences for the cohorts observed though the current year of data. The upward reestimate for the 2024 cohort is also in part due to lower actual and projected fee income. The lower fee income is due to more loans being eligible for fee relief provisions than originally estimated, as well as lower than projected secondary market premium income. The upward reestimate of the 2023 and 2024 cohorts is partially offset by downward reestimates in the remaining cohorts. These downward reestimates are primarily driven by higher projected recoveries on purchased loans due to a methodological change to our recovery assumptions.

The 7(a) Recovery Act program had a net downward reestimate of $7.8 million. The reestimate is mostly due to lower-than-expected losses in FY 2024.

The 7(a) Jobs Act cohort had a net downward reestimate of $3.5 million. The reestimate is mostly due to lower-than-expected losses in FY 2024.

Authorized by the Economic Aid to Hard-Hit Small Businesses, Nonprofits, and Venues Act (Economic Aid Act), the 7(a) COVID Support program offered 90 percent guarantee and upfront and on-going fee waivers for eligible borrowers and additional debt relief support. The 7(a) COVID Support program had a net downward reestimate of $39.1 million. The reestimate is primarily driven by higher projected recoveries on purchased loans due to a methodological change to our recovery assumptions.

The 504 Certified Development Company program had a net downward reestimate of $264.7 million. The reestimate is mostly due to better-than-expected loan performance in FY 2024 contributing to a downward reestimate in most cohorts. Aggregate purchases were lower than projected and recoveries were higher than projected by the prior year model.

The 504 Recovery Act program had a net downward reestimate of $1.3 million. The reestimate is mostly due to better-than-expected loan performance in FY 2024.

The 504 Jobs Act program had a net downward reestimate of $0.03 million. The reestimate is mostly due to better-than-expected loan performance in FY 2024.

Authorized by the Economic Aid to Hard-Hit Small Businesses, Nonprofits, and Venues Act (Economic Aid Act), the 504 COVID support program offered fee waivers of third-party lender fees and borrower CDC Processing fees, provided for CDC reimbursements of Processing fees, and extended additional debt relief support. The 504 COVID support program had a net downward reestimate of $40.1 million. The reestimate is mostly due to better-than-expected loan performance in FY 2024. Aggregate purchases were lower than projected by the prior year model.

The 504 Debt Refinancing program had a net downward reestimate of $21.2 million. The reestimate is mostly due to better-than-expected loan performance in FY 2024 contributing to a downward reestimate for most cohorts. Aggregate purchases were lower than projected and recoveries were higher than projected by the prior year model.

Authorized by the Economic Aid to Hard-Hit Small Businesses, Nonprofits, and Venues Act (Economic Aid Act), the 504 Debt Refinancing COVID support program offered fee waivers of third-party lender fees and borrower Processing fees, provided for CDC reimbursements of Processing fees, and extended additional debt relief support. The 504 Debt Refinance COVID support program had a net downward reestimate of $5.7 million. The reestimate is in part due to better projected loan performance in FY 2024. Aggregate purchases were lower than projected by the prior year model.

The Section 504 First Mortgage Loan Pooling program had a net upward reestimate of $0.1 million in FY 2024. The reestimate is mostly due to higher than projected purchases which was partially offset by higher than projected recoveries in FY 2024.

The SBIC Debentures program had a net downward reestimate of $182.2 million. The reestimate is primarily driven by lower than projected defaults in FY 2024. Notably, there were no defaults in the program in FY 2024 which contributes to the downward reestimate. The lower than projected defaults and updated economic forecast contribute to lower expected future defaults.

The SBIC Participating Securities program had a net upward reestimate of $6.2 million. The reestimate is mostly due to lower cash inflows, in the form of profit participation and other inflows, than projected by the prior year model, namely for the 2001-2004 cohorts.

The Secondary Market Guaranty program had a net upward reestimate of $43.2 million. The reestimate is primarily driven by updated economic assumptions, which resulted in a decrease in expected investment earnings relative to expected pool interest payments. This is partially offset by a downward reestimate for the 2024 cohort due to a compositional shift in actual pool formations to pools with lower net pool interest rates than was originally assumed at formulation.

The Paycheck Protection Program (PPP) had a downward reestimate of $612.1 million in FY 2024. The reestimate is due to a decrease in expected lifetime repurchases for both program cohorts. The reestimate is also in part due to higher net recoveries in FY 2024 than anticipated, contributing to higher forecasted recoveries in future periods.

The America's Recovery Capital program had a net downward reestimate of $0.2 million. The reestimate is primarily due to higher than projected recoveries in FY 2024.

All Other Guaranty Loan programs includes the Dealer Floor Plan program that had a net upward reestimate of $0.05 million. The reestimate is primarily due to lower than projected recoveries in FY 2024.

Business Direct Loan Programs

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

(Dollars in Thousands)

For the Years Ended September 30,	2024	2023
7(m) Microloan	$ (4,425)	$ (8,180)
7(m) Microloan – Recovery Act	(24)	(7)
Intermediary Lending Pilot Program	(128)	(10)
All Other Direct Loan Programs	(13)	(12)
Total Direct Loan Program Subsidy Reestimates	**$ (4,590)**	**$ (8,209)**

The 7(m) Direct Microloan program had a net downward reestimate of $4.4 million. The reestimate is primarily due to aggregate actual defaults being lower than projected in FY 2024.

The 7(m) Direct Microloan Recovery Act program had a downward reestimate of $0.02 million. The reestimate is mostly due to minor differences in actual FY 2024 inflows relative to prior year projections.

The Intermediary Lending Pilot had a net downward reestimates of $0.1 million. The reestimate is mostly due to higher aggregate recoveries and prepayments relative to what was forecasted in the prior year model.

All Other Direct Loan programs includes the Economic Opportunity Loan program that had a net downward reestimate of $0.01 million. The reestimate is mostly due to minor differences in actual FY 2024 inflows relative to prior year projections.

Disaster Direct Loan Program

Net subsidy reestimates for the disaster direct loan programs are shown in the following table.

(Dollars in Thousands)

For the Years Ended September 30,	2024	2023
Disaster	$ (1,762,543)	$ 34,067,796
Total Disaster Direct Loan Program Subsidy Reestimates	**$ (1,762,543)**	**$ 34,067,796**

The Disaster Assistance program had a net downward reestimate of $1,762.5 million. The downward reestimate is primarily due to revised expectation of the performance of small COVID EIDL loans ($200,000 and below) contributing to a downward reestimate for the 2020 COVID EIDL cohort. Lower net charge offs and higher recoveries than projected in FY 2024 contribute to increased expected future collections for small COVID EIDL loans. The downward reestimate is partially offset by an upward reestimate for the 2021 and 2022 COVID EIDL cohorts, which is due to revised expectation of the performance of large COVID EIDL loans. Higher than projected charge offs and lower than projected prepayments for large COVID EIDL loans in FY 2024 contribute to lower expected future collections for large COVID EIDL loans

J. Loans Receivable

Business Direct

(Dollars in Thousands)

As of September 30, 2024	Pre-1992 Loans	Post-1991 Loans	Total
Loans Receivable Direct, Net, beginning of year	**$ -**	**$ 213,370**	**$ 213,370**
Loans Disbursed	-	37,996	37,996
Principal & Interest Payments Received	(1,098)	(40,235)	(41,333)
Foreclosed Property	5	-	5
Loans Written Off	-	(65)	(65)
Interest Revenue on Uninvested Funds	-	(3,341)	(3,341)
Interest Expense on Entity Borrowings	-	6,792	6,792
Subsidy Expense	-	(3,362)	(3,362)
Upward Reestimates	-	(328)	(328)
Downward Reestimates	-	4,918	4,918
Subsidy Allowance	-	(1,936)	(1,936)
Other non-cash reconciling items	1,093	183	1,276
Loans Receivable Direct, Net, end of year	**$ -**	**$ 213,992**	**$ 213,992**

Disaster Direct

(Dollars in Thousands)

As of September 30, 2024	Pre-1992 Loans	Post-1991 Loans	Total
Loans Receivable Disaster, Net, beginning of year	**$ 442**	**$ 270,634,432**	**$ 270,634,874**
Loans Disbursed	-	1,450,201	1,450,201
Principal & Interest Payments Received	(106)	(8,876,141)	(8,876,247)
Foreclosed Property	-	1,619	1,619
Loans Written Off	-	(39,906,551)	(39,906,551)
Interest Revenue on Uninvested Funds	-	(558,232)	(558,232)
Interest Expense on Entity Borrowings	-	4,950,210	4,950,210
Loan Modification	-	(2,671)	(2,671)
Subsidy Expense	-	(265,535)	(265,535)
Upward Reestimates	-	(6,881,330)	(6,881,330)
Downward Reestimates	-	8,643,873	8,643,873
Subsidy Allowance	-	(9,994,541)	(9,994,541)
Other non-cash reconciling items	(336)	37,051,842	37,051,506
Loans Receivable Disaster, Net, end of year	**$ -**	**$ 256,247,176**	**$ 256,247,176**

Note: The Other Non-Cash Reconciling Items line includes $21.7 billion in loans written off in prior years. These loans were returned to regular servicing in FY 2024 and reestablished as loan receivables. The increase in loans returned to regular servicing is primarily attributed to enrollments in the Hardship Accommodation Program (HAP).

Business Guaranteed

(Dollars in Thousands)

As of September 30, 2024	Pre-1992 Loans	Post-1991 Loans	Total
Defaulted Guaranteed Loans Receivable, Net, beginning of year	**$ -**	**$ 1,096,750**	**$ 1,096,750**
Claim Payment to Lenders/Guarantee Payments	-	4,511,684	4,511,684
Principal & Interest Payments Received	(63)	(551,811)	(551,874)
Fees	-	(1,150,854)	(1,150,854)
Foreclosed Property	1	1,246	1,247
Loans Written Off	-	(3,373,690)	(3,373,690)
Subsidy Allowance	-	1,241,925	1,241,925
Other non-cash reconciling items	62	(128,601)	(128,539)
Defaulted Guaranteed Loans Receivable, Net, end of year	**$ -**	**$ 1,646,649**	**$ 1,646,649**

Business Direct

(Dollars in Thousands)

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

Disaster Direct

(Dollars in Thousands)

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

Business Guaranteed

(Dollars in Thousands)

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

Note 7 Property, Plant, and Equipment, Net

The SBA capitalizes equipment with a cost of $100,000 or more per unit, and a useful life of 2 years or more, at full cost and depreciates using the straight-line method over the useful life. The SBA expenses equipment not meeting the capitalization criteria.

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

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

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

(Dollars in Thousands)

As of September 30,	2024	2023
Software in Development	$ 4,279	$ 6,269
Software in Use	177,590	171,405
Amortization of Software in Use	(101,994)	(73,679)
Net	**79,875**	**103,995**
Total General Property and Equipment, Net	**$ 79,875**	**$ 103,995**

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

Note 8 Liabilities Not Covered by Budgetary Resources

Liabilities not covered by budgetary resources require future congressional action whereas liabilities covered by budgetary resources reflect prior congressional action. Regardless of when the congressional action occurs, when the liabilities are liquidated, Treasury will finance the liquidation in the same way that it finances all other disbursements, using some combination of receipts, other inflows, and borrowing from the public (if there is a budget deficit).

These liabilities consisted of the following categories, as shown in the table.

(Dollars in Thousands)

As of September 30,	2024	2023
Intragovernmental Liabilities – Benefit Program Contributions Payable		
Unfunded Employment Taxes Payable	$ 2,377	$ 2,249
Unfunded Federal Employees' Compensation Act Payable	6,754	5,899
Total Intragovernmental Liabilities – Benefit Program Contributions Payable	**9,131**	**8,148**
Other than Intragovernmental Liabilities – Federal Employee Benefits Payable		
Accrued Unfunded Annual Leave	48,757	45,736
Federal Employees' Compensation Act Payable	29,273	27,477
Total Other than Intragovernmental Liabilities – Federal Employee Benefits Payable	**78,030**	**73,213**
Surety Bond Guarantee Program Future Claims	**77,268**	**68,655**
Total Other Liabilities		
Total Liabilities Not Covered by Budgetary Resources	**$ 164,429**	**$ 150,016**
Total Liabilities Covered by Budgetary Resources	280,144,150	345,813,548
Total Liabilities Not Requiring Budgetary Resources	127,434	72,318
Total Liabilities	**$ 280,436,013**	**$ 346,035,882**

The liability for Surety Bond Guarantees is an estimate of future claims in the SBG Program for guaranties outstanding at year-end.

Note 9 Debt

Borrowings payable to the Treasury result from loans provided by the Treasury to fund the portion of direct loans not covered by subsidy appropriations, and to fund the payment of downward subsidy reestimates, and other credit program disbursements (see Note 16). The SBA makes periodic principal repayments to the Treasury based on the analysis of its cash balances and future disbursement needs.

All debt is intragovernmental and covered by budgetary resources. Debt transactions and resulting balances are shown in the following table:

Intragovernmental Debt

(Dollars in Thousands)

As of September 30,	2024	2023
Principal Payable to the Bureau of the Fiscal Service		
Beginning Balance	$ 334,320,210	$ 362,801,468
New Borrowings	3,365,517	9,927,898
Repayments	(73,023,017)	(38,409,156)
Total Principal Payable to the Bureau of the Fiscal Service	**264,662,710**	**334,320,210**
Interest Payable		
Change in Interest Payable – Liquidating Funds	77	69
Total Interest Payable	**77**	**69**
Ending Balance	**$ 264,662,787**	**$ 334,320,279**

Note 10 Net Assets of Liquidating Funds Due to Treasury

Unobligated balances of liquidating funds are transferred to the Treasury general fund at the end of the fiscal year. Net Assets of Liquidating Funds Due to Treasury is the residual of the book value of assets less liabilities in the Liquidating Funds for loans made prior to FY 1992 that is not yet available for transfer.

(Dollars in Thousands)

As of September 30,	2024	2023
Disaster Loan Fund	$ -	$ 442
Business Loan and Investment Fund	8,673	10,518
Total Due to Treasury	**$ 8,673**	**$ 10,960**

Note 11 Other Liabilities

Other liabilities are shown in the following table:

(Dollars in Thousands)

As of September 30,	2024	2023
Other Liabilities – Intragovernmental		
Employment Taxes Payable	$ 1,128	$ 2,949
Payable to Treasury	904	6
Total Other Liabilities – Intragovernmental	**$ 2,032**	**$ 2,955**
Other Liabilities – Other than Intragovernmental		
Budget Clearing Accounts	$ 127,434	$ 72,318
Total Other Liabilities – Other than Intragovernmental	**$ 127,434**	**$ 72,318**

All liabilities reflected are current liabilities.

Note: FY 2023 amounts have been realigned to be comparable with new OMB and Treasury reporting requirements for FY 2024.

Note 12 Federal Employment Benefits Payable

Federal Employment Benefits Payable are shown in the following table:

(Dollars in Thousands)

As of September 30,	2024	2023
Federal Employee Salary, Leave, and Benefits Payable		
Accrued Funded Payroll and Leave	$ 32,730	$ 57,073
Employer Contributions and Taxes Payable	493	1,063
Unfunded Leave	48,757	45,736
Total Federal Employee Salary, Leave, and Benefits Payable	**$ 81,980**	**$ 103,872**
Post-Employment Benefits Payable		
Actuarial FECA Liability	$ 29,273	$ 27,477
Total Post-Employment Benefits Payable	**$ 29,273**	**$ 27,477**

Note 13 Leases

The SBA leases its facilities from the General Services Administration. The SBA enters into an Occupancy Agreement with the GSA for each facility. The GSA, in turn, leases commercial facilities or provides space in federal buildings. The GSA bills

the SBA monthly for leased space. Agreements specify that space in federal buildings can be vacated with 120 to 180 days' notice. The SBA anticipates continuing the same or similar facilities leases in the future.

For official government travel, the SBA leases its vehicles from the GSA.

These federal leases with the GSA are intragovernmental leases and are expensed in the Consolidated Statement of Net Cost when incurred. FY 2024 and FY 2023 lease expenses are $42.8 million and $35.1 million, respectively. The FY 2023 lease amount now includes $1.0 million in GSA vehicle leases expenses.

SBA's non-federal leases include office equipment, conference rooms and parking.

Starting in FY 2024, SFFAS 54 requires Federal reporting entities to report material right-to-use lease assets and a lease liabilities for non-intragovernmental, non-short-term contracts or agreements, when the entity has the right to obtain and control access to economic benefits or services from an underlying property, plant, or equipment asset for a period of time in exchange for consideration under the terms of the contract or agreement. SBA has determined that there is no material impact to the SBA financial statements.

Note 14 Non-entity Reporting

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

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

(Dollars in Thousands)

As of September 30,	2024	2023
Entity		
Financing Fund Payable	$ (9,902,199)	$ (2,724,486)
Non-entity		
Miscellaneous Receipts Fund Receivable	9,902,199	2,724,486
Downward Reestimate Payable to Treasury	(9,902,199)	(2,724,486)
Balance Sheet Reported Payable	**$ (9,902,199)**	**$ (2,724,486)**

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

Note 15 Consolidated Statement of Net Cost

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

Operating Cost

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

Earned Revenue

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

Reporting by Strategic Goal

The SBA reports net costs consistent with its three strategic goals on a full cost allocation basis. Strategic Goal 1 (Ensure Equitable and Customer-Centric Design and Delivery of Programs to Support Small Businesses and Innovative Startups) aims to improve access to SBA programs and services for all entrepreneurs. Strategic Goal 2 (Build Resilient Businesses and a Sustainable Economy) focuses on how the SBA can rebuild a sustainable economy fueled by small businesses. Strategic Goal 3 (Implement Strong Stewardship of Resources for Greater Impact) focuses on the SBA resources and ways to optimize them to best support the small business community. Agency administrative overhead costs are fully allocated to the programs in Strategic Goals 1, 2, and 3. The Management's Discussion and Analysis section of SBA's annual Agency Financial Report includes additional detail on SBA's strategic goals. Costs Not Assigned to Strategic Goals are costs associated with the Office of the Inspector General. The OIG's mission and funding are a separate and independent part of the SBA and is therefore not assigned.

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

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

Gross Cost And Exchange Revenue

(Dollars in Thousands)

For the Years Ended September 30,	2024	2023
STRATEGIC GOAL 1:		
Ensure Equitable and Customer-Centric Design and Delivery of Programs to Support Small Businesses and Innovative Startups		
Intragovernmental Gross Cost	$ 173,047	$ 176,519
Other than Intragovernmental Gross Cost	633,521	857,273
Total Strategic Goal 1 Gross Cost	**806,568**	**1,033,792**
Intragovernmental Earned Revenue	96,829	117,292
Other than Intragovernmental Earned Revenue	113,710	117,360
Total Strategic Goal 1 Earned Revenue	**210,539**	**234,652**
STRATEGIC GOAL 2:		
Build Resilient Businesses and a Sustainable Economy		
Intragovernmental Gross Cost	$ 5,107,552	$ 6,044,967
Other than Intragovernmental Gross Cost	(1,402,580)	33,995,093
Total Strategic Goal 2 Gross Cost	**3,704,972**	**40,040,060**
Intragovernmental Earned Revenue	558,232	879,147
Other than Intragovernmental Earned Revenue	4,391,997	5,040,138
Total Strategic Goal 2 Earned Revenue	**4,950,229**	**5,919,285**
STRATEGIC GOAL 3:		
Implement Strong Stewardship of Resources for Greater Impact		
Intragovernmental Gross Cost	$ 29,967	$ 27,313
Other than Intragovernmental Gross Cost	140,913	142,221
Total Strategic Goal 3 Gross Cost	**170,880**	**169,534**
COST NOT ASSIGNED TO STRATEGIC GOALS		
Intragovernmental Gross Cost	$ 29,713	$ 32,313
Other than Intragovernmental Gross Cost	139,719	200,824
Total Gross Cost Not Assigned to Strategic Goals	**169,432**	**233,137**
Net Cost of Operations	**$ (308,916)**	**$ 35,322,586**

Note 16 Statement of Budgetary Resources

The Statement of Budgetary Resources presents information about total budgetary resources available to the SBA and the status of those resources as of September 30, 2024 and 2023. SBA's budgetary resources were $40.1 billion and $36.7 billion for the fiscal years ended September 30, 2024 and 2023. Additionally, $27.8 billion and $70.5 billion of nonbudgetary resources (including borrowing authority and collections of loan principal, interest, and fees in financing funds) were reported for the fiscal years ended September 30, 2024 and 2023.

Net Adjustments to Unobligated Balance, Brought Forward, October 1

The beginning balance brought forward for FY 2024 decreased by $17.1 billion in total. The unobligated balance from prior year budget authority, net included an increase of $1.2 billion related to recoveries and a decrease of $18.3 billion in Other Changes in Unobligated Balance. This other change represents the prior year repayment of debt.

Permanent Indefinite Appropriations

The SBA receives permanent indefinite appropriations annually to fund increases in the projected subsidy costs of loan programs, as determined by the reestimation process required by the FCRA. The appropriations are received initially in the SBA Program Funds, and then transferred to the Financing Funds, where they are used to fund obligations. SBA's Liquidating Funds also receive permanent indefinite appropriations to fund obligations. The Financing Funds are used to account for credit program obligations made subsequent to FY 1991. Liquidating Funds are used to account for credit program obligations made prior to FY 1992.

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

Borrowing Authority and Terms of Borrowing

The SBA is authorized to borrow from the Treasury's Bureau of the Fiscal Service when funds needed to disburse direct loans and purchase guaranteed loans exceed subsidy costs and collections in the nonbudgetary loan financing funds. In FY 2024 and FY 2023, the SBA received $2.7 billion and $5.9 billion of borrowing authority from the OMB. At the end of FY 2024, the SBA had $0.3 billion in borrowing authority carried over to fund direct loans and default claims to be disbursed in the future. At the end of FY 2023, the SBA had $1.0 billion in available borrowing authority. The SBA pays interest to the Treasury based on Treasury's cost of funds. The rate at which interest is paid to the Treasury on the amounts borrowed (or received from the Treasury on uninvested cash balances) in a loan financing fund for a particular cohort is a disbursement-weighted average discount rate for cohorts prior to FY 2001 and a single effective rate for cohorts beginning with FY 2001. The SBA calculates and repays borrowings not needed for working capital at mid-year and at year-end for prior year cohorts. The SBA uses the loan principal, interest, and fees collected from the borrowers in its loan financing funds to repay its Treasury borrowings. The repayment maturity dates for borrowings from the Treasury are based on the loan maturities used in the subsidy calculation. The maturities range from 16 years for direct business loans, 25 years for guaranteed business loans and 30 years for disaster loans.

Unobligated Balances

Unobligated balances at September 30, 2024 and 2023 are $15.7 billion and $42.6 billion, which include $8.1 billion and $26.2 billion of unavailable unobligated balances. These balances are unavailable primarily because they are unapportioned by the OMB. The SBA accumulates the majority of the unobligated balances in its nonbudgetary financing accounts during the fiscal year ($12.2 billion in FY 2024 and $38.2 billion in FY 2023) from fees and subsidy to fund default claims in future years. In addition, unobligated balances are accumulated in budgetary accounts from appropriations ($3.5 billion in FY 2024 and $4.4 billion in FY 2023) that are used to finance SBA's ongoing program operations. The SBA requests OMB apportionments as needed, and after OMB approval, apportioned amounts are available for obligation.

Undelivered Orders

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

(Dollars in Millions)

As of September 30,	2024	2023
Intragovernmental		
Unpaid	$ 225.8	$ 210.3
Paid	9.3	7.0
Total Intragovernmental	**235.1**	**217.3**
Other than Intragovernmental		
Unpaid	$ 1,487.3	$ 1,556.1
Paid	12.2	15.9
Total Other than Intragovernmental	**1,499.5**	**1,572.0**
Balance Sheet Reported Payable	**$ 1,734.6**	$ **1,789.3**

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

There was no material difference between the FY 2023 Statement of Budgetary Resources and the President's FY 2025 budget submission. The President's FY 2026 Budget with actual numbers for FY 2024 has not yet been published and will be available at a later date on the White House website. The SBA expects no material differences between the President's Budget "actual" column and the FY 2024 reported results when the budget becomes available in early 2025.

Distributed Offsetting Receipts

Distributed offsetting receipts are amounts that an agency collects from the public or from other Government agencies that are used to offset or reduce an agency's budget outlays. Agency outlays are measured on both a gross and net basis, with net outlays being reduced by offsetting receipts (and other amounts).

Note 17 Reconciliation of Net Operating Cost and Net Budgetary Outlays

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

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

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

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

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

Other financing sources include SBA's imputed cost for retirement benefits. This is an expense for the Agency that is funded by the OPM.

Components of budget outlays that are not part of net operating cost include disbursements and receipts that are not a revenue or expense.

Budget and Accrual Reconciliation

(Dollars in Thousands)

	Federal	Non-federal	Total 2024
Net Operating Cost (SNC)	**$ 4,685,218**	**$ 4,994,134**	**$ (308,916)**
Components of Net Operating Cost not Part of the Budgetary Outlays			
Property, plant and equipment depreciation expense	-	(28,315)	(28,315)
Year-end credit reform subsidy reestimates	1,358,574	-	1,358,574
President's Budget adjustment to downward reestimates	172,596	-	172,596
President's Budget adjustment to upward reestimates	838,417	-	838,417
Modification Adjustment Transfer (MAT), Net	-	(801)	(801)
Increase/(decrease) in assets not affecting Budget Outlays:			
Accounts Receivable, Net	324	2,620	2,944
Advances	957	(3,689)	(2,732)
Loans Receivable, Net	-	(439)	(439)
Other assets	-	(1,843)	(1,843)
(Increase)/decrease in liabilities not affecting Budget Outlays:			
Accounts Payable	1,513	5,276	6,789
Accrued Grant Liability	-	106,685	106,685
Federal Employee Salary, Leave, and Benefits Payable	-	21,892	21,892
Post-Employment Benefits Payable	-	(1,796)	(1,796)
Surety Bond Guarantee Program Future Claims	-	(8,613)	(8,613)
Other Liabilities	3,050	(154)	2,896
Other Financing Sources:			
Imputed Cost	(53,796)	-	(53,796)
Total Components of Net Operating Cost Not Part of the Budget Outlays	**$ 2,321,635**	**$ 90,823**	**$ 2,412,458**
Components of the Budget Outlays That Are Not Part of Net Operating Cost			
Acquisition of Capital Assets	-	4,195	4,195
Other Financing Sources:			
Donation of Cash and Cash Equivalents	-	(9)	(9)
Effect of prior year credit reform subsidy reestimates	34,040,902	-	34,040,902
Total Components of the Budget Outlays That Are Not Part of Net Operating Cost	**$ 34,040,902**	**$ 4,186**	**$ 34,045,088**
Other Reconciling Items			
Distributed Offsetting Receipts	-	(2,953,774)	(2,953,774)
Total Other Reconciling Items	**$ -**	**$ (2,953,774)**	**$ (2,953,774)**
Total Net Outlays			**$ 33,194,856**
Budgetary Agency Outlays, Net (SBR)			
Budgetary Agency Outlays, Net			**$ 33,194,856**

Budget and Accrual Reconciliation, Continued

(Dollars in Thousands)

	Federal	Non-federal	Total 2023
Net Operating Cost (SNC)	**$ 5,284,673**	**$ 30,037,913**	**$ 35,322,586**
Components of Net Operating Cost Not Part of the Budgetary Outlays			
Property, plant and equipment depreciation expense	-	(24,506)	(24,506)
Year-end credit reform subsidy reestimates	(32,154,833)	-	(32,154,833)
President's Budget adjustment to downward reestimates	(640,612)	-	(640,612)
President's Budget adjustment to upward reestimates	(61,108)	-	(61,108)
Increase/(decrease) in assets not affecting Budget Outlays:			
Accounts and Taxes Receivable, net	-	(946)	(946)
Advances	4,845	(2,270)	2,575
Loans Receivable, Net	-	(4,285)	(4,285)
Other assets	-	8,190	8,190
(Increase)/decrease in liabilities not affecting Budget Outlays:			
Accounts Payable	1,968	9,702	11,670
Accrued Grant Liability	-	(50,442)	(50,442)
Federal Employee Salary, Leave, and Benefits Payable	-	(16,033)	(16,033)
Surety Bond Guarantee Program Future Claims	-	(6,020)	(6,020)
Other Liabilities	2,428	(18)	2,410
Other Financing Sources:			
Imputed Cost	(38,595)	-	(38,595)
Total Components of Net Operating Cost Not Part of the Budget Outlays	**$ (32,885,907)**	**$ (86,628)**	**$ (32,972,535)**
Components of the Budget Outlays That Are Not Part of Net Operating Cost			
Acquisition of Capital Assets	-	27,784	27,784
Effect of prior year credit reform subsidy reestimates	28,662,340	-	28,662,340
Total Components of the Budget Outlays That Are Not Part of Net Operating Cost	**$ 28,662,340**	**$ 27,784**	**$ 28,690,124**
Other Reconciling Items			
Distributed Offsetting Receipts	-	(5,047,035)	(5,047,035)
Total Other Reconciling Items	**$ -**	**$ (5,047,035)**	**$ (5,047,035)**
Total Net Outlays			**$ 25,993,140**
Budgetary Agency Outlays, Net (SBR)			
Budgetary Agency Outlays, Net			**$ 25,993,140**

Note: FY 2023 amounts for Federal Employee Salary, Leave, and Benefits Payable and Other lines have been realigned to be comparable with new Treasury reporting requirements for FY 2024.

Note 18 Commitments and Contingencies

A loss contingency is an existing condition, situation, or set of circumstances involving uncertainty as to possible loss to an entity. The uncertainty will ultimately be resolved when one or more future events occur or fail to occur. A loss contingency is a liability when a past event or exchange transaction has occurred, a future outflow or other sacrifice of resources is probable, and the future outflow or sacrifice of resources is measurable.

On October 25, 2023, a class action lawsuit was filed against the SBA (naming the United States the defendant as required) in the United States Court of Federal Claims by 303 plaintiffs seeking damages for failure to obtain RRF funding. SBA believes that the possibility of damages is reasonably possible. At this time, the amount of the contingency remains undetermined.

Note 19 Subsequent Events

In late September and early October 2024, hurricanes Helene and Milton struck the continental United States. When disaster strikes the United States, SBA's loans are the sole form of federal credit assistance for damage incurred by non-farm, private-sector homeowners, renters and businesses.

At fiscal year-end, the SBA is uncertain as to the full future effect of the two hurricanes. The SBA could experience future variations in performance of existing disaster and business loan portfolios as businesses in the affected areas strive to recover.

The SBA has begun to increase its rate of administrative spending as it conducts its disaster response. This spending is consistent with the Agency's experience responding to prior disasters and primarily takes the form of increased expenditures for travel and temporary personnel.

The provisions of the Federal Credit Reform Act of 1990 govern the valuation of SBA's portfolio of existing business and disaster loans as well as the determination of the appropriate subsidy rate for the disaster loans that the SBA will approve in response to hurricanes Helene and Milton. The FCRA provides permanent indefinite authority for reestimates of subsidy cost for existing loans to the extent necessary. Any initiatives that would change program terms or conditions for existing or new loans would require additional appropriations to fund subsidy costs before implementation. Therefore, any additional significant expenses associated with the hurricanes will be covered by additional appropriations and would not have an adverse impact on SBA's financial condition.

Note 20 Reclassification of Financial Statement Line Items for Financial Report Compilation Process

To prepare the Financial Report of the U.S. Government (Financial Report), the Department of the Treasury requires agencies to submit an adjusted trial balance, which is a listing of amounts by U.S. Standard General Ledger account that appear in the financial statements. Treasury uses the trial balance information reported in the Government-wide Treasury Account Symbol Adjusted Trial Balance System (GTAS) to develop a Reclassified Statement of Net Cost and a Reclassified Statement of Changes in Net Position for each agency, which are accessed using GTAS. Treasury eliminates all intragovernmental balances from the reclassified statements and aggregates lines with the same title to develop the Financial Report statements. This note shows SBA's financial statements and SBA's reclassified statements prior to elimination of intragovernmental balances and prior to aggregation of repeated Financial Report line items. A copy of the 2023 Financial Report can be found here: Bureau of the Fiscal Service - Reports, Statements & Publications (treasury.gov) and a copy of the 2024 Financial Report will be posted to this site as soon as it is released.

The term "intragovernmental" is used in this note to refer to amounts that result from other components of the Federal Government.

The term "non-Federal" is used in this note to refer to Federal Government amounts that result from transactions with non-Federal entities. These include transactions with individuals, businesses, non-profit entities, and State, local, and foreign governments.

The SBA does not have funds from dedicated collections.

(Dollars in Thousands)

FY 2024 SBA Statement of Net Cost		Line Items Used to Prepare FY 2024 Government-Wide Statement of Net Cost	
STRATEGIC GOAL 1:			
Ensure Equitable and Customer-Centric Design and Delivery of Programs to Support Small Businesses and Innovative Startups			
			Non-Federal Cost
Gross Cost	$ 806,568	$ (488,427)	Non-Federal Gross Cost
Less: Earned Revenue	210,539	**(488,427)**	**Total Non-Federal Cost**
Net Cost of Strategic Goal 1	**596,029**		
			Intragovernmental Costs
		139,978	Benefit Program Costs
STRATEGIC GOAL 2:		53,796	Imputed Costs
Build Resilient Businesses and a Sustainable Economy		79,763	Buy/Sell Costs
Gross Cost	3,704,972	5,019,247	Borrowing and Other Interest Expense
Less: Earned Revenue	4,950,229	47,494	Other Expenses (w/o Reciprocals)
Net Cost of Strategic Goal 2	**(1,245,257)**	**5,340,278**	**Total Intragovernmental Costs**
		4,851,851	**Total Reclassified Gross Cost**
STRATEGIC GOAL 3:			
Implement Strong Stewardship of Resources for Greater Impact		**4,505,707**	**Non-federal Earned Revenue**
Gross Cost	170,880		
Net Cost of Strategic Goal 3	**170,880**		**Intragovernmental Earned Revenue**
		3,325	Buy/Sell Revenue
		651,735	Borrowing and Other Interest Revenue
COST NOT ASSIGNED TO STRATEGIC GOALS		**655,060**	**Total Intragovernmental Earned Revenue**
Gross Cost	169,432		
Net Cost Not Assigned to Strategic Goals	**169,432**	**5,160,767**	**Total Reclassified Earned Revenue**
Net Cost of Operations	**$ (308,916)**	**$ (308,916)**	**Net Cost**

(Dollars in Thousands)

FY 2024 SBA Statement of Changes in Net Position			Changes in Net Position
Funds from other than Dedicated Collections			
Unexpended Appropriations:			
Beginning balance	$ 3,724,113	$ 3,724,113	Unexpended Appropriations, Beginning Balance
Appropriations Received	35,227,207	35,164,375	Appropriations Received
Other Adjustments:			
Rescissions	(43,228)		
Adjustment – Cancelled Authority	(18,883)		
Return of Unrequired Liquidating Fund Appropriation	(494)		
Other Adjustments	(227)		
Appropriations Used	(35,795,922)	(35,795,922)	Appropriations Used
Total Unexpended Appropriations	**$ 3,092,566**	**$ 3,092,566**	**Total Unexpended Appropriations**
Cumulative Results of Operations:			
Beginning Balance	$ 33,431,411	$ 33,431,411	Cumulative Results, Beginning Balance
Other Adjustments:			
Current Year Liquidating Equity Activity	909	35,795,922	Appropriations Expended
Appropriations Used	35,795,922		Non-expenditure Transfers-Out of Unexpended Appropriations and Financing Sources
		909	Non-expenditure Transfers-In of Unexpended Appropriations and Financing Sources
Donations of Cash and Cash Equivalents	9		
		35,796,831	**Total Appropriations Used**
		1,738	Other Taxes and Receipts
		1,738	**Total Non-Federal Non-Exchange Revenue**
Imputed Financing	53,796	53,796	Imputed Financing
Other:		(2,898,812)	Non-Entity Collections Transferred to the General Fund of the U.S. Government
Non-entity Activity	(10,074,795)	(7,177,712)	Accrual for Non-Entity Amounts to be Collected and Transferred to the General Fund of the U.S. Government
		(10,022,728)	**Total Transfers and Imputed Financing**
Net Cost of Operations	**(308,916)**	**(308,916)**	**Net Cost of Operations**
Total Cumulative Results of Operations	**$ (7,346,654)**	**$ (7,346,654)**	**Total Cumulative Results of Operations**
Ending Net Position	**$ (4,254,088)**	**$ (4,254,088)**	**Net Position**

REQUIRED SUPPLEMENTARY INFORMATION

COMBINING STATEMENT OF BUDGETARY RESOURCES

For the Years Ended September 30, 2024 (Unaudited)

(Dollars in Thousands)	BLIF		DLF		SBGRF	SE	OIG
BUDGETARY RESOURCES	Budgetary	Nonbudgetary Financing	Budgetary	Nonbudgetary Financing	Budgetary	Budgetary	Budgetary
Unobligated Balance from Prior Year Budget Authority, Net (discretionary and mandatory)	$ 2,029,856	$ 11,335,882	$ 483,074	$ 9,550,521	$ 117,049	$ 1,655,043	$ 37,439
Appropriations (discretionary and mandatory)	515,527	-	33,845,487	801	-	475,476	38,620
Borrowing Authority (discretionary and mandatory)	-	617,714	-	2,038,200	-	-	-
Spending Authority from Offsetting Collections	(1)	2,612,384	1	1,646,627	25,872	363,728	5
Total Budgetary Resources	**$ 2,545,382**	**$ 14,565,980**	**$ 34,328,562**	**$ 13,236,149**	**$ 142,921**	**$ 2,494,247**	**$ 76,064**
STATUS OF BUDGETARY RESOURCES							
New Obligations and Upward Adjustments (total)	$ 570,794	$ 8,478,125	$ 34,200,253	$ 7,129,223	$ 31,746	$ 1,384,566	$ 51,528
Unobligated Balance, end of year:							
Apportioned, unexpired accounts	16,102	5,770,307	69,476	932,445	3,269	671,024	22,510
Unapportioned, unexpired accounts	56,260	317,548	58,833	5,174,481	107,906	8,382	5
Unexpired Unobligated Balance, end of year	72,362	6,087,855	128,309	6,106,926	111,175	679,406	22,515
Expired Unobligated Balance, end of year	1,902,226	-	-	-	-	430,275	2,021
Unobligated Balance, end of year (total)	1,974,588	6,087,855	128,309	6,106,926	111,175	1,109,681	24,536
Total Status of Budgetary Resources	**$ 2,545,382**	**$ 14,565,980**	**$ 34,328,562**	**$ 13,236,149**	**$ 142,921**	**$ 2,494,247**	**$ 76,064**
OUTLAYS, NET and DISBURSEMENTS, NET							
Net Outlays (discretionary and mandatory)	$ 544,511		$ 34,145,926		$ 2,461	$ 1,035,512	$ 52,187
Distributed Offsetting Receipts	-		-		-	(2,953,774)	-
Agency Outlays, Net (discretionary and mandatory)	**$ 544,511**		**$ 34,145,926**		**$ 2,461**	**$ (1,918,262)**	**$ 52,187**
Disbursements, Net (total) (mandatory)		**$ 5,018,882**		**$ (49,371,514)**			

(Dollars in Thousands)	ADVOCACY	EDP	EIDL	SVOG	RRF	WCF	BATF	TOTAL	TOTAL	
BUDGETARY RESOURCES	Budgetary	Budgetary	Budgetary	Budgetary	Budgetary	Budgetary	Budgetary	Budgetary	Nonbudgetary Financing	Total
Unobligated Balance from Prior Year Budget Authority, Net (discretionary and mandatory)	$ 6,127	$ 91,590	$ 17,385	$ 41,073	$ 12,871	$ 22,151	$ 552	$ 4,514,210	$ 20,886,403	$ 25,400,613
Appropriations (discretionary and mandatory)	10,109	316,800	(562)	-	-	10,700	-	35,212,157	801	35,212,958
Borrowing Authority (discretionary and mandatory)	-	-	-	-	-	-	-	-	2,655,914	2,655,914
Spending Authority from Offsetting Collections	2	1	-	-	-	-	9	389,617	4,259,011	4,648,628
Total Budgetary Resources	**$ 16,238**	**$ 408,391**	**$ 16,823**	**$ 41,073**	**$ 12,871**	**$ 32,851**	**$ 561**	**$ 40,115,984**	**$ 27,802,129**	**$ 67,918,113**
STATUS OF BUDGETARY RESOURCES										
New Obligations and Upward Adjustments (total)	$ 8,557	$ 316,366	$ 7	$ -	$ -	$ 13,497	$ 44	$ 36,577,358	$ 15,607,348	$ 52,184,706
Unobligated Balance, end of year:										
Apportioned, unexpired accounts	7,681	61,607	5,591	41,073	-	19,276	517	918,126	6,702,752	7,620,878
Unapportioned, unexpired accounts	-	-	-	-	12,871	-	-	244,257	5,492,029	5,736,286
Unexpired Unobligated Balance, end of year	7,681	61,607	5,591	41,073	12,871	19,276	517	1,162,383	12,194,781	13,357,164
Expired Unobligated Balance, end of year	-	30,418	11,225	-	-	78	-	2,376,243	-	2,376,243
Unobligated Balance, end of year (total)	7,681	92,025	16,816	41,073	12,871	19,354	517	3,538,626	12,194,781	15,733,407
Total Status of Budgetary Resources	**$ 16,238**	**$ 408,391**	**$ 16,823**	**$ 41,073**	**$ 12,871**	**$ 32,851**	**$ 561**	**$ 40,115,984**	**$ 27,802,129**	**$ 67,918,113**
OUTLAYS, NET AND DISBURSEMENTS, NET										
Net Outlays (discretionary and mandatory)	$ 8,960	$ 371,455	$ (5,065)	$ (12,160)	$ (7,431)	$ 12,242	$ 32	36,148,630		$ 36,148,630
Distributed Offsetting Receipts	-	-	-	-	-	-	-	(2,953,774)		(2,953,774)
Agency Outlays, Net (discretionary and mandatory)	**$ 8,960**	**$ 371,455**	**$ (5,065)**	**$ (12,160)**	**$ (7,431)**	**$ 12,242**	**$ 32**	**$ 33,194,856**		**$ 33,194,856**
Disbursements, Net (total) (mandatory)									**$ (44,352,632)**	







Section III

Other Information

Unaudited

SUMMARY OF FINANCIAL STATEMENT AUDIT AND MANAGEMENT ASSURANCES

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

Summary of Financial Statement Audit

Audit Opinion	Disclaimer
Restatement	No

Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Controls over COVID-19 EIDLs	1	0	0	N/A	1
Controls over PPP Loan Guarantees	1	0	0	N/A	1
Controls over Restaurant Revitalization and Shuttered Venues	1	0	0	N/A	1
Controls over Financial Reporting for Subsidy Re-estimates, Recoveries, and Contingencies	1	0	0	N/A	1
Controls over the Evaluation of Service Organizations	1	0	0	N/A	1
Entity Level Controls	1	0	0	N/A	1
Controls over General Information Technology Need Improvement	0	1	0	N/A	1
Total Material Weaknesses	6	1	0	N/A	7

Summary of Management Assurances

Effectiveness of Internal Control over Financial Reporting (FMFIA § 2)	
Statement of Assurance	Modified

Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Controls over COVID-19 EIDLs	1	0	0	N/A	N/A	1
Controls over PPP Loan Guarantees	1	0	0	N/A	N/A	1
Controls over Restaurant Revitalization and Shuttered Venues	1	0	0	N/A	N/A	1
Controls over Financial Reporting for Subsidy Re-estimates, Recoveries, and Contingencies	1	0	0	N/A	N/A	1
Controls over the Evaluation of Service Organizations	1	0	0	N/A	N/A	1
Entity Level Controls	1	0	0	N/A	N/A	1
Controls over General Information Technology Need Improvement	0	1	0	N/A	N/A	1
Total Material Weaknesses	6	1	0	N/A	N/A	7

Effectiveness of Internal Control over Operations (FMFIA § 2)

Statement of Assurance	Modified

Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
None	0	0	N/A	N/A	N/A	0
Total Material Weaknesses	0	0	N/A	N/A	N/A	0

Conformance with Financial Management System Requirements (FMFIA § 4)

Statement of Assurance	Federal Systems do not conform to financial management system requirements.

Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Federal Financial Management System Requirements	1	0	N/A	N/A	N/A	1
Federal Accounting Standards	1	0	N/A	N/A	N/A	1
Total Non-conformances	2	0	N/A	N/A	N/A	2

Compliance with Section 803(a) of the Federal Financial Management Improvement Act (FFMIA)

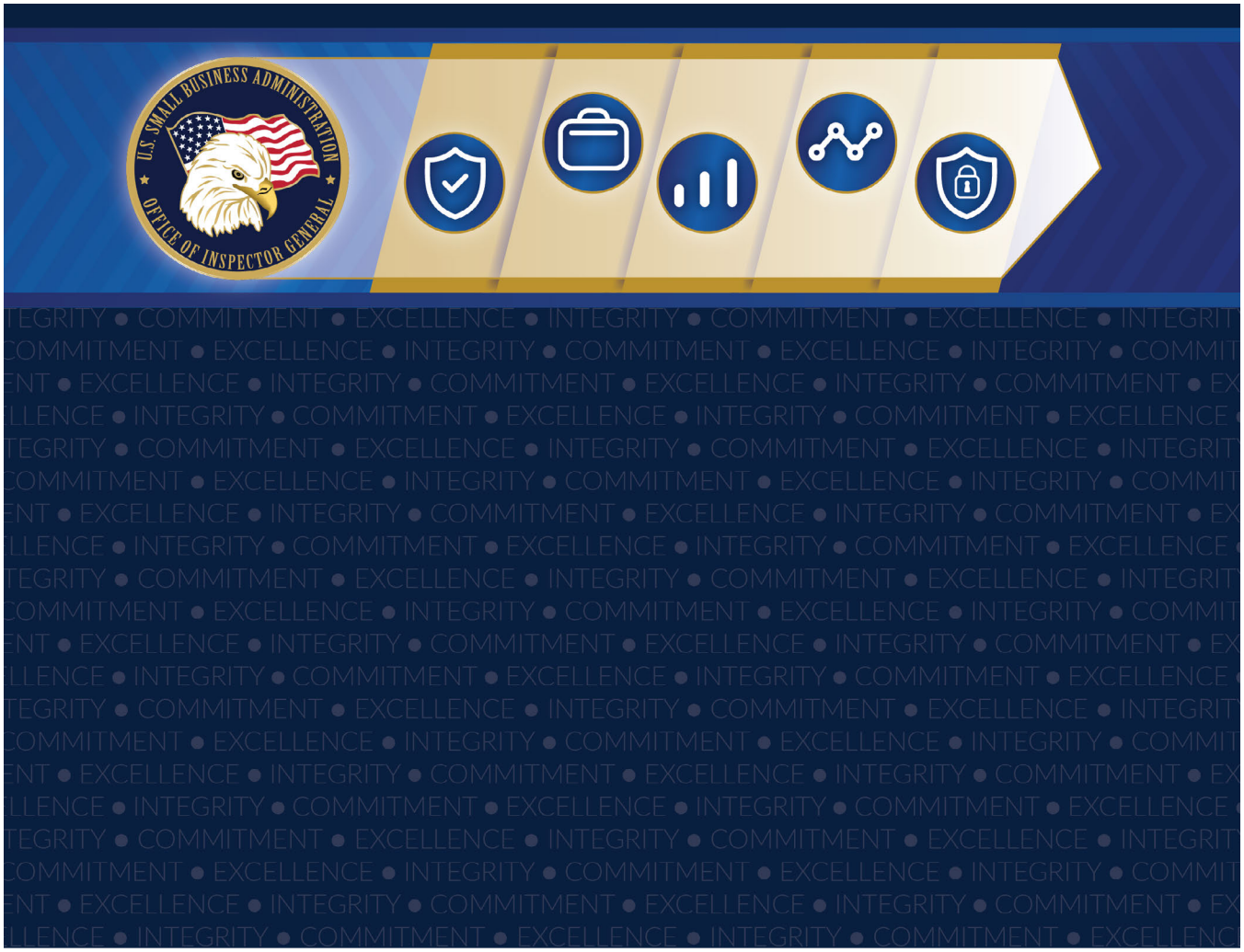
	Agency	Auditor
1. Federal Financial Management System Requirements	Lack of compliance noted	Lack of compliance noted
2. Applicable Federal Accounting Standards	Lack of compliance noted	Lack of compliance noted
3. USSGL at Transaction Level	No lack of compliance noted	No lack of compliance noted

U.S. Small Business Administration
Office of Inspector General

Top Management and Performance Challenges

Facing the Small Business Administration in Fiscal Year 2025

Report 25-01 | October 15, 2024



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MESSAGE FROM THE INSPECTOR GENERAL



Hannibal "Mike" Ware

Each year, as required by the Reports Consolidation Act of 2000, the U.S. Small Business Administration (SBA) Office of Inspector General (OIG) reports on the top management and performance challenges facing the agency.

This year, we reframed our approach to elevate this discussion in a more holistic manner, specifying challenges that are systemic and cross-cutting in nature, as opposed to the highlighting of specific programs. Our new approach no longer uses color-coded challenge areas; however, we continue to base our report on audit and investigative oversight work, dialogue with agency program officials, and assessments of programs and activities that rise to the level of a top challenge. In so doing, we believe we can better and more systematically promote programmatic change, resulting in direct benefit to small business owners who depend on SBA services.

Although the Coronavirus Disease 2019 pandemic economic crisis is behind us, SBA continues to face challenges related to it and protecting the integrity of SBA programs, while managing large loan portfolios and a burgeoning number of lenders. The systemic challenges overlap SBA services, affecting the agency's flagship capital, contracting, and counseling programs. We identified several underlying issues: mitigating improper payments, ensuring only eligible entities gain access to programs, reducing or eliminating self-certification as a practice, and strengthening internal controls.

Additionally, technology must be integrated within programs in a manner that assures eligibility criteria are met, and that robust verification and validation are inherent in the internal control framework. Further, SBA must meet its lender oversight responsibilities to avoid missteps that occurred in its pandemic response. These issues continue to be at the forefront of our recommended corrective actions.

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

Hannibal "Mike" Ware
SBA Inspector General

INTRODUCTION

The management challenges report is an important tool to help the agency prioritize its work to improve program performance and enhance operations. OIG remains committed to protecting the interests of American taxpayers by promoting positive change within SBA and across government, ensuring taxpayer dollars are spent efficiently according to intent.

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 challenges are longstanding, inherently difficult, and will likely continue to be challenges in the coming years. Addressing the challenges will require consistent attention from agency management and ongoing engagement with Congress, the public, and other stakeholders. We continue to collaborate with SBA program officials in identifying and mitigating the top challenges and associated issues facing the agency.

Table 1: Top Management and Performance Challenges Facing SBA in Fiscal Year 2025

Challenge	Issue
Challenge 1 — Protecting the Integrity of SBA Programs	• Managing Fraud Risk • Improving Verification of Eligibility • Mitigating Improper Payments • Seizure and Return of Funds
Challenge 2 — Managing SBA's Loan Portfolio and Participating Lenders	• Servicing Disaster Loans • Overseeing Lenders
Challenge 3 — Measuring Performance and Monitoring SBA Programs	• Measuring Program Performance • Monitoring Program Performance Results • Ensuring Funds Are Used for Intended Purposes
Challenge 4 — Managing Data	• Storing, Monitoring, and Analyzing Program Data • Sharing Authorized Data Between Government Agencies • Evaluating and Improving Data Reliability
Challenge 5 — Managing Risks in Information Technology Systems and Cybersecurity	• Improving Information Technology Systems Management • Preparing for Artificial Intelligence Challenges • Deploying and Monitoring New Third-Party Systems • Complying with Federal Information Security Modernization Act Management Requirements

Challenge 1: Protecting the Integrity of SBA Programs

The U.S. Small Business Administration (SBA) provides loan guaranties, direct disaster assistance loans, contracting certifications, and business development programs to qualifying small business owners and entrepreneurs. SBA's challenge is to fulfill its mission by balancing the priority of delivering prompt assistance while also protecting the integrity of its programs. We see this in the fundamental tension that exists between quickly delivering capital to qualifying small businesses while minimizing potential fraud. A strong internal control environment helps meet the need for prompt service that benefits eligible small businesses, which should be in place before funds are awarded. We see a need for this strong internal control environment in SBA's contracting certification programs to ensure only deserving and eligible small business owners benefit from contracting opportunities associated with these programs.

MANAGING FRAUD RISK

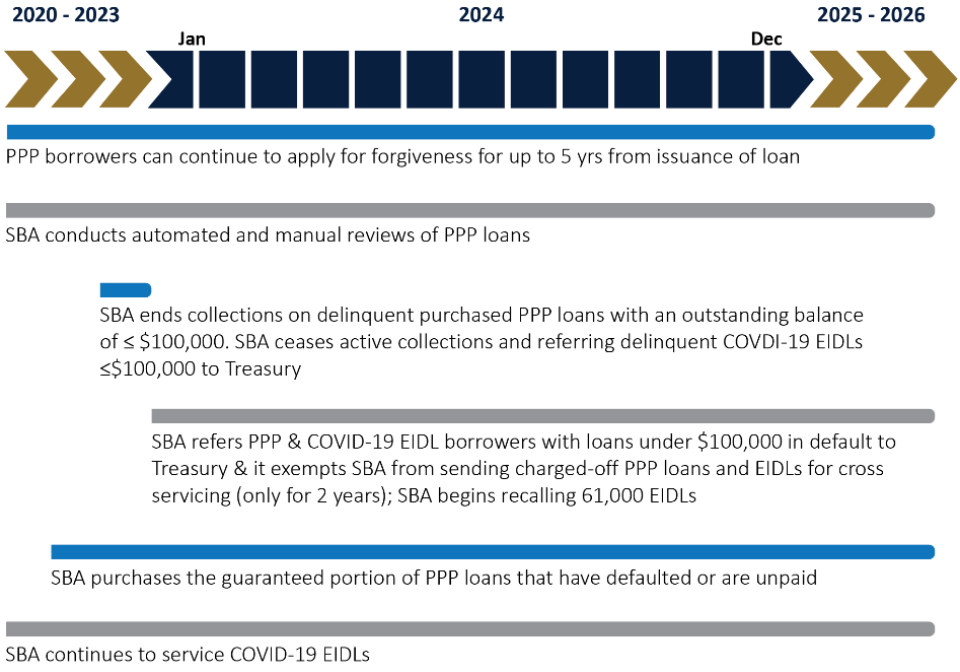
In the wake of the Coronavirus Disease 2019 (COVID-19) pandemic, action was needed to avert an economic crisis caused by lockdowns, business closures, and other impediments. More than 30 million small businesses in the nation were adversely affected by the economic crisis. In March 2020, the Coronavirus Aid, Relief, and Economic Security (CARES) Act authorized SBA to administer an unprecedented amount of disaster assistance and guaranteed loan funds to help eligible small business owners and entrepreneurs adversely affected by the crisis. Over the course of 18 months, the agency's pandemic relief expanded to four main programs and delivered 22.1 million loans and grants, totaling $1.2 trillion (Figure 1). SBA has progressed to reviewing, forgiving, and servicing the pandemic assistance loans (Figure 2).

Figure 1: Disbursed Pandemic Assistance Funds



Source: OIG generated

Figure 2: Current and Ongoing Actions Related to the PPP and COVID-19 EIDL



Source: OIG generated from SBA data

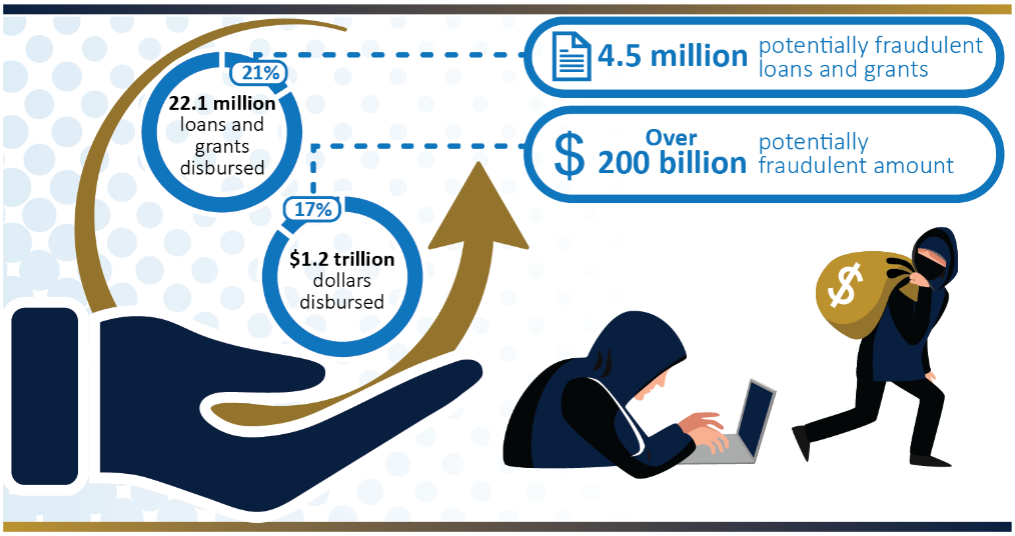
At the start of the pandemic in 2020, SBA reduced or eliminated key internal controls as it sought to follow legislative requirements intended to expedite aid during the crisis. Many existing controls and design features in SBA's longstanding flagship disaster lending and loan guaranty programs were replaced with less effective controls.[1] These internal controls could have mitigated fraud and ensured only eligible entities received taxpayer funds.

The pandemic exacerbated risks we have already found in SBA's flagship loan guaranty programs (see Overseeing Lenders). Our previous and ongoing audit work has found SBA did not always adequately recognize or manage significant lender weaknesses. OIG audits and investigations have shown SBA previously could not effectively identify and track loan agent involvement in its 7(a) and 504 loan portfolios. Our investigative work has found SBA's guaranteed loan programs susceptible to borrower fraud in regard to false statements and documentation, misrepresentation of equity injections, as well as misuse of proceeds. Investigations have also revealed a pattern of fraud by loan packagers and other fee-based agents in the 7(a) loan program.

The pandemic also magnified the long-standing control weaknesses of self-certification of eligibility (see Improving Verification of Eligibility) and the limited use of the U.S. Department of the Treasury's Do Not Pay system to verify eligibility.[2] The Do Not Pay system is a series of databases designed to prevent and detect improper payments to those not eligible for government payments because of past fraudulent activity or other high-risk factors.

SBA eventually started using the Do Not Pay system for pandemic programs, but the challenge remains to better integrate the use of the system in all its programs and not rely on self-certification. We will continue to keep watch over SBA's burgeoning flagship loan guaranty programs, particularly with SBA increasing Small Business Lending Company participation (see Overseeing Lenders).

Figure 3: Potentially Fraudulent Pandemic Assistance Loans and Grants



Source: OIG generated

In our fraud landscape report issued in June 2023, we estimated SBA's missing or weakened internal controls resulted in the disbursement of over $200 billion in potentially fraudulent Paycheck Protection Program (PPP) loans and COVID-19 Economic Injury Disaster Loans (EIDL) to those who exploited control vulnerabilities (Figure 3).[3] We estimated potential fraud and misuse of proceeds in the EIDL program at approximately $136 billion and $64 billion in the PPP. Using investigative casework, prior OIG reporting, and advanced data analytics, we identified various schemes used to steal from American taxpayers. Fraudsters stole identity information, created synthetic identities, and duplicated information to exploit programs meant to help those in need.

As of September 30, 2024, we have issued 47 reports and made 127 recommendations related to identified weaknesses in SBA's pandemic programs control environment (73 recommendations have been closed). Key recommendations for strengthening internal controls to mitigate fraud in the pandemic relief programs, include:

- Issuing clear requirements and communicating with lending partners in a timely manner;
- Establishing and monitoring performance measures and proper internal controls;
- Establishing a quality assurance plan to prevent and detect improper payments;
- Tracking program data to support accurate measurement and reporting;
- Establishing the organizational structure to manage and handle potentially fraudulent PPP loans and EIDLs.

SBA also faces the challenge of ensuring federal agencies award small business contracts only to eligible entities. OIG investigators currently have 23 cases involving allegations of firms not meeting contracting program requirements, including in the 8(a) Business Development, Women-Owned Small Business (WOSB), service-disabled veteran-owned small business, and the Historically Underutilized Business Zone (HUBZone) programs.

The agency has developed and implemented a fraud risk management policy and framework, developed aggregate review processes to identify different types of fraud, increased antifraud controls for 2020 loans, established a Fraud Risk Management Board in 2022, and hired a new Chief Risk Officer to lead its Office of Enterprise Integrity. SBA also developed a webpage raising awareness of preventing fraud and identity theft that includes a section for lenders.

SBA continues to take actions to address identified fraud risks in its programs. Implementing corrective actions and strengthening internal controls are imperative in sustaining an effective risk management program that will reduce fraud and enhance program integrity for current and future programs.

IMPROVING VERIFICATION OF ELIGIBILITY

Strong internal controls must be in place prior to issuing loans, grants, or conferring certifications. OIG believes SBA should obtain documented evidence to verify an applicant's compliance with the program's eligibility requirements for all of its programs, ensuring that only eligible applicants receive program benefits.

The CARES Act required SBA to rely on borrower self-certification for eligibility in the PPP and required acceptance of self-certification from applicants under penalty of perjury for the COVID-19 EIDL program. For the COVID-19 EIDL program, the Act allowed self-certification for business size and type, such as for a sole proprietorship or a cooperative under 500 employees. Self-certification made the program vulnerable to noncompliance and opened the door wider to fraudsters and those who misused program funds, thus facilitating a pay and chase environment. Many applicants in the pandemic loan programs falsified their operating status and provided false information to qualify.

SBA also has relied on self-certifications for its contracting certification programs. These programs were intended by Congress to help diversify and improve the U.S. economy, fulfilling needed public services while also helping small businesses gain experience in the federal contracting arena. The goal is for these small businesses to then better compete in the open marketplace without government assistance. The U.S. government is the largest single purchaser of goods and services in the world, awarding over $760 billion in prime contracts annually. SBA works to maximize opportunities for small businesses to receive these contract awards. As mandated by the Small Business Act, the government-wide goal is to award at least 23 percent of contract dollars to small businesses.

Business owners have been able to attest they qualify as "small" based on the number of employees and revenue, according to industry classification. Although the Agency's Audit Follow-up Official adjudicated on the permissibility of self-certification in these programs, we continue to believe Congress intended for SBA to certify these businesses eligibility for set-aside contracts. Relying on self-certification without any verification sets up a system that enables ineligible businesses and unscrupulous business owners to obtain funds for which they are not entitled. OIG has identified instances where SBA did not consistently detect ineligible firms in its small business contracting certification programs. In our recent reviews of the WOSB and HUBZone certification programs, we recommended SBA implement procedures and guidance for eligibility and size determinations and strengthen controls over the annual certification process.[4]

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

SBA is developing a standardized fraud risk framework within its administration platform to evaluate available data to ensure the applicants are eligible for the program. If SBA implements a robust framework and reviews its effects, it will help mitigate this challenge.

MITIGATING IMPROPER PAYMENTS

An improper payment is a payment that should not have been made or was made in an incorrect amount, including an overpayment or underpayment, under a statutory, contractual, administrative, or other legally applicable requirement. SBA has been unable to provide accurate estimates of improper payment rates for some programs during the last 2 fiscal years, and OIG has identified multiple issues of noncompliance with the Payment Integrity Information Act (PIIA) of 2019 for fiscal years 2022 and 2023, raising concerns regarding the accurate measurement of the rate of improper payments.[5]

Prior and ongoing OIG audit work has identified 7(a) and PPP loans given to borrowers who were ineligible, resulting in improper payments. In addition, OIG's external independent accounting firm found SBA did not publish improper and unknown payment estimates for multiple programs under the debt relief program, according to Report 24-16. Also, sampling and estimation methodology plans for disaster assistance loans, COVID-19 EIDLs, and EIDL Targeted Advance program activities were not fully compliant with the Payment Integrity Information Act of 2019.

Specifically, SBA did not design and implement adequate sample review procedures to produce reliable sample results that could be used to develop accurate improper payment estimates. In addition, SBA did not always publish corrective action plans as required or publish reduction targets for those over the allowable thresholds. SBA's assessment methodology for some programs did not consider certain identified risk factors for determining the likelihood of improper payments.

Payment integrity actions, such as the accurate measurement and reporting of an agency's improper payment rate and efforts to reduce those rates, aid in reducing fraud, waste, abuse, and mismanagement in government programs. These actions enhance program missions, efforts to advance equity, efficiency, and customer experience.

By adhering to its plan to address improper payments, the agency will decrease risk to SBA programs. SBA has initiated several corrective actions to enhance and develop additional controls to address loan reviews, loan forgiveness, and fraud, including establishing guidelines for loan and forgiveness reviews and implementing SBA and contractor fraud risk management policy and framework. SBA has also developed machine learning models to focus on areas of higher risks. Although many of its efforts related to pandemic assistance programs, learning from past mistakes will help the agency mitigate improper payments in future programs.

SEIZURE AND RETURN OF FUNDS

SBA, SBA OIG, and our external law enforcement partners are continuing to work together to seize or return pandemic-related program funds that remain frozen at financial institutions. SBA is also working to claw back funds the agency has determined to be improper payments.

As of August 2024, SBA and OIG have played a key role in the return of more than $30 billion in funds through working with law enforcement partners and financial institutions. This includes $1.1 billion in seized or forfeited assets and over $900 million in restitution orders. In addition, OIG's collaboration with SBA, the U.S. Secret Service, and other federal agencies and financial institutions has resulted in nearly $9 billion in COVID-19 EIDL funds being seized or returned to SBA and $20 billion paid from borrowers prior to the deferment period ending. Borrowers can make a voluntary payment or return funds because of concerns they do not meet certain program eligibility requirements, such as the economic need criteria or that the deposits are suspected to be fraudulent. SBA first issued guidance on how borrowers can return funds in December 2023.

OIG's audit work recommended and SBA agreed to conduct a cost-benefit analysis that led to SBA reversing its decision to end collections and referring to Treasury the delinquent unsecured purchased PPP loans with an outstanding principal balance of $100,000 or less, and delinquent COVID-19 EIDLs with an original loan balance amount of $100,000 or less.

Our independent auditor found in the 2023 financial statements audit a material weakness in the agency's accounting for the PPP, COVID-19 EIDLs, Restaurant Revitalization Fund (RRF), and Shuttered Venue Operators Grant (SVOG) programs. Because these programs are either in the servicing or post-payment review phases, SBA needs to improve the process to recover funds or identify funds that need to be recovered. Management did not adequately design and implement controls to account for the recovery of funds related to these programs.

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

The loss of taxpayer funds could be mitigated if SBA establishes clear, detailed guidance and tracking on returned funds. SBA's challenges are enforcing its current guidance for returning loan funds and standardizing procedures on clawing back funds. Of particular concern is how SBA is going to claw back PPP loans that were found to be ineligible after forgiveness. We recommended SBA establish clearly defined and detailed roles, responsibilities, and processes for returning PPP funds.[6] As a result, SBA developed a procedural notice to provide guidance to borrowers, lenders, and other financial intermediaries on the return of PPP loan funds to SBA. OIG will continue to evaluate the effectiveness of the established processes.

OIG Highlighted Work

1 *Inspection of Small Business Administration's Initial Disaster Assistance Response to the Coronavirus Pandemic (Report 21-02)*
2 *SBA's Eligibility and Forgiveness Review of PPP Loans Made to Borrowers with Treasury's Do Not Pay Data Matches (Report 24-06)*
3 *COVID-19 Pandemic EIDL and PPP Loan Fraud Landscape (Report 23-09)*
4 *SBA's Implementation of the Women-Owned Small Business Certification Program (Report 22-20); SBA's Oversight of HUBZone Program Participants' Continuing Eligibility (Report 24-23)*
5 *Independent Auditors' Report on SBA's Fiscal Year 2022 Compliance with the Payment Integrity Information Act of 2019 (Report 23-07); Independent Auditors' Report on SBA's Fiscal Year 2023 Compliance with the Payment Integrity Information Act of 2019 (Report 24-16)*
6 *Serious Concerns Regarding the Return of Paycheck Protection Program Funds (Report 23-08); SBA's Handling of Potentially Fraudulent Paycheck Protection Program Loans (Report 22-13)*

Challenge 2: Managing SBA's Loan Portfolio and Participating Lenders

SBA provides entrepreneurs looking to start, grow, or expand their small businesses access to financial assistance through several business loan programs. The 7(a) loan program is SBA's principal vehicle for providing small businesses with access to credit that cannot be obtained elsewhere. Recipients may use proceeds from a 7(a) loan to establish a new business or assist in acquiring, operating, or expanding an existing business. This program relies on numerous outside parties (such as loan agents and lenders) to originate loans, and the agency has recently expanded non-bank lender participation. SBA also provides long-term, low-interest direct disaster assistance loans to businesses of all sizes, private nonprofits, homeowners, and renters following a declared disaster.

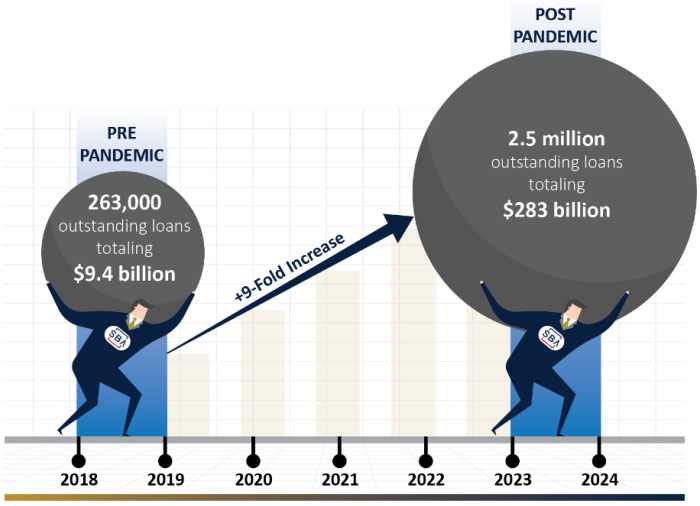
To protect taxpayer dollars, SBA must effectively service disaster loans and maintain oversight of financial institutions participating in its guaranteed loan programs

Even though the agency has disbursed and serviced billions in loans since its inception in 1953, the COVID-19 pandemic presented a significant challenge because of the unprecedented demand in funds and services from small business owners. SBA systems were never intended to handle such a crisis, and OIG will continue to monitor how the agency handles long-term loan servicing that is ninefold over what it handled before the pandemic. To protect taxpayer dollars, the challenge is for SBA to increase its capacity to effectively service disaster loans, recover delinquent loans, and maintain adequate oversight of financial institutions participating in its loan programs.

SERVICING DISASTER LOANS

Prior to the pandemic, SBA typically serviced about 263,000 disaster loans totaling approximately $9.4 billion. After the pandemic, SBA has the challenge of servicing approximately 2.5 million outstanding disaster loans totaling approximately $283 billion — a ninefold increase in the amount the agency was managing previously (Figure 4).

Figure 4: The Increased Burden of COVID-19 EIDL Servicing on SBA



Source: OIG generated from SBA data

SBA typically services a disaster loan until it is paid in full or up until default at 180 days. Treasury and SBA have agreed that the agency will service even defaulted loans and attempt recovery on these loans for up to 2 years, or until SBA's recovery efforts are exhausted. This will further stress SBA's ability to fully and completely service current loans and perform full-spectrum collection efforts on past-due and defaulted loans. SBA's challenge is to be responsive to recipients of these loans and perform its due diligence to mitigate loss to the taxpayer.

In response to the exponential increase in servicing responsibility, SBA has taken actions, such as establishing the standalone COVID-19 EIDL Servicing Center in Fort Worth, Texas with more than 1,500 employees servicing over 2.2 million loans with a total value of $284 billion (as of August 2024).

OVERSEEING LENDERS

SBA's Office of Credit Risk Management manages program credit risk on financial assistance portfolios of guaranteed loans that totaled about $153 billion as of March 2024. The office monitors lender performance and enforces lending program requirements.

SBA made significant policy changes to its traditional 7(a) loan program with the goal of helping expand access to capital, including increasing non-bank lender participation, such as Community Advantage and Small Business Lending Companies. Lenders that participated in SBA's mission-lending Community Advantage Pilot Program and over 30 additional lenders were granted access to the 7(a) loan program as Community Advantage Small Business Lending Companies, bringing the total to over 140. Additionally, for over 40 years, traditional SBA Small Business Lending Companies licenses were limited to 14, but SBA granted 3 additional licenses in fiscal year (FY) 2024.

SBA's challenge is to reach more entrepreneurs while mitigating increased risk to its 7(a) loan program. Many non-bank lenders are not regulated by other federal entities, which means they are primarily regulated and examined by SBA. These lenders are considered by SBA to be higher risk than those lenders with federal regulators and require more oversight by SBA's Office of Credit Risk Management.
OIG has conducted prior audit work related to third-party service providers in the 7(a) program, and we are currently assessing the risk associated with non-bank lenders in PPP. In addition, we have investigative cases that reflect some of the effects non-bank lenders have had on the PPP.

For the PPP, third-party service providers could perform a variety of services in either the loan origination or forgiveness processes, including assisting lenders with certain lender functions (e.g., determining eligibility), technology services, and referral services.

Related to prior work OIG has conducted in this area, SBA has significantly improved its tracking and monitoring of third-party providers in the traditional loan programs and the inherent risks associated with delegated lending require effective oversight to monitor compliance with SBA policies and procedures as well as timely corrective actions to address noncompliance. With this in mind, it is vital that SBA continue to

- Enhance the oversight of program lenders;
- Enhance the oversight of third-party service providers, including loan agents who lenders place significant reliance on; and
- Address emerging issues in a timely manner to reduce risks.

Our Investigative Actions Involving PPP Lenders

"*When the nation was facing a pandemic-induced crisis, Kabbage received tens of millions of dollars through the PPP to help lend taxpayer funds to businesses in need. Instead of safeguarding those funds, Kabbage doled out inflated and fraudulent loans, in an effort to maximize its profits.*"
U.S. Attorney's Office District of Massachusetts

CEO of PPP lender MBE Capital "*lied to get money that was supposed to help people through the challenges of COVID-19. He lied so that he could fund a lavish lifestyle of cars, jets, and fancy homes.*"
U.S. Attorney's Office Southern District of New York

Ensuring Retention of Pandemic-Related Loan and Award Records

SBA guarantees a certain percentage of a business loan made by a participating lender to the small business borrower. Lenders maintain the loan files and service the loan until either the loan is paid in full or SBA purchases the guaranty and charges off any uncollectible balance. That means most loan documents and data reside only with the participating lender.

For the PPP, SBA only required the lenders to enter applicant information into data fields in the SBA system. SBA did not obtain borrower bank account details associated with the disbursement or internet protocol addresses and web log data associated with the electronic signature on the applications. This means SBA was not able to fully capitalize on data analytics technology, such as artificial intelligence and machine learning, to identify noncompliance with program requirements and likely fraud. Future programs could be designed to capture this data.

For example, two PPP lenders are no longer in business and not all data and documentation were maintained; therefore, the agency has been challenged in conducting oversight of PPP loans issued by those lenders.

Retaining documentation and sufficient evidence to support loan decisions is consistent with federal standards for internal controls. These controls require managers to support their decisions and determinations with supporting documentation, which includes the rationale of how loan decisions were made. For this reason, it is important that all loan records are properly managed, maintained, and available.

The challenge is for SBA to continuously monitor and communicate with participating lenders to safeguard loan information and documents related to lending decisions, which is imperative in cases where the lender dissolves or ceases to service the loan. We recommended SBA conduct reviews of PPP lenders to ensure they complied with their communication, servicing, and debt collection activity requirements. We also recommended SBA require lenders to submit evidence of these activities with the borrower prior to guaranty purchase.

If the agency does not take these steps, SBA will not have adequate information to make loan decisions, and law enforcement personnel will not have access to the information needed to prosecute parties that fraudulently obtained the loans guaranteed by taxpayer dollars.

Congress and the Administration took swift action to extend the statutes of limitations for prosecution of PPP and COVID-19 EIDLs from 5 to 10 years, to end in 2032, but it will be difficult to prosecute bad actors if loan documents and data are not available. To correspond to the 10-year PPP fraud statute of limitations, SBA extended the records retention requirement for all PPP lenders to 10 years from the date of final disposition of each PPP loan. [1]

1 89 F.R. 68090 Business Loan Program Temporary Changes; PPP-Extension of Lender Records Retention Requirements, (August 2024).

This increase in the statute of limitations does not apply to the Restaurant Revitalization Fund and Shuttered Venue Operators Grant programs, which remains at 5 years from application or reporting date. SBA only requires Restaurant Revitalization Fund recipients to retain their grant records for 3 years. If program officials do not conduct reviews in a timely manner, or extend the record retention period, SBA could miss the opportunity to prosecute bad actors and recover funds incorrectly or fraudulently obtained.

OIG Highlighted Work

1 *Ending Active Collections on Delinquent COVID-19 Economic Injury Disaster Loans (Report 23-16)*
2 *Audit of SBA's Oversight of High-Risk Lenders (Report 20-03)*
3 *SBA's Guaranty Purchases for Paycheck Protection Program Loans (Report 22-25)*
4 *SBA's Eligibility and Forgiveness Review of PPP Loans Made to Borrowers with Treasury's Do Not Pay Data Matches (Report 24-06)*

Challenge 3: Measuring Performance and Monitoring SBA Programs

SBA manages programs to help support American entrepreneurs access funds, federal contracts, and business counseling. Integral to this is measuring performance and monitoring these programs to help small businesses, directly affecting the strength of the American economy. SBA's challenge is to improve the measures it uses to assess its' programs effects and improve grantee oversight, better serving entrepreneurs and ensuring that every dollar spent delivers results. OIG audits and reviews have consistently identified opportunities for SBA to enhance and improve its performance data, measures, and goals to assess its programs and better inform Congress and taxpayers about program effectiveness. We have also raised concerns about SBA's practices used to oversee grant recipients' use of funds to ensure effective support of agency initiatives to help start and grow small businesses.

MEASURING PROGRAM PERFORMANCE

Federal guidance requires management to establish meaningful performance goals and measure progress, which provides proof of success and helps improve future programs. With over 33 million small businesses supporting the economy, having clearly defined program goals and targets are essential to achieving program objectives.

However, our reviews, including of the SCORE mentorship network, an SBA Resource Partner, and of the State Trade Expansion Program, the Boots to Business program, and the 8(a) Business Development program, consistently found opportunities for SBA to improve its measures used to assess program goal accomplishments. [1]

For example, when SBA initially established the Shuttered Venue Operators Grant (SVOG), we issued a management alert suggesting the agency establish performance goals and measures before disbursing $14.6 billion in funds to shuttered venues. In response to this alert, SBA established performance measures to assess whether the program successfully aided small businesses in the live arts and entertainment industry. We are in the process of assessing SBA's oversight of program performance.

MONITORING PROGRAM PERFORMANCE RESULTS

Federal standards for internal controls require managers to use quality information to achieve their objectives. This requires that program officials ensure information is complete, accurate, accessible, and provided on a timely basis so that leaders can make informed decisions and evaluate performance. Without accurate and complete performance reporting and comprehensive reviews of performance reports, SBA grant programs may not achieve their intended results.

In a recent review of SBA's oversight of Small Business Innovation Research (SBIR) and Small Business Technology Transfer (STTR) programs, we found there was limited assurance that small businesses met minimum performance standards. The programs also relied on self-certifications. Small businesses must meet minimum performance standards to compete for SBIR and STTR awards. These programs help entrepreneurs explore their technological potential and provide an incentive to profit from commercialization. Changes to the Small Business Act could improve SBA's ability to monitor performance standards, reducing risks because the small businesses may not have the ability to achieve program goals for commercialization as intended by the Act.

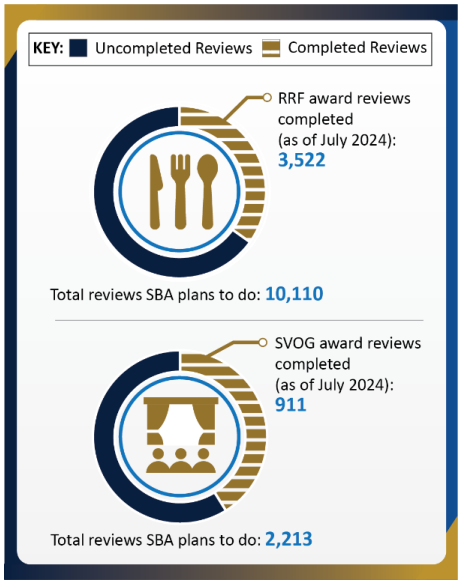
1 2 C.F.R. §200.202.

Our review of the SBA Mentor-Protege Program found program officials established program outcomes and a process to measure results, but they did not collect sufficient data to accurately assess whether the program had its intended effect.

SBA's challenge is to monitor grantee performance in such areas as the estimated number of jobs saved or created, tax revenue generated, and entity operational status.

ENSURING FUNDS ARE USED FOR INTENDED PURPOSES

Figure 5: Total Number of RRF and SVOG Awards that SBA Must Review Manually



Source: OIG generated based on SBA data

We have identified systemic issues with SBA's oversight of grant recipients' use of federal funds. These issues included not enforcing financial reporting requirements, not detecting grant recipient budget reallocations, using weak financial review procedures, and missing supporting documentation. SBA's challenge is to improve its grant management processes and procedures to ensure funds are used for allocable, allowable, and reasonable expenditures.

In our review of Women's Business Centers and their use of award funds, we found monitoring practices could've been improved in recipients' accounting for federal expenses, matching funds, and program income. SBA has developed guidance that, once fully implemented, will more effectively monitor if funds are used for their intended purpose.

Federal funds can greatly assist struggling small businesses during an economic crisis. For example, SVOG and Restaurant Revitalization Fund (RRF) awards were intended to help businesses in the restaurant industry and venues struggling to stay in business during the pandemic. SBA has transitioned from quickly disbursing SVOG and RRF awards to monitoring and closing them out.

In a recent audit of SBA's oversight of RRF recipients, we found program officials needed to obtain sufficient information to monitor the recipients to ensure funds were used as intended. RRF recipients were required to submit their final use of funds report to SBA by April 30, 2023. As of August 2024, 9.7 percent of all recipients, with awards totaling $1.6 billion, had not yet filed the required report.

To oversee the RRF and SVOG programs, SBA selected samples of the award recipients to manually confirm eligibility, award calculation, and use of funds (Figure 5). We found the reviews for both programs were being conducted at a rate that would extend beyond the required timeframe for grantees to retain award records and the statute of limitations for prosecution of fraud or misuse. Program officials' challenge is to prioritize the RRF and SVOG reviews to increase the opportunity to save taxpayer funds. SBA managers stated they have increased staff allocated to these reviews and are working to manage resources to complete the reviews within the critical timeframes.

In addition, we found program officials did not review all awards made to potentially fraudulent or ineligible recipients, as the agency had originally planned to do. We also found SBA needed to implement procedures for recipients to return unused or improperly awarded funds to Treasury.

SBA's challenge is to effectively manage its resources to meet the demands of monitoring awardee compliance with award requirements. Improving awardee oversight will better position the agency to effectively measure and accurately report performance results and assess whether the federal assistance programs were effective and funds were used appropriately.

OIG Highlighted Work

1 *Audit of SBA's Oversight of the SCORE Association (Report 19-12); Audit of SBA's State Trade Expansion Program (Report 18-11); The Small Business Administration's Boots to Business Program (Report 18-20); SBA's Business Development Assistance to 8(a) Program Participants (Report 22-08)*
2 *Serious Concerns about SBA's Control Environment and the Tracking of Performance Results in the Shuttered Venue Operators Grant Program (Report 21-13)*
3 *SBA's Implementation of the SBIR and STTR Extension Act of 2022 (Report 24-14)*
4 *Evaluation of SBA's All Small Mentor-Protege Program (Report 19-17)*
5 *Audit of SBA's Oversight of Women's Business Centers' Compliance with Cooperative Agreement Financial Requirements (Report 21-14)*
6 *SBA's Oversight of Restaurant Revitalization Fund Recipients (Report 23-15)*
7 *Improvements Needed in SBA's Shuttered Venue Operators Grant Post-Award Review Process (Report 24-21)*
8 *SBA's Administrative Process to Address Potentially Fraudulent Restaurant Revitalization Fund Awards (Report 23-10)*

Challenge 4: Managing Data

SBA's data systems are a primary method for customer service and interaction, helping disburse vital assistance and meet program goals. But during the pandemic economic crisis, the lack of data standards and the data environment, which did not include a centralized data warehouse, limited SBA's ability to respond to risks. Data standards and data reliability improves analytical decision making and fraud identification. By implementing best practices in data management, the agency will have a stronger foundation for identifying and preventing fraud schemes.

SBA will be prepared to mitigate fraud risks in future crises if it better manages its own internal data and data from other federal agencies

SBA's challenge is to mitigate the risk of fraud in future crises by enhancing its management of both internal data and data from other federal agencies. By enhancing data handling and sharing practices, SBA can efficiently exchange relevant information with other government entities and leverage data from federal partners to make more informed decisions, ultimately benefiting the American people.

STORING, MONITORING, AND ANALYZING PROGRAM DATA

During the pandemic economic crisis, SBA's internal controls and processes were insufficient to address fraud risks because there was no centralized database of applicant information. For example, PPP loans were made by two institutions that subsequently failed. Some borrower information was lost, making it more difficult for the government to detect fraud, investigate, and prosecute wrongdoers (see Ensuring Retention of Pandemic-Related Loan and Award Records).

The agency would be better positioned to fight fraud by consistently collecting key data attributes, such as applicant contact information, deposit bank accounts, and web log data across all its programs, and then storing it in a centralized database.[1] This database would be key in fraud prevention analysis across all programs.[2] [1]

SBA's challenge is to minimize fraud risk and manage funding to eligible applicants by implementing consistent data standards, data storage, and data collection requirements.[2] [3] This starts with a strong internal effort to require the consistent collection of relevant data across all loan and grant programs.

For 4 consecutive years, the independent public accounting firm that performed SBA's annual financial statement audit has found material weaknesses in the agency's design and monitoring processes. These areas include data management controls in the PPP, COVID-19 EIDL, RRF, and SVOG programs.[3] This means the agency's financial reports do not meet federal criteria for a complete and accurate population of loans disbursed to eligible recipients as of the end of fiscal year (FY) 2024, according to the FY 2023 Financial Statements audit.

For example, SVOG data is maintained in a separate database. If integrated in a centralized warehouse enforcing data standards, SBA could analyze fraud indicators across its programs and prevent additional disbursements to fraudulent actors in current and future programs.[4]

SBA programs with different eligibility requirements can still collect and maintain much of the same data, including verified applicant names, contact information, deposit bank accounts, and web log data. The consolidation can be accomplished

1 GAO, GAO-15-593SP, A Framework for Managing Fraud Risks in Federal Programs, (2015).
2 Office of Management and Budget, M-19-18, "Federal Data Strategy – A Framework for Consistency" (June 4, 2019).
3 GAO, GAO-24-106565, Fraud Risk Management: Agencies Should Continue Efforts to Implement Leading Practices, (2024).
4 GAO, GAO-24-107395, Small Business Administration: Progress and Work Remaining to Implement Key Management Improvements, (2024).

even with credit programs that use third-party lenders. Consistent data standards, collection, and storage are foundational elements of an analytics strategy. SBA could use data analytic tools to systematically validate all applicants against fraud indicators detected across data from all its loan and grant programs. Using data analytics across all programs, as permitted by law, will help SBA better identify cases of fraud before the loan or grant is disbursed.

SHARING AUTHORIZED DATA BETWEEN GOVERNMENT AGENCIES

As recommended by the Pandemic Response Accountability Committee, expanding government data sharing is a critical component for effective fraud prevention in federal agencies. [5] SBA's challenge is to secure sufficient and complete data sharing agreements with other federal agencies and ensuring expired agreements are reestablished. These agreements can better help federal agencies verify applicant information and detect fraud.

SBA has effectively used data sharing in the past, such as with the Department of Housing and Urban Development, pursuant to the Stafford Act, to prevent duplication of benefits with community development block grants. [4] Also, we have ongoing audit work to identify opportunities for data sharing with the U.S. Department of Labor.

A key component of this issue is SBA efficiently sharing relevant data with other government agencies and, in turn, analyzing the information it receives to better serve the American people. Prior to initiating new programs, the agency should undertake rigorous risk assessments to protect data and mitigate the inherent risks of fraud, [6] such as matching against Do Not Pay data before deploying new loan or grant programs.

Another example of effective data sharing between agencies would be if SBA pursues a legal framework to establish Social Security Number verification data. Given the volume of identity theft associated with SBA pandemic loan fraud, Social Security Number verification could have helped mitigate the fraud. If statutory limitations prevent SBA from accessing this or other critical data assets, there are other opportunities for responsible data sharing that could strengthen fraud detection efforts as outlined by GAO and OMB. As was done with Do Not Pay data sharing agreements with Treasury, the agency could undertake additional collaborative efforts to uncover fraud, waste, and abuse. The most effective programs would start with the agreements and systems in place to mitigate fraud, rather than chasing after fraudsters after the funds have been disbursed.

EVALUATING AND IMPROVING DATA RELIABILITY

Our 2023 financial statements audit found another challenge to SBA's internal controls that are integral for financial data reliability and accuracy. OIG's independent auditors were unable to find reliable financial reporting evidence to provide a basis for an audit opinion in the agency's financial reports. As a result, the auditors were unable to provide an opinion on the reliability and integrity of financial information reported by the agency.

The *Standards for Internal Control in the Federal Government* and SBA's 2023 *Agency Financial Report* highlight proper procedures for evaluating and improving data reliability. [7] [8] OMB also gives priority to data reliability. [9]

5 Pandemic Response Accountability Committee, Blueprint for Enhanced Program Integrity, Chapter 2: Opportunities for Policymakers to Improve Program Integrity, (August 2024).

6 OMB, M-18-16, "Appendix A to OMB Circular No. A-123, Management of Reporting and Data Integrity Risk" (June 6, 2018).

7 SBA, Agency Financial Report Fiscal Year 2023, at 53 (2024).

8 GAO, GAO-14-704G, Standards for Internal Control in the Federal Government, principles 10 and 13, Design Control Activities and Use Quality Information, (2014).

9 OMB, M-18-16, "Appendix A to OMB Circular No. A-123, Management of Reporting and Data Integrity Risk" (June 6, 2018).

The agency should improve the design and implementation of monitoring processes to allow for transparent and accurate financial reporting.

We believe if SBA conducts a comprehensive data quality evaluation, it can then complete a full evaluation of current infrastructure, program data quality, and IT processes. SBA's data quality evaluation should monitor consistent data standards, data completeness, and data accuracy. A data quality assessment is particularly relevant as the agency starts to investigate and integrate artificial intelligence into its programs and services.

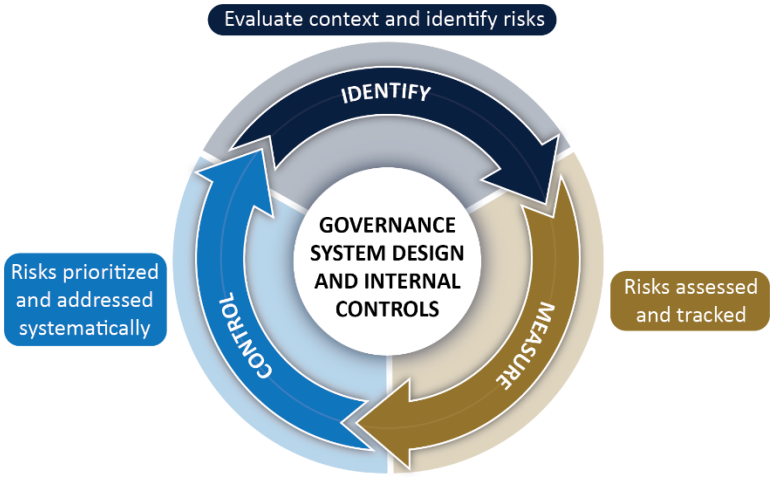
OIG Highlighted Work

1 *SBA's Handling of Identity Theft in the COVID-19 Economic Injury Disaster Loan Program (Report 21-15); COVID-19 Pandemic EIDL and PPP Loan Fraud Landscape (Report 23-09)*
2 *SBA's COVID-19 EIDL Program Data Migration Challenges (Report 22-16)*
3 *Independent Auditors' Report on SBA's Fiscal Year 2022 Compliance with the Payment Integrity Information Act of 2019 (Report 23-07); Independent Auditors' Report on SBA's Fiscal Year 2023 Financial Statements (Report 24-03)*
4 *SBA's Controls to Prevent Duplication of Benefits with Community Development Block Grants (Report 15-14)*

Challenge 5: Managing Risks in Information Technology Systems and Cybersecurity

OIG and GAO have reported on significant SBA information technology (IT) systems internal control and cybersecurity issues, which the agency has also identified. This remains a challenge for SBA because a strong IT governance framework enables the agency to achieve mission goals and objectives while safeguarding taxpayer funds. A governance framework in this challenge area is an integrated strategy that identifies, measures, and controls risk in IT investments, fraud, and artificial intelligence (AI) (Figure 6). These processes will help the agency better deliver SBA programs and services, particularly in times of crisis.

Figure 6: Risk Management Best Practices Strategy



Source: OIG generated from NIST data

IMPROVING INFORMATION TECHNOLOGY SYSTEMS MANAGEMENT

In March 2024, OIG determined SBA has not had effective IT management policies and procedures for several years, and the new IT systems framework is not scheduled to be implemented until FY 2025. The agency has had issues related to IT software investment governance that include:

- Lack of oversight from the governance board;
- Not identifying the intended purpose of software investments and their expected benefits;
- Lack of monitoring against performance measurement baselines.

SBA plans to invest over **$328 million** in taxpayer funds for mission critical IT functions in FY 2025

An IT system is essential to mission delivery and enhances organizational performance. IT system management is on GAO's high-risk list because these purchases are often a large investment of taxpayer funds for mission critical functions. For example, SBA plans to spend more than $328 million on IT investments for FY 2025.[1]

PREPARING FOR ARTIFICIAL INTELLIGENCE CHALLENGES

OIG's preliminary review of the agency's charter and minutes of the AI Governance Council indicates the agency has taken preliminary measures to meet the requirements of OMB M-24-10, "Advancing Governance, Innovation, and Risk Management for Agency Use of Artificial Intelligence." The agency established an AI Governance Council in May 2024 to identify, measure, and control AI risks. In addition, the AI Governance Council has established criteria to assess AI use cases, and it has reviewed several AI use cases to date.

SBA is using a machine-based system to predict loan guaranty default rate. This machine-based modeling would be considered AI under 15 U.S.C. § 9401(3), which is why this is a top issue for 2025. SBA is using an updated machine-based model to predict the probability that a 7(a) loan or a 504 Certified Development Company loan will default within a year. Projected defaults are predicated based off data variables such as loan payment behavior, loan characteristics (like loan amount, term, interest type), and borrower data types (like number of delinquent accounts, credit history, payment experience, and age of oldest account).

We have found no evidence, as of September 2024, that the predictive risk machine-based modeling system was vetted through SBA's Business Technology Investment Council, although it was a major investment of more than $500,000. The council should be reviewing all IT investments to ensure best use of taxpayer dollars and value to the agency.

We also determined that an AI risk assessment was not conducted, as of June 2024. OMB states that while agencies can capitalize on AI to boost agency performance, they must also manage a range of risks.**2** The memorandum requires several key actions, such as:

- Designating a Chief AI Officer who is responsible for developing best practices that correspond with the National Institute of Standards and Technology *Artificial Intelligence Risk Management Framework 1.0*;
- Assessing risks with all AI applications to ensure compliance with the OMB memo;
- Identifying AI purposes and its expected benefits to the agency;
- Testing the AI for performance in a real-world environment before launching it;
- Independently evaluating and monitoring AI, regularly evaluating risks;
- Promoting competition in AI software purchases from contractors or vendors.

SBA's challenge is to take a proactive stance to risk management in IT system development. So far, we have been unable to review tools and controls that show SBA is prepared for AI risks. This challenge includes enacting appropriate safeguards against fraud, privacy infringements, and unintended bias and discrimination. This means the AI could learn from its past decisions to unintentionally categorize certain borrowers as more likely to default. Effective risk management will also reduce the likelihood that fraudsters will be able to steal from taxpayers and exploit programs meant to help eligible small business owners and entrepreneurs.

1 SBA, FY 2025 Congressional Budget Justification FY 2023 Annual Performance Report, (March 11, 2024).

2 OMB, M-24-10, "Advancing Governance, Innovation, and Risk Management for Agency Use of Artificial Intelligence" (March 28, 2024).

DEPLOYING AND MONITORING NEW THIRD-PARTY SYSTEMS

The agency relies on external vendors or third-party service providers for software and IT services. While these outside solutions are expedient, SBA's challenge is to implement robust due diligence and continuous monitoring to ensure data integrity is maintained throughout the processing cycle. Shortfalls in these processes have contributed to SBA having material weaknesses and disclaimers of financial reporting reliability going back to FY 2020. [3]

We also found SBA's work to address this challenge is stymied by an outdated system development policy for the purchase, launching, and management of software and related application development activities. Updated system guidance is crucial for monitoring third-party systems used to process transactions integral to the mission of SBA.

Proper guidance on monitoring third-party systems can be found though System and Organization Controls 1 reviews. [4] Our independent financial statement auditors also identified material weaknesses related to insufficient technical support and inadequate system controls, possibly leading to operational inefficiencies and increased risk of errors. These reviews allow agencies to evaluate the effectiveness of their internal controls over financial reporting.

SBA's development guidance requires that systems are designed with adequate controls to prevent unauthorized access and data breaches. It is also a challenge for the agency to establish clear guidelines for system use, including collaboration with program end users, ensuring that ongoing technical support is readily available. New platforms must be configured to provide OIG statutory access to its data and systems access for oversight needs and to detect fraud, waste, and abuse. As new systems are developed, the importance of robust technical support and continuous system monitoring is integral to data quality.

COMPLYING WITH FEDERAL INFORMATION SECURITY MODERNIZATION ACT MANAGEMENT REQUIREMENTS

Our evaluations of SBA's systems, policies, and procedures regarding the Federal Information Security Modernization Act (FISMA) show this area continues to be a challenge for the agency. The agency's overall security program continues to be rated as "not effective" in accordance with federal guidance. [5] Because of SBA's mission and the personal identifiable information it is required to collect to carry out that mission, the agency is susceptible to privacy and data breaches.

Cyberattacks and related threats could imperil critical SBA operations and programs, potentially compromising service. Improving the agency's readiness for cybersecurity threats requires an adaptation of mindset and organizational change across SBA. The agency is working on several significant investments to withstand the potential risk, to align with its policy, including employing a risk-based approach to identifying and implementing information system security solutions to protect technology and data, and requiring contractors, loan servicers, and other external entities to implement these comprehensive cybersecurity solutions.

3 SBA, Agency Financial Report Fiscal Year 2020, (2021).

4 OMB, A-123, "Management's Responsibility for Enterprise Risk Management and Internal Control" (July 2016).

5 Council of the Inspectors General on Integrity and Efficiency, FY 2023 – 2024 Inspector General Federal Information Security Modernization Act of 2014 Reporting Metrics, (February 10, 2023).

OIG Highlighted Work

1. *SBA's IT Investment Governance Framework (Report 24-10)*
2. *COVID-19 and Disaster Assistance Information Systems Security Controls (Report 22-19)*
3. *Independent Auditors' Report on SBA's FY 2020 Financial Statements (Report 21-04)*
4. *SBA's Eligibility and Forgiveness Review of PPP Loans Made to Borrowers with Treasury's Do Not Pay Data Matches (Report 24-06)*
5. *Fiscal Year 2023 Federal Information Security Modernization Act (Report 24-07)*
6. *Independent Auditors' Report on SBA's Fiscal Year 2023 Financial Statements (Report 24-03)*

Make a Difference

To promote integrity, economy, and efficiency, we encourage you to report instances of fraud, waste, or mismanagement to the OIG Hotline.*

Visit our OIG Hotline website.

Write or visit:

U.S. Small Business Administration
Office of Inspector General
Investigations Division
409 Third Street SW (5th Floor)
Washington, D.C. 20416

* In accordance with Sections 7 and 8L(b)(2)(B) of the Inspector General's Act, confidentiality of a complainant's personally identifying information is mandatory, absent express consent by the complainant authorizing the release of such information.

OFFICE OF THE ADMINISTRATOR

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

Agency's Response To Top Management And Performance Challenges Facing The Small Business Administration In Fiscal Year 2025

I thank the Office of Inspector General (OIG) for its efforts to identify the top management and performance challenges facing the U.S. Small Business Administration (SBA or Agency) in Fiscal Year 2025 (2024 Management Challenge (MC) Report). The OIG's investigation and analysis provides important insights on the strengths, weaknesses, and opportunities, and threats facing our enterprise objectives.

The SBA is proud of the progress made to establish a culture of risk mitigation and internal controls. We appreciate the recognition of these successes and the OIG's suggestions. Further, we remain dedicated to resolving issues identified within this report, and I have directed the SBA's program, strategic, and support offices to continue to prioritize them. The insights of this report have been shared throughout the Agency so that leadership at every level can evaluate the risks and effectively direct resources and oversight efforts.

The Agency is dedicated to effectively addressing outstanding audit recommendations, many of which are closely tied to the issues identified in the 2024 MC Report. In Fiscal Year 2024, the SBA successfully implemented and closed 116 OIG audit recommendations. In accordance with OMB Circular No. A-123, the SBA continues to exercise the best practice to review and consider our auditors' perspective and recommendations from this and other reports when evaluating the enterprise risks. I am proud of the SBA's skilled workforce and our ability to improve program and operation integrity and internal controls.

The SBA believes the public will benefit from having more context and direct management insights on one specific issue. Size standards define the largest size a business can be to compete for contracts reserved or set aside for small businesses. Size standards vary by industry and are generally based on the two-year average of number of employees or the five-year average of annual receipts the business has. The Federal government relies on firms' self-attestation in SAM.gov, a website managed by GSA, to verify that they are small in at least one NAICS code for certification and program examinations. Contracting officers validate size at the time of award, and for all set-aside contracts there is a five-day period for interested parties to protest the size of a small apparent successful offeror. Based on our legal and policy analyses, the SBA concludes that neither the Small Business Act, NDAA nor SBA regulations require the HUBZone Program to request documentation related to size in connection with a program examination or to perform a size determination in connection with a program examination.

We will continue to further assess what we can do short of unnecessarily increasing the administrative burdens on firms. However, this matter was already adjudicated, and then resolved by the SBA and the OIG, consistent with OMB Circular A-50 and SBA's standard operating procedures (SOP 20 35 and SOP 90 27). Moreover, both the SBA and the OIG agreed that this matter has been resolved. The risks raised by the OIG have been addressed and the WOSB and HUBZone certification processes should no longer be presented as a top management challenge for the SBA in this report.

Again, the SBA has prioritized continuous improvement and ongoing collaboration with the IG to ensure the agency can best achieve its mission serving America's small businesses, innovative startups and disaster survivors. I look forward to the continued strengthening of this collaboration in our endeavor to innovate, institutionalize continuous improvement, and facilitate strategic collaboration with our stakeholders.

Sincerely,

Isabel Casillas Guzman
Administrator

PAYMENT INTEGRITY

The Payment Integrity Information Act of 2019 (PIIA) was established to improve efforts to identify and reduce Government-wide improper payments. PIIA requires agencies to estimate improper payments and report on actions to reduce improper payments. In accordance with Office of Management and Budget Circular A-123, Appendix C, Requirements for Payment Integrity Improvement (M-21-19) (hereafter referred to as Appendix C), agencies are required to identify, assess, prioritize, and respond to payment integrity risks to prevent improper payments in the most appropriate manner. This report will discuss the SBA's efforts and results related to improper payment assessment and reviews. More detailed information on improper payments and information previously reported in the AFR that is not included in the FY 2024 AFR can be found on PaymentAccuracy.gov.

The SBA's improper payment reviews are a multi-layered process that starts with a risk assessment. If a risk assessment indicates that a program is susceptible to improper payments, then testing is performed using a statistically valid sampling technique. Based upon the testing results, a corrective action plan is developed to prevent and remediate the types of errors uncovered. If testing finds a significant amount of recoverable dollars, the SBA considers the appropriateness of performing a recapture audit.

The detection and remediation of improper payments are priorities for the Agency. SBA staff monitor and review for improper payments and implement improvements that will reduce improper payment rates. The SBA also continually seeks opportunities to enhance and implement internal controls to reduce the risk for improper payments.

In FY 2024, the SBA reviewed seven programs and activities that were deemed susceptible to significant improper payments. Of the seven programs reviewed, four programs are major credit programs mandated by OMB, and three programs are programs that were created as a result of the pandemic response. The seven programs are:

- 7(a) Loan Guaranty Approvals;
- 7(a) Loan Guaranty Purchases;
- 504 Certified Development Loan Approvals;
- Disaster Assistance Loans;
- Paycheck Protection Program Loan Guaranty Purchases;
- Paycheck Protection Program Loan Forgiveness; and the
- Restaurant Revitalization Fund.

The SBA conducts risk assessments on a three-year rotation cycle for programs not deemed susceptible to significant improper payments, or earlier if a program was subjected to significant change in legislation or funding level. Significant improper payments are defined as gross annual improper payments exceeding (1) both 1.5 percent of program outlays and $10,000,000, or (2) $100,000,000. The qualitative risk assessment applies an individual risk weight to each risk factor to account for the variability in potential risk that each risk factor could impose on a program. This year, the SBA performed risk assessments on the Growth Accelerator Fund program and the payments made under Section 1112 of the CARES Act using the revised qualitative risk assessment. The SBA concluded that the Growth Accelerator Fund Competition Program was not susceptible to significant improper payments, and that the Section 1112 payments were susceptible to significant improper payments.

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

PAYMENT REPORTING

Table 1: Improper Payment Reporting and Reduction Outlook ($ in Millions)[1]

Program	FY 2023			FY 2024 Summary							FY 2024 Breakdown								FY 2024 Reduction Target %[2]
	Outlays[3] $	IP %	IP $	Outlays[2] $	Proper Payment %	Improper Payment %	Unknown Payment %	Proper Payment $	Improper Payment $	Unknown Payment $	Overpayments (Outside Agency Control) %	Overpayments (Within Agency Control) %	Underpayments %	Technically Improper Payments %	Overpayments (Outside Agency Control) $	Overpayments (Within Agency Control) $	Underpayments $	Technically Improper Payment $	
SBA Programs																			
7(a) Loan Guaranty Approvals	20,110.22	1.31%	262.74	20,294.40	94.56%	5.44%	0.00%	19,191.06	1,103.35	-	0.00%	0.00%	0.00%	100.00%	-	-	-	1,103.35	2.23%
7(a) Loan Guaranty Purchases	793.65	6.15%	48.81	1,394.74	94.66%	5.34%	0.00%	1,320.22	74.52	-	0.00%	86.93%	13.07%	0.00%	-	64.79	9.74	-	5.34%
504 Certified Development Loan Approvals	7,150.24	2.75%	196.70	6,329.16	95.46%	3.74%	0.80%	6,042.00	236.73	50.43	0.00%	0.00%	0.00%	100.00%	-	-	-	236.73	3.96%
Disaster Assistance Loans	871.64	3.93%	34.29	1,175.70	96.38%	3.62%	0.00%	1,133.16	42.54	-	0.00%	57.81%	42.19%	0.00%	-	24.59	17.94	-	3.50%
COVID Programs																			
COVID-Economic Injury Disaster Loan (EIDL)	38,931.71	8.15%	3,171.77	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Economic Injury Disaster Loan Emergency Assistance (Advance)	74.53	6.81%	5.07	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Paycheck Protection Program (PPP) Loan Forgiveness	46,280.99	1.94%	896.04	1,507.20	74.85%	21.09%	4.06%	1,128.11	317.83	61.26	0.00%	91.95%	8.05%	0.00%	-	292.25	25.57	-	10.00%
Paycheck Protection Program (PPP) Loan Guaranty Purchases	8,274.20	1.52%	125.77	6,792.08	75.28%	24.47%	0.25%	5,113.07	1,662.30	16.70	0.00%	100.00%	0.00%	0.00%	-	1,662.30	-	-	10.00%
Restaurant Revitalization Fund Program[4 5]	N/A	N/A	N/A	28,599.45	69.98%	0.00%	30.32%	19,928.66	0.07	8,670.72	0.00%	100.00%	0.00%	0.00%	-	0.07	-	-	N/A
Total	**122,487.18**		**4,741.19**	**66,092.74**				**53,856.28**	**3,437.35**	**8,799.11**					**-**	**2,044.01**	**53.26**	**1,340.08**	

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

1 Amounts and percentages reported on this table may not reconcile due to rounding differences.

2 Tolerable rates have been established for 7(a) Loan Guaranty Approvals, 7(a) Laon Guaranty Purchases, 504 Certified Development Loan Approvals, and Disaster Assistance Loans. For these programs, the established reduction target will be the lesser of the established tolerable rate, or the current reported improper payment rate(i.e., if the FY 2024 improper payment rate is less than the established tolerable rate, the FY 2024 imporper payment rate will be the reduction target).

3 Outlays in this report represent the base amount of the program activity related to SBA improper payments; and this amount will differ from the amount reported as outlays in SBA's President's Budget submissions because they include reestimates of subsidy cost, reimbursements to SBA administrative funds and other costs. Outlays for 7(a) loan guaranty purchases are the amount of disbursements for the purchase of defaulted guarantied loans. Outlays for 7(a) loan guaranty approvals are the amount of new guaranty approvals by banks and other SBA lending partners. Outlays for 504 CDC loans guarantied are approvals irrespective of disbursement, net of approval increases, decreases, reinstatements and cancellations for the current year. Outlays for disaster loans are loan disbursements on current year approvals.

4 Prior year data for the program is not available as FY 2023 is the first year program is reporting improper payment data.

5 The Restaurant Revitalization Fund program data pertain to outlays in May 2021 to June 2021, which fell into FY 2022; and April 2022 to March 2023, which fell into FY 2023. Data pertain to these 2 years are reported in FY 2024.

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

7(a) Loan Guaranty Programs

The 7(a) Loan Program is the SBA's most common loan program. The 7(a) Loan Program provides small businesses with short- and long-term working capital, capital to refinance current business debt, and capital for specific business expenditures. Key eligibility factors include what the business does to receive its income, its credit history, and where the business operates.

For the purpose of payment integrity reporting, the 7(a) Loan Program is split into 7(a) Loan Guaranty Approvals and 7(a) Loan Guaranty Purchases.

7(a) Loan Guaranty Approvals

7(a) Loan Guaranty Approvals describes the loan guaranty approval process. The SBA does not make loans directly to borrowers; instead, the SBA provides a guaranty to a lender which makes the loan to a borrower. The SBA delegates authority to certain lenders (13 CFR 120.440) to process, close, service, and liquidate certain 7(a) loans without prior SBA review. Approximately 80 percent of 7(a) loans are approved by lenders under their delegated authority. All loans identified as improper payments in FY 2024 were processed by lenders under their delegated authority.

During the loan guaranty approval review process, the SBA reviews the 7(a) loan for calculation accuracy to ensure that lenders issued the 7(a) loans to eligible borrowers and that loans are made within statutory, regulatory, and SBA-issued guidelines. At the time of loan approval, no monies are disbursed. Improper payments identified during loan review result in no monetary loss to the Government.

Statistical Sampling

For 7(a) approval reviews, the sample cases were chosen using probability proportional to size (PPS) sampling with replacement from all loan guaranties approved during the 12-month period ending March 31, 2024. The approval population was divided into two strata based on whether the loan was SBA Express or not. The SBA determined the appropriate total sample size to be 263 loans from the population. The sample included net guaranteed approvals of $359,870,973 and improper payments of $19,557,305 within the sample. Using the Hansen-Hurwitz estimation method, the estimated improper payments rate for the annual period ending March 31, 2024 was calculated as 5.44 percent. No unknown payments were identified for FY 2024.

The improper payment rate in FY 2023 was 1.31 percent. The increase in the improper payment rate can be attributed to unintentional lender underwriting errors and insufficient documentation.

Tolerable Rates and Reduction Targets

Guidance in Appendix C to OMB Circular A-123 states that "… agency leaders can set Risk Tolerance bands for IPs (Improper Payments) … for each program."

The SBA has established a risk tolerance band for FY 2024 for the 7(a) Loan Guaranty Approval Program improper payments. The risk tolerance band for this program is 2.23 percent to 10.00 percent. The SBA will assess the adequacy of this risk tolerance band annually. In addition to the risk tolerance band, the SBA has also established a target reduction rate for this program of 2.23 percent.

Improper Payment Reviews

7(a) Loan Guaranty Approval reviews are conducted to determine whether lenders complied materially with the 7(a) Loan Program origination requirements, including statutory provisions, SBA regulations, any agreement the lender executed with the SBA, Standard Operating Procedures, Loan Authorizations/Terms and Conditions, and official SBA notices and forms applicable to the 7(a) Loan Program. The reviews are conducted in order to determine if lenders (1) originated the loan in a prudent and commercially reasonably manner, (2) misrepresented or failed to disclose a material fact to the SBA, and/or (3) placed the SBA's financial interest at risk. Loans in the 7(a) Loan Guaranty Approval Program are reviewed at the time of approval; these loans are generally made to the right recipient for the right amount, but in the approval process, lenders failed to follow all statutes and regulations. In these cases, there is no amount that needs to be recovered. However, because the lender failed to adhere to all applicable statutes, the guaranty is considered technically improper.

Actions to Improve Payment Integrity

The SBA revised its 7(a) Loan Servicing and Liquidation Standard Operating Procedure in August of 2023, and issued a second revision in November of 2023. To improve payment integrity, the SBA provided training on the new SOP to lenders in 2023 and continues to provide quarterly

training. The SBA also provides additional training on specific topics throughout the year.

Root Causes and Corrective Actions

Approximately 80 percent of all 7(a) Loan Guaranty Approvals are performed by lenders with delegated authority to evaluate, process, close, and disburse 7(a) loans. Lenders with delegated authority were responsible for all identified improper payments for 7(a) Loan Guaranty Approvals in FY 2024.

Improper payments in the 7(a) Loan Guaranty Approval Program were caused by lenders' failure to verify all components of loan eligibility (program integrity issues, lender preference issues, or the subject business is not eligible), lenders' failure to provide loan documentation, and data entry errors. Because the improper payments for these 7(a) approvals are technically improper, the OMB root cause is identified as Statutory Requirements of Program Were Not Met.

To reduce and/or eliminate the occurrence of future improper payments, a Corrective Action Plan has been developed for the 7(a) Loan Guaranty Approval Program centers. Specific corrective actions are determined based upon the primary reason for the error, with the purpose of both remedying the error and preventing recurrence.

Plans for improvement include the following:

- Collaborating with the Office of Credit Risk Management (OCRM) to recommend that specific lender deficiencies be monitored and incorporated into Risk Based Reviews;
- Collaborating with the Office of Financial Assistance (OFA) to inform OFA of deficiencies identified for potential incorporation into policy, regulatory, or standard operating procedure rewrite or update; and,
- Conducting external training for lenders on policy requirements governing eligibility and appropriate loan structure.

The Office of Financial Program Operations (OFPO) shares the loan level and lender deficiencies identified during the reviews with OCRM and OFA and will continue its efforts throughout the upcoming fiscal year to ensure that lender deficiencies are monitored and recommended to be incorporated into OCRM's Risk Based Reviews and OFA's policy revisions and updates.

Corrective actions for specific loans are tracked at the loan level through a centralized database. The Quality Control Specialists for 7(a) Loan Guaranty Approvals monitors errors from identification through completion of the corrective actions. OFPO management provides oversight to ensure that milestones are met. Improper payments identified as a result of the FY 2024 PIIA reviews have been resolved through recommendations to reduce or cancel the loan guaranty, efforts to obtain additional documentation, and/or referral to other offices. Corrective actions are initiated within 120 days and are generally taken within the fiscal year.

7(a) Loan Guaranty Purchases

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

During the loan guaranty purchase review process, the SBA reviews the 7(a) loan guaranty purchase to determine that the honoring of the guaranty was done appropriately: that the lender complied materially with loan program requirements as defined in 13 CFR 120.110; that the lender made, closed, serviced, and liquidated the loan in a prudent manner; that the lender's improper action or inaction did not place the SBA at risk; and that the lender did not misrepresent or fail to disclose a material fact regarding the loan.

Statistical Sampling

For 7(a) purchase reviews, the sample cases were chosen using PPS sampling with replacement from all purchases approved during the 12-month period ended March 31, 2024. The purchase population was divided into four strata based on the following factors: 1) which servicing office processed the purchase, and 2) whether the loan was considered an early default, regardless of servicing office. The SBA determined the appropriate total sample size to be 284 loans from the population. The sample included aggregate purchase outlays of $314,011,473 and an absolute value of improper payments of $16,243,017 within the sample. Using the Hansen-Hurwitz estimation method, the estimated improper payment rate for the 7(a) guaranty purchase population is 5.34 percent for the annual period ending March 31, 2024. No unknown payments were identified in FY 2024.

The improper payment rate for 7(a) loan guaranty purchases in FY 2023 was 6.15 percent, higher than the rate in FY 2024. This reduction in the improper payment rate is part of a cycle of higher rates followed by lower rates. The

SBA has been consistent throughout the past few years in providing training for staff involved in guaranty purchases.

Tolerable Rates and Reduction Targets

Guidance in Appendix C to OMB Circular A-123 states that "… agency leaders can set Risk Tolerance bands for IPs (Improper Payments) … for each program."

The SBA has established a risk tolerance band for FY 2024 for the 7(a) Loan Guaranty Purchases Program improper payments. The risk tolerance band for this program is 5.78 percent to 10.00 percent. The SBA will assess the adequacy of this risk tolerance band annually. In addition to the risk tolerance band, the SBA has also established a target reduction rate for this program of 5.34 percent.

Improper Payment Reviews

7(a) Loan Guaranty Purchase reviews are conducted to determine whether lenders complied materially with the 7(a) Loan Program origination requirements, including statutory provisions, SBA regulations, any agreement the lender executed with the SBA, standard operating procedures, loan authorizations, and official SBA notices and forms applicable to the 7(a) Loan Program. The reviewers determined whether the lender (1) originated, serviced, and liquidated the loan in a prudent and commercially reasonable manner, (2) misrepresented or failed to disclose a material fact to the SBA, and/or (3) put the SBA's financial interest at risk. Loans in the 7(a) Loan Guaranty Purchase Program are reviewed at the time of guaranty purchase, after the SBA has honored its guaranty.

Actions to Improve Payment Integrity

The SBA revised its 7(a) Loan Servicing and Liquidation SOP in August of 2023, and issued a second revision in November of 2023. To improve payment integrity, the SBA provides quarterly training to lenders. At time of publication, the SBA is in the process of issuing additional revisions to the 7(a) Servicing and Liquidation SOP. The SBA plans to provide training to staff and lenders on the revised SOP.

Root Causes and Corrective Actions

The root cause categories established by OMB are: (1) Statutory Requirements of Program Were Not Met; (2) Unable to Determine Whether Proper or Improper; (3) Data/Information Needed Does Not Exist; (4) Inability to Access Data/Information; and (5) Failure to Access Data/ Information. The root cause for 7(a) Loan Guaranty Purchases improper payments was identified as Failure to Access Data/ Information. Improper payments occurred when purchase processors failed to identify lenders' deficiencies during the evaluating, processing, closing, disbursing, servicing, liquidating, or litigating of an SBA guaranteed loan.

The primary reasons for 7(a) Loan Guaranty Purchase improper payments included improper payment of expenses related to the care and preservation of collateral, failing to properly identify eligibility for debt refinance, and failing to identify the source of equity injections.

To reduce and/or eliminate the occurrence of future improper payments, a Corrective Action Plan has been developed for the 7(a) Loan Guaranty Purchase Centers. Specific corrective actions are determined based upon the primary reason for the error to prevent recurrence of improper payments. The Corrective Action Plan includes:

- Internal training for purchase processors, reviewers, and approvers to determine proper recommendation of guaranty purchase or denial: ensuring that borrower and loan eligibility requirements are met; ensuring that liquidation expenses are appropriate and/or approved, verifying the documentation and accuracy of calculations, ensuring that documentation for account reconciliation is complete, and verifying the proper use of proceeds and reviewing expenses for eligibility of reimbursement.
- Internal feedback provided to center staff regarding the specific loan-level deficiency upon detection.

Corrective actions are tracked at the loan level through a centralized database. The Quality Control Specialists for the 7(a) Loan Guaranty Purchase Centers monitor errors from identification through completion of the corrective action. Headquarters management provides oversight to ensure that milestones are met. Improper payments identified as a result of the FY 2024 PIIA reviews have been resolved through efforts to obtain additional documentation, referral for denial review, collection of funds from the lender, or reimbursement to the lender. Corrective actions were generally completed at the loan level within 60 days, and all actions were taken by the end of the fiscal year.

504 Certified Development Loan Approvals

The 504 Certified Development Company Loan Program provides small businesses with long-term, fixed rate financing for major fixed assets that promote business growth and job creation. 504 loans are available through Certified Development Companies. CDCs are the SBA's community-based partners. They are nonprofit corporations certified and regulated by the SBA to package,

process, close, and service 504 loans in order to promote economic development within their communities. CDCs are certified and regulated by the SBA.

During the loan approval review process, the SBA reviews the 504 loan to ensure that the CDC lender issued the 504 loan to an eligible borrower and that the loan was made within statutory, regulatory, and SBA-issued guidelines.

Statistical Sampling

For 504 loan approval reviews, the sample cases were chosen using PPS sampling with replacement from all loan guaranties approved during the 12-month period ended March 31, 2024. The approval population was not stratified. The SBA determined the appropriate total sample size to be 251 loans from the population. The sample included net approval outlays of $534,672,000 and improper payments of $16,834,314 within the sample. Using the Hansen-Hurwitz estimation method, the estimated improper payments rate for the annual period ending March 31, 2024 was calculated as 3.74 percent. Two loans in the sample were determined to be unknown payments, which extrapolated to an unknown payment rate of 0.80 percent. These two loans were determined to be unknown due to (1) the timing of a divorce settlement and (2) awaiting an appraisal for real estate collateral.

The improper payment rate for 504 loan approvals in FY 2023 was 2.75 percent, and the unknown payment rate was 0.39 percent. One loan was identified as an unknown payment in FY 2023. This loan was later determined to be improper. The increase in the improper payment rate can be attributed to ineligible business models, ineligible use of proceeds, and lack of borrower injection for special purpose projects. In addition, multiple CDCs did not fully resolve all eligibility concerns, to include incomplete project collateral analysis and technical default issues related to existing SBA loans.

Tolerable Rates and Reduction Targets

Guidance in Appendix C to OMB Circular A-123 states that "… agency leaders can set Risk Tolerance bands for IPs (Improper Payments) … for each program."

The SBA has established a risk tolerance band for FY 2025 for the 504 Certified Development Loan Approval Program for improper payments. The risk tolerance band for this program is 3.96 percent to 10.00 percent. The SBA will assess the adequacy of this risk tolerance band annually. In addition to the risk tolerance band, the SBA has also established a target reduction rate for this program of 3.96 percent.

Improper Payment Reviews

The 504 Certified Development Loan Approval reviews were conducted to determine whether CDCs complied materially with the program's origination requirements, including statutory provisions, SBA regulations, any agreement the CDC executed with the SBA, standard operating procedures, loan authorizations, and official SBA notices and forms applicable to the 504 loan program. The reviews were conducted to determine whether CDCs (1) originated the loans in a prudent and commercially reasonable manner, (2) misrepresented or failed to disclose a material fact to the SBA, and/or (3) put the SBA's financial interest at risk.

504 loan reviews are conducted at the time of loan approval. At the time of loan approval, no monies are disbursed. Improper payments identified during loan review result in no monetary loss to the government.

Actions to Improve Payment Integrity

The SBA has revised its origination SOP 50 10, Lender and Development Company Loan Programs, adding several 504 loan program specific requirements. The SBA provided training on the new SOP to lenders in 2023 and continues to provide quarterly training. The SBA also provides additional training on specific topics throughout the year.

Root Causes and Corrective Actions

504 loans are reviewed at the time of approval. These loans are generally made to the right recipient for the right amount, but CDCs failed, in the approval process, to follow all statutes, regulation, and SBA Loan Program requirements. In these cases, there is no amount that needs to be recovered. However, because the CDC lender failed to adhere to all applicable statutes, the loan is considered technically improper.

The predominant reasons for 504 Loan Approval improper payments in FY 2024 were (1) CDCs' failure to determine borrower injection for special purpose projects; (2) CDCs' failure to ensure borrower adhered to all regulations and loan authorization requirements for existing SBA loans; and, (3) CDCs' failure to adequately address all collateral concerns.

The root cause categories established by the OMB are: (1) Statutory Requirements of Program Were Not Met; (2) Unable to Determine Whether Proper or Improper; (3) Data/Information Needed Does Not Exist; (4) Inability to Access Data/Information; and (5) Failure to Access Data/Information. Because the improper payments for these 504 approvals are technically improper, the OMB root cause is

identified as Statutory Requirements of Program Were Not Met.

To reduce or eliminate the occurrence of future improper payments, a Corrective Action Plan has been formalized for the 504 approval center. Specific corrective actions are determined based upon the primary reason for the improper payment with the purpose of both remedying the improper payment and preventing recurrence.

Plans for improvement include the following:

- Collaborating with the Office of Credit Risk Management to recommend that specific lender deficiencies be monitored and incorporated into Risk Based Reviews;
- Collaborating with the Office of Financial Assistance to inform the office of deficiencies identified for potential incorporation into policy, regulatory, or standard operating procedure rewrite or update; and
- Conducting external training for lenders to ensure that appropriate documentation is obtained and analyzed prior to loan approval that policy requirements are met.

The corrective actions are currently in process. The SBA will continue to share the loan level and lender deficiencies identified during the reviews with the OFA and the OCRM. The SBA will also continue its efforts to ensure that CDC deficiencies are monitored.

Because 504 loans are usually reviewed prior to monies being disbursed, resolution of an identified improper payment is usually through obtaining additional documentation from the CDC to remedy the potential improper payment or through cancellation of the loan. There is no monetary outlay at approval, and thus no loss to the Federal Government. Specific corrective actions on loans reviewed are tracked at the loan level through a centralized database. The Quality Control Specialist for 504 approvals monitors errors from identification through completion of the corrective action. Management provides oversight to ensure that milestones are met. All improper payments identified as a result of the FY 2024 PIIA reviews have been resolved through obtaining additional documentation, loan modification, or cancellation of the loan authorization. Corrective actions were generally completed at the loan level within 180 days.

Disaster Assistance Loans

Disaster assistance loans provide low-interest loans to help businesses and homeowners recover from declared disasters. Disaster assistance is available to all businesses located within a declared disaster area, private non-profit organizations, homeowners, and renters affected by declared disasters. Disaster assistance loans can be used to pay for personal or business losses not covered by insurance or funding from other government agencies, as well as for business operating expenses that could have been met had the disaster not occurred. The Disaster Assistance Loan Program is a direct loan program, meaning that the SBA approves and makes the loans and there are no intermediary lenders.

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

Statistical Sampling

For Disaster Assistance Loan Program disbursement reviews, the sample cases were chosen using PPS sampling with replacement from all loan disbursements processed during the 12-month period ended March 31, 2024. The disbursement population was divided into three strata based on the loan type: home loans, business physical loans, and economic injury and disaster loans. A total of 29,325 loans were approved during the improper payment year, with a total loan outlay of approximately $1,175,699,623. The SBA determined the appropriate total sample size to be 239 loans from the population. The sample included net disbursements of $61,274,359 and improper payments of $2,453,500 within the sample. Using the Hansen-Hurwitz estimation method, the estimated improper payment rate for the annual period ending March 31, 2024, was calculated as 3.62 percent with an estimated improper payment amount of $42,536,758. In FY 2024, the SBA did not identify any unknown payments.

The improper payment rate in FY 2023 was 3.93 percent. The decrease in the improper payment rate from FY 2023 to FY 2024 can be attributed to the reorganization and transitioning the disaster program to the Office of Capital Access (OCA). Development and piloting of a new loan processing system, the Unified Lending Platform, has vastly automated the loan processing and disbursement functions. Third party verifications and business rules built into the system aid in the reduction of improper payments by addressing eligibility concerns and verification of loan amounts.

Tolerable Rates and Reduction Targets

Guidance in Appendix C to OMB Circular A-123 states that "… agency leaders can set Risk Tolerance bands for IPs (Improper Payments) … for each program."

The SBA has established a risk tolerance band for FY 2024 for the Disaster Assistance Loan Program for improper payments. The risk tolerance band for this program is 3.50 percent to 10.00 percent. The SBA will assess the adequacy of this risk tolerance band annually. In addition to the risk tolerance band, the SBA has also established a target reduction rate for this program of 3.50 percent.

Actions to Improve Payment Integrity

The SBA is instituting an updated SOP 50 30, disaster assistance program, that streamlines the disaster lending process. Processing automation through the Unified Lending Platform, coupled with the streamlined SOP, specifically addresses the most prevalent causes of improper payments.

Root Causes and Corrective Actions

Disaster assistance loan samples are selected from loan disbursements. A disaster assistance loan may have several disbursements before it is disbursed in full. During the loan review process, the SBA reviews the original loan processing and underwriting, any loan modifications, such as increases in the loan amount or additional borrowers, to determine eligibility of the borrower and whether the amount is appropriate. The SBA also verifies that the amount of loan is commensurate with the amount of damage. Finally, the SBA reviews the actual disbursement to determine that the monies are provided to the right person, in the right amount, and for an eligible use of proceeds.

The root cause categories established by the OMB are: (1) Statutory Requirements of Program Were Not Met; (2) Unable to Determine Whether Proper or Improper; (3) Data/Information Needed Does Not Exist; (4) Inability to Access Data/Information; and (5) Failure to Access Data/Information. The root cause of improper payments in the Disaster Assistance Loan program was Failure to Access Data/Information and Statutory Requirements of Program Were Not Met. The prevalent causes of improper payments stemmed from improper accounting of verified losses on disaster-damaged property, duplication of benefits not adequately addressed, misallocation of loan funds, improper calculation or determination of economic injury eligibility, and closing fees deducted from loans contrary to the Code of Federal Regulations (CFR).

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

Paycheck Protection Program

The CARES Act established the Paycheck Protection Program loans to provide economic relief to small businesses and incentivize small businesses to keep their workers on the payroll because of the COVID-19 pandemic. The SBA separated PPP into three payment integrity reporting categories – PPP Approvals, PPP Forgiveness, and PPP Purchases. PPP ended in May 2021. Although no new PPP funds are being disbursed, borrowers may still request forgiveness for a PPP loan and lenders may request guaranty purchase of a PPP loan. The SBA is reporting under PIIA on these aspects of the program.

Paycheck Protection Program Loan Forgiveness

PPP loans can be forgiven if the funds are used for payroll costs, interest on mortgages, rent, utilities, or other eligible expenses. A borrower can apply for forgiveness once all loan proceeds for which the borrower is requesting forgiveness have been used. Borrowers can apply for forgiveness at any time for up to 5 years from the date that SBA issued the loan number. If borrowers do not apply for forgiveness within 10 months after the last day of the covered period, then PPP loan payments are no longer deferred, and borrowers will begin making loan payments to their PPP lender.

PPP loan forgiveness requests were submitted via SBA's forgiveness platform and, although the lenders and borrowers were required to retain supporting documentation, they were not required to submit that documentation to the SBA. In FY 2024, the SBA requested supporting documentation from lenders in order to review to propriety of PPP forgiveness samples. The SBA reviewed samples to determine whether the borrower was eligible for an SBA loan under 13 CFR 120.110, and whether the borrower met all other regulatory criteria for a PPP loan.

Statistical Sampling

For PPP Loan Forgiveness reviews, the sample cases were chosen using PPS sampling with replacement from all forgiveness outlays processed during the 12-month period ended March 31, 2024. The forgiveness population was divided into three strata based on the lender type: 1) Bank lender, 2) State Regulated Finance Company lender, and 3)

All Other lender types. The SBA determined the appropriate total sample size to be 387 loans from the population. The sample included aggregate purchase outlays of $634,645,517 and an absolute value of improper payments of $33,026,163 within the sample. Using the Hansen-Hurwitz estimation method, the estimated improper payment rate for the PPP Loan Forgiveness population is 21.09% for the annual period ending March 31, 2024. The unknown payment rate for PPP Loan Forgiveness for FY 2024 was 4.06 percent.

In FY 2023, the PPP Loan Forgiveness improper payment rate was 1.94 percent and the unknown payment rate was 38.57 percent. In FY 2023, as a result of the compressed time between documentation requests and reporting improper payment rates, many borrowers and lenders were unable to provide complete documentation. Those PPP loans with documentation requests outstanding were categorized as unknown payments since the SBA did not have sufficient supporting documentation to make a determination as to whether the forgiveness payment was proper or improper. Unknown payments in FY 2024 were again the result of borrowers or lenders which did not provide requested documentation.

In FY 2023, 193 PPP Loan Forgiveness requests in the improper payment sample were categorized as "unknown" payments due to a lack of supporting documentation. The SBA has contacted lenders to obtain missing documentation. As of this writing, 21 of the unknown payments were recategorized as underpayments; 5 of the unknown payments were categorized as proper payments; and 167 unknown payments from FY 2023 remain unknown.

Reduction Targets

The SBA has set a reduction target for PPP Loan Forgiveness at 10.0 percent, the statutory compliance limit, for FY 2025. Meeting this reduction target will also bring this program into compliance with the PIIA.

Root Causes and Corrective Actions

PPP Loan Forgiveness payments are reviewed after the forgiveness has been paid to the borrower. Borrower and lender documentation is reviewed to determine whether the borrower was eligible, whether the loan was free of "hold" codes, and whether required documentation was completed and accurate. The SBA also reviewed forgiveness payments to determine whether the loan amount was documented and calculated correctly.

The predominate reasons for improper payments in PPP Loan Forgiveness were missing or incomplete documentation, and borrower and lender errors in calculation.

The root cause categories established by the OMB are: (1) Statutory Requirements of Program Were Not Met; (2) Unable to Determine Whether Proper or Improper; (3) Data/Information Needed Does Not Exist; (4) Inability to Access Data/Information; and (5) Failure to Access Data/Information. The root cause of these overpayments was Failure to Access Data.

Corrective actions to address the improper payments identified may include, but are not limited to, the following: (1) implementing a quality control review process and/or (2) internally escalating the loan review of a loan for a loan review decision.

Paycheck Protection Program Loan Guaranty Purchases

If a PPP loan is not forgiven, the SBA may purchase (honor) all or part of the PPP loan guaranty. Lenders may request that the SBA purchase the guaranty of a PPP loan in the event of a default or other qualifying event. A lender must have made certain certifications about the loan and supporting information. The SBA reviews the lender's request for guaranty purchase and charge-off in accordance with PPP Loan Program requirements. The SBA will honor its guaranty and will purchase 100 percent of the outstanding balance of the loan provided that the lender has complied with all PPP Loan Program requirements.

PPP Loan Guaranty Purchase requests were submitted via the SBA's PPP platform and, although the lenders were required to retain supporting documentation, they were not required to submit that documentation to the SBA. The SBA requested documentation from lenders for those guaranty purchases that were a part of the sample. PPP guaranty purchase samples were reviewed to determine whether the lender was eligible to receive a loan guaranty payment; whether the lender received required borrower certifications; and, whether the PPP loan met all statutory, regulatory, and internal requirements for payment.

Statistical Sampling

For PPP Loan Guaranty Purchase reviews, the sample cases were chosen using PPS sampling with replacement from all purchases processed during the 12-month period ended March 31, 2024. The purchase population was divided into three strata based on the lender type: 1) Bank lender, 2) State Regulated Finance Company lender, and 3) All Other lender types. The SBA determined the appropriate total sample size to be 386 loans from the population. The

sample included aggregate purchase outlays of $73,001,319 and an absolute value of improper payments of $9,845,368 within the sample. Using the Hansen-Hurwitz estimation method, the estimated improper payment rate for the PPP Loan Guaranty Purchase population is 24.47% for the annual period ending March 31, 2024. The unknown payment rate for PPP Loan Guaranty Purchases in FY 2024 is 0.25 percent.

In FY 2023, the PPP Loan Guaranty Purchase improper payment rate was 1.57 percent and the unknown payment rate was 47.63 percent. In FY 2023, as a result of the compressed time between documentation requests and reporting improper payment rates, many borrowers and lenders were unable to provide complete documentation. Those PPP loans with documentation requests outstanding were categorized as "unknown" payments since the SBA did not have sufficient supporting documentation to make a determination as to whether the forgiveness payment was proper or improper. Unknown payments in FY 2024 were again the result of borrowers or lenders which did not provide requested documentation.

In FY 2023, 178 PPP Loan Guaranty Purchase requests in the improper payment sample were categorized as unknown payments due to a lack of supporting documentation. The SBA has contacted lenders to obtain missing documentation. As of this writing, 117 of the unknown payments were recategorized as proper; 57 of the unknown payments were categorized as improper payments; and 4 unknown payments from FY 2023 remain unknown.

Reduction Targets

The SBA has set a reduction target for PPP Loan Guaranty Purchase at 10.0 percent, the statutory compliance limit, for FY 2025. Meeting this reduction target will also bring this program into compliance with the PIIA.

Root Causes and Corrective Actions

PPP Loan Guaranty Purchase payments are reviewed after the guaranty has been paid to the lender. Borrower and lender documentation is reviewed to determine whether the lender is eligible, and whether the amount of guaranty purchase request equaled the amount in SBA systems. The SBA also verifies that the lender received borrower certifications, including whether the borrower had been in business on or around February 20, 2020. The SBA also checked that the eligible payroll was accurately accounted for.

The predominate reasons for improper payments in PPP Loan Guaranty Purchases were (1) lender's failure to verify that the borrower was in business on February 20, 2020; (2) lender's failure to verify average monthly payroll; and (3) unacceptable or missing identification of the borrower.

The root cause categories established by the OMB are: (1) Statutory Requirements of Program Were Not Met; (2) Unable to Determine Whether Proper or Improper; (3) Data/Information Needed Does Not Exist; (4) Inability to Access Data/Information; and (5) Failure to Access Data/Information. The root cause of these overpayments was Failure to Access Data.

To recover PPP Loan Guaranty improper payments, the SBA will use processes similar to the process used for its 7(a) guaranty purchase portfolio, which begin with demanding repayment from the lender.

Restaurant Revitalization Fund

The American Rescue Plan Act of 2021 established the Restaurant Revitalization Fund to support the ongoing operations of restaurants, bars and other similar food and drink establishments which suffered revenue losses caused by the COVID-19 pandemic. The ARPA became public law on March 11, 2021. The RRF program provided emergency financial assistance to eligible entities equal to their pandemic-related revenue loss up to $5 million per physical location with a maximum of $10 million per applicant and any affiliated businesses. If recipients did not use all the funds for eligible purposes by March 11, 2023, any unused funds were required to be returned to the U.S. Treasury. On July 2, 2021, the SBA announced that the $28.6 billion dollar appropriation had been exhausted and the program closed.

The SBA reviewed awards to determine whether the recipient was eligible for the award, whether the business met all eligibility criteria, whether PPP loan amounts were deducted from the proceeds awarded, and whether the recipient met remaining statutory criteria.

Statistical Sampling

The RRF program was designed to provide emergency financial assistance to eligible restaurants, bars, and other qualifying businesses as a result of the COVID-19 pandemic. In total, the program provided 100,745 awards to eligible program participants, of which 99.83% of those awards were approved and processed between the period May 10, 2021 to June 30, 2021. The remaining disbursements were processed between the period April 1, 2022 through March 31, 2023. The SBA leverages separate sampling and estimation methodologies for each of the distinct RRF disbursement periods and combines

the results of the two estimates to derive improper and unknown payment estimates for the program.

For RRF award reviews, sample cases were chosen using PPS sampling with replacement from all disbursements during the period May 10, 2021 through June 30, 2021. This population was divided into five strata based on their review tier. The SBA determined the appropriate total sample size to be 384 awards from this population. Additionally, a census sample was drawn for all disbursements during the period April 1, 2022, through March 31, 2023. The combined samples included aggregate outlays of $461,969,300 and an absolute value of improper payments of $71,708 within the samples.

Because the improper and unknown payments were calculated from FY 2022 and FY 2023 rates and estimates, the program's rates listed here apply to FY 2022 and FY 2023, and do not apply to FY 2024. The RRF awards included in the sample of 384 awards discussed below were all originated in FY 2021. The estimated program improper payment rate for the RRF grant population is 0.0003 percent. The program's unknown payment rate, the rate that cannot be classified as proper or improper based on available information, for the period was 30.32 percent because at the time of this writing, the SBA had not finalized its review of 122 awards. Based on preliminary findings for these 122 awards, 53 are likely to be an improper payment. For many of these awards, an improper payment does not translate to any intent to commit fraud—for example, for 31 of the awards, there was a calculation error and for an additional 20 awards, there was an eligibility issue such as a hotel that serves food obtaining an award (while inns were eligible, hotels were not). In conducting these post award reviews, SBA has only seen an indication of potential fraud in 4 awards.

Reduction Targets

The RRF program ended on June 30, 2021. FY 2024 improper payment rate estimates encompassed all disbursements for the program. There was no funding for this program in FY 2024, no disbursements will be made in FY 2025, and therefore no improper payment rates will be extrapolated. Further, the SBA has not set a reduction target, as this program has ended.

Actions to Improve Payment Integrity

This program ended in June 2021. The SBA has not planned any actions to improve program integrity that are specific to this program.

Root Causes and Corrective Actions

RRF awards are reviewed after monies are disbursed. The SBA noted five awards with improper overpayments totaling $71,708.00. In each of the awards where an improper payment was noted, the recipient was eligible; however, the amount of the award was calculated incorrectly.

The root cause categories established by the OMB are: (1) Statutory Requirements of Program Were Not Met; (2) Unable to Determine Whether Proper or Improper; (3) Data/Information Needed Does Not Exist; (4) Inability to Access Data/Information; and (5) Failure to Access Data/Information. The root cause of these overpayments was Failure to Access Data.

This program ended in June 2021. No additional RRF disbursements were made in FY 2024, and none will be made in FY 2025. As such, the SBA has not established a corrective action plan specific to this program.

Shuttered Venue Operators Grant Program

The SVOG program was created as a temporary relief program in response to the COVID-19 pandemic, with most disbursements occurring within the first year. Following guidance from OMB and the limitations outlined in Appendix C, which is written for programs with multiple years of disbursements, the SBA is committed to continuing to work with the OMB to perform an improper payment review for the total disbursements made under the SVOG program. The SBA has begun testing a sample population from the SVOG program total program outlays to estimate the rate of improper payments. Budget permitting, the SBA expects to have the improper payment estimates for the SVOG program available in FY 2025.

Payment Recovery Effort

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

7(a) Loan Guaranty Purchases

Overpayments identified in the improper payments' reviews are recaptured from the lender. The Quality Control staff tracks and collects any monetary overpayment. In some instances, the loan is referred to the Guaranty Review Team for further action. Determination of a course of action is made on a case-by-case basis, depending on the specific details of the reason for the improper payment. Refer to section above for corrective action plans to prevent future improper payments.

7(a) Loan Guaranty Approvals and 504 Certified Development Loans Approvals

Overpayments recaptured outside payment recapture audits are not applicable to 7(a) loan guaranty approvals and 504 certified development loans approvals as no payments are made at the time of approval. Improper payments identified through the annual improper payment reviews for the 7(a) loan guaranty approvals program and 504 certified development loans approvals program are resolved through obtaining additional documentation, loan modification, or cancellation of the loan. Improper payments identified as a result of the FY 2024 PIIA reviews have been resolved through obtaining additional documentation, or cancellation or reduction of the loan guaranty and/or referral to other offices within the Office of Capital Access, as appropriate. Determination of a course of action is made on a case-by-case basis, which varies substantially depending on the circumstances of the loan approval and lender's authority.

Disaster Direct Loan Program

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

Paycheck Protection Program Loan Forgiveness

If the SBA determines that the borrower was ineligible for the loan amount or used PPP loan proceeds for unauthorized uses, the SBA may seek repayment of part or all of the outstanding PPP loan balance or pursue other available remedies. If the SBA uncovers information that indicates that the borrower made a material misstatement of fact or provided a false certification, before or after the SBA remits a forgiveness payment to the lender, the SBA may seek repayment of the outstanding PPP loan balance, refer the borrower to the SBA Office of Inspector General, or pursue other available remedies. Further, if the SBA determines that the loan is not eligible for forgiveness (in whole or in part), the borrower must begin paying principal and interest.

Paycheck Protection Program Loan Guaranty Purchases

If the SBA determines that the guaranty purchase was not in accordance with PPP Loan Program requirements, the SBA will request that the lender repay the guaranty purchase funds. In some instances, the loan may be referred to the Guaranty Review Team for further action. Determination of a course of action is made on a case-by-case basis, depending on the specific details of the reason for the improper payment.

Restaurant Revitalization Fund Program

This program ended in June 2021. At the time of this writing, the SBA is investigating legal avenues for collecting on any awards that may be determined to be improper.

Payment Recapture Audits

The SBA conducts costs-benefit analyses, as needed, for programs with over $1 million in disbursements and not covered by a similar cost-benefit analysis completed in prior years. Some of the factors considered include the following: program was not identified as being susceptible to significant improper payments in the last risk assessment, there have been no recent audit findings or reports to suggest that the program is susceptible to improper payments, prior internal control assessments did not identify the program as being susceptible to significant improper payments, and the cost to perform a recovery audit exceeded the potential recovery amount.

Currently, there are costs-benefit analyses for the following programs: 7(a) Business Loan Guaranty Program, the 504 Certified Development Company Loan Guaranty Program, the administrative payroll disbursements,

the administrative travel disbursements, the Boots to Business Program, the Community Navigators Pilot Program, the COVID-19 EIDL program, the Disaster Direct Loan Program, Disbursements for Goods and Services, the COVID-19 EIDL Advance program, Grants (which included all grant programs), the Growth Accelerator Fund Competition Program, the Microloans program, the Office of Entrepreneurial Development's (OED) Resource Partners Training Portal, the Paycheck Protection Program, the Prime Technical Assistance Grants Program, the SCORE Program, the Shuttered Venue Operators Grant Program, the Small Business Development Center Program, the Small Business Investment Company Financing Guaranty Program, the State Trade Expansion Program , the Surety Bond Guarantee Program, and the Veterans Business Outreach Program.

In FY 2024, the SBA did not conduct any recovery audits. As mentioned above, in prior years, the SBA has conducted cost-benefit analyses on programs subject to payment recapture audit, and deemed the costs to perform a payment recapture audit outweighed the benefits of the audit. Although a payment recapture audit is not conducted, the SBA makes every effort to recover any improper payments identified through the improper payment review process or other internal review process.

Agency Improvement of Payment Accuracy with the Do Not Pay Initiative

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

GRANTS PROGRAMS

In accordance with Federal reporting requirements, this report includes a high-level summary of expired, but not closed, Federal grants and cooperative agreements. The summary table below shows the total number of awards and balances for which closeout has not yet occurred, but for which the period of performance has lapsed by two years or more prior to September 30, 2024.

Category	2-3 Years	4-5 Years	More than 5 Years
Number of Grants/Cooperative Agreements with Zero Dollar Balances	231	94	0
Number of Grants/Cooperative Agreements with Undisbursed Balances	203	85	0
Total Amount of Undisbursed Balances	$14,623,362.85	$21,811,380.68	0

The SBA works to continuously improve its grants management process and manage risk. The Agency used the following procedures to assess risk in the Agency's grant closeout process and improve closeout rates:

- Evaluating the nature and type of grants issued to recipients;
- Examining Agency policy and procedures related to grant closeout; and
- Reviewing the consistency of procedures with Federal regulation, industry standards, and other guidance, including but not limited to evaluating the complexities of procedures in the grant closeout process, assessing the population of expired grant accounts, reviewing information systems used to process grant data, assessing challenges, and assessing internal controls.

To maintain 100 percent accuracy in the closeout rate, the Agency developed a second-tier approval mechanism to ensure that all grant awards are in compliance and are accurately closed in its grants management information technology systems. The closeout team reviews the status of grants regularly, including the number of grants by period of expiration, the number with zero-dollar balances, and the number with undisbursed balances.

CIVIL MONETARY PENALTY ADJUSTMENT FOR INFLATION

The Federal Civil Penalties Inflation Adjustment Act of 1990 (Act), as amended, requires agencies to make regular and consistent inflationary adjustments of civil monetary penalties to maintain their deterrent effect. A civil monetary penalty is defined as any penalty, fine, or other sanction that is for a specific monetary amount as provided by Federal law or has a maximum amount provided for by Federal law, is assessed or enforced by an agency pursuant to Federal law, and is assessed or enforced pursuant to an administrative proceeding or a civil action in the Federal courts. To improve compliance with the Act and in response to multiple audits and recommendations, agencies must report the most recent inflationary adjustments to civil monetary penalties to ensure that penalty adjustments are both timely and accurate. Pursuant to the Act, the SBA reviewed each of the penalty amounts under its statutes and adjusted them for inflation when required under the law. The SBA applied a prescribed formula from the Act for calculating the penalty.

The following table reflects the authorities imposing the penalties, the basis for imposing the penalties, the year the penalties were authorized, the current penalty levels, the program offices responsible for imposing the penalties, and the citation for the most recent publication of the penalty updates.

SBA FEDERAL CIVIL PENALTIES

Statutory Authority	Penalty (Name or Description)	Year Enacted	Latest Year of Adjustment (via Statute or Regulation)	Current Penalty Level ($ Amount or Range)	Sub-Agency/ Bureau/Unit	Location for Penalty Update Details
Small Business Investment Act, 15 USC 687g	Failing to File Report Timely for a Small Business Investment Company	1966	2024	$324	Office of Investment and Innovation	89 F.R. 48133 (6/5/24)
Small Business Act, 15 USC 650(j)(1)	Failing to File Report Timely for a Small Business Lending Company	2004	2024	$8,058	Office of Capital Access	89 F.R. 48133 (6/5/24)
Small Business Act, 15 USC 657t(e)(2)(B)	Types of Formal Enforcement Actions	2020	2024	$298,887	Office of Credit Risk Management	89 F.R. 48133 (6/5/24)
Small Business Act, 15 USC 634(b)(6) and Program Fraud Civil Remedies Act 31 USC 3802(d)	Administrative Remedies for False Statements and Claims	1986	2024	$13,946	Multiple offices	89 F.R. 48133 (6/5/24)
Small Business Act, 15 USC 634(b)(6) and Program Fraud Civil Remedies Act 31 USC 1352	Penalty for Violation of Lobbying Restrictions	1990	2024	not less than $24,496 and not more than $244,958	Multiple offices	89F.R. 481-33-4813450004 (6/5/24)

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Section IV

Appendices

| Unaudited

APPENDIX 1 – CONTACT SBA: USEFUL WEBSITES AND PHONE NUMBERS

The SBA home page is www.sba.gov. Information on SBA programs may be accessed from this website. Several of the more frequently visited websites are listed here:

SBA and BUSINESS INFORMATION	
About the SBA	www.sba.gov/about-sba
SBA Performance, Budget & Finances	www.sba.gov/performance
Small Business USA	www.usa.gov/business
Local Assistance	www.sba.gov/local-assistance
Qualifying as a Small Business	www.sba.gov/size
Business Guide	www.sba.gov/business-guide
CAPITAL	
Small Business Loans & Grants	www.sba.gov/funding-programs
Lender Resources	www.sba.gov/lenders
Surety Bonds	www.sba.gov/funding-programs/surety-bonds
Export Products	www.sba.gov/exporting
CONTRACTING	
Government Contracting	www.sba.gov/federal-contracting
Register as a Contractor	www.sam.gov
Contracting Certifications	certify.sba.gov
COUNSELING	
SBA Learning Center	learn.sba.gov
Small Business Development Centers	www.sba.gov/sbdc
Women's Business Centers	www.sba.gov/wbc
SCORE	www.sba.gov/score
Veterans Business Outreach Centers	www.sba.gov/vboc
DISASTER ASSISTANCE	
Disaster Assistance	www.sba.gov/disaster
COVID-19 Relief Options	www.sba.gov/coronavirus
Disaster Assistance Customer Service Center (Toll Free)	**(800) 659-2955**
SBA INFORMATION	
SBA National Answer Desk (Toll Free)	**(800) 827-5722**
Facebook	www.facebook.com/SBAgov
X (formerly Twitter)	www.x.com/sbagov
YouTube	www.youtube.com/sba
Blogs	www.sba.gov/blogs
Instagram	www.instagram.com/sbagov

APPENDIX 2 – GLOSSARY

504 Loan — **504 Certified Development Loan Program**
Provides small businesses with long-term, fixed-rate financing for the purchase of land, buildings, and long-life capital equipment.

7(a) — **7(a) Loan Guaranty Program**
The SBA's primary loan program; it provides general loan financing for a wide variety of purposes.

7(j) — **7(j) Management and Technical Assistance Program**
Provides specialized assistance to underserved small businesses.

7(m) — **7(m) Microloan Program**
Provides small, short-term loans to small businesses and certain types of nonprofit childcare centers.

8(a) — **8(a) Business Development Program**
Assists firms owned and controlled by socially and economically disadvantaged individuals compete for Federal contracts.

A-123 — **Designation for OMB Circular on Internal Control Systems**
Prescribes policies and procedures to be followed by Federal agencies in establishing, maintaining, evaluating, improving, and reporting on internal controls in their program and administrative activities.

AFR — **Agency Financial Report**
An annual report that provides to OMB, Congress, and the public an overview of the Agency's financial and performance data.

AGA — **Association of Government Accountants**
The member organization for Government financial management professionals.

APG — **Agency Priority Goal**
A set of 2-year goals required by GPRAMA that reflect the highest priorities of a Federal agency's leadership.

APR — **Annual Performance Report**
A report that is required by the Government Performance and Results Act and presents a Federal agency's progress in achieving the goals in its strategic plan and performance budget.

ARP(A) — **American Rescue Plan (Act)**
A law that provides relief to individuals and businesses affected by the COVID-19 pandemic.

B2B — **Boots to Business**
An entrepreneurial education and training program offered by the U.S. Small Business Administration as part of the Department of Defense Transition Assistance Program.

BATF — **Business Assistance Trust Fund**
A revolving trust fund in which all donated funds are to be deposited.

BLIF — **Business Loan and Investment Fund**
Assists eligible small businesses through various loan programs.

CAP Goals — **Cross-Agency Priority Goals**
A limited number of Presidential priority areas where implementation requires active collaboration among multiple agencies.

CARES Act — **Coronavirus, Aid, Relief and Economic Security Act**
A $2.2 trillion economic stimulus bill passed in response to the economic fallout of the COVID-19 pandemic in the United States.

CJ — **Congressional Justification**
A Federal agency's annual budget request to Congress.

CDC — **Certified Development Company**
Nonprofit corporations, certified and regulated by the SBA, that work with participating lenders to provide financing to small businesses.

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

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

COVID-19 — **Coronavirus Disease, 2019**
Highly contagious respiratory disease caused by the SARS-CoV-2 virus.

DATA Act — **The Digital Accountability and Transparency Act**
A law that aims to make information on Federal expenditures more easily accessible and transparent.

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

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

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

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

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

EAA — **Economic Aid to Hard-Hit Small Businesses, Non-Profits and Venues Act**
Authorizes the U.S. Small Business Administration to Guarantee additional loans under the temporary Paycheck Protection Program and adds a second temporary program to SBA's 7(a) Loan Program titled, "Paycheck Protection Program Second Draw Loans"

EDP — **Entrepreneurial Development Program**
An account that reports entrepreneurial development expenses.

EIDL — **Economic Injury Disaster Loan**
A grant to provide economic relief to businesses experiencing a temporary loss of revenue due to the COVID-19 pandemic

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

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

FCRA — **Federal Credit Reform Act**
A law enacted to provide a more realistic picture of the cost of U.S. Government direct loans and loan guaranties.

FEMA — **Federal Emergency Management Agency**
Coordinates the response to a disaster that has occurred in the United States.

FEVS — **Federal Employee Viewpoint Survey**
An OPM survey administered to Federal employees that measures perceptions of whether, and to what extent, conditions characteristic of successful organizations are present in their agencies.

FFMIA — **Federal Financial Management Improvement Act**
A law that requires each Federal agency to implement and maintain financial management systems that comply substantially with Federal financial management system requirements, applicable Federal accounting standards and the United States Standard General Ledger.

FISMA — **Federal Information Security Modernization Act**
A law that defines a comprehensive framework to protect Government information, operations, and assets against natural or man-made threats.

FITARA — **Federal Information Technology Acquisition Reform Act**
Legislation to improve the acquisition and management of Federal information technology assets.

FMFIA — **Federal Managers Financial Integrity Act**
A law that primarily requires ongoing evaluations and reports on the adequacy of the internal accounting and administrative control systems of executive agencies. It also requires evaluations and reports on the conformance of financial management systems.

FR — **Financial Report of the U.S. Government**
Record of the United States Government's financial activities.

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

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

FTE — **Full-Time Equivalent**
Indicates the workload of an employed person. An FTE of 1.0 means that the person is equivalent to a full-time worker while an FTE of 0.5 means that the worker is half-time.

FY — **Fiscal Year**
The Federal Government fiscal year begins October 1 and ends the following September 30.

GAAP — **Generally Accepted Accounting Principles**
The standard framework of guidelines for financial accounting generally known as accounting standards or standard accounting practice.

GAO — **U.S. Government Accountability Office**
An independent, nonpartisan agency that investigates how the Federal government spends taxpayer dollars and reports their findings to Congress.

GPRAMA — **Government Performance and Results Act (GPRA) Modernization Act**
A law that modernizes the Federal Government's performance management framework, retaining and amplifying some aspects of the Government Performance and Results Act (GPRA) of 1993 while addressing some of its weaknesses.

GSA — **General Services Administration**
A Federal agency of the Executive Branch whose mission is to deliver the best value real estate, acquisition, and technology services to Government agencies.

GTAS — **Governmentwide Treasury Account Symbol Adjusted Trial Balance System**
Used by Government entities to provide proprietary financial reporting and information about budget execution to the Department of the Treasury.

HHS — **U.S. Department of Health and Human Services**
The Federal agency that aims to protect the health of all Americans and provide essential human services.

HUBZone — **Historically Underutilized Business Zone**
An SBA program that encourages economic development by the establishment of Federal contract award preferences for small businesses located in historically underutilized business zones.

ICD — **Internal Controls Division**
Ensures managers comply with internal control standards.

ICOR — **Internal Control Assessment Over Reporting**
A reporting methodology that manages assets (including data), improves data quality, and reduces compliance-oriented burdens shifting activities to support attaining high quality data.

IPERA — **Improper Payments Elimination and Recovery Act**
A law that requires that agencies examine the risk of, and feasibility of, recapturing improper payments in all programs and activities.

IPERIA — **Improper Payments Elimination and Recovery Improvement Act**
An act to intensify efforts to identify, prevent, and recover payment error, waste, fraud, and abuse within Federal spending.

IPIA — **Improper Payment Information Act**
A law enacted in 2002 to identify and reduce erroneous payments in the Government's programs and activities.

ISS — **Industrial Specialists for Size**
Specialists who perform size determinations for protests

IT — **Information Technology**
Refers to matters concerned with the design, development, installation, and implementation of information systems and applications.

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

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

MAT — **Modification Adjustment Transfer**
A transfer made between the financing account as the general fund.

MRA — **Master Reserve Account**
The SBA's fiscal agent maintains this escrow fund to facilitate operation of the Certified Development Company program.

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

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

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

OPPCFO — **Office of Performance, Planning, and the Chief Financial Officer**
Financial leadership of the Agency, including all disbursements, management, and coordination of planning, budgeting, analysis, and accountability processes.

OCIO — **Office of the Chief Information Officer**
Manages information technology for the Agency, including the design, implementation, and continuing successful operation(s) of information programs and initiatives.

OCRM — **Office of Credit Risk Management**
Manages program credit risk, monitors lender performance, and enforces lending program requirements.

ODR&R — **Office of Disaster Recovery & Resilience**
Promotes economic recovery in disaster-ravaged areas and assists survivors with accessing SBA disaster loans. Disaster loans are the Agency's primary form of Federal assistance for non-farm, private sector disaster losses for individuals and businesses.

OFA — **Office of Financial Assistance**
Oversees the SBA's credit programs that provide capital alternatives for small businesses not adequately served by conventional lending.

OFPO — **Office of Financial Program Operations**
Leads the financial services industry in quality products and services to SBA partners and customers and protects the integrity of SBA programs.

OGC — **Office of General Counsel**
Provides comprehensive legal services to the Administrator and all Agency offices.

OGCBD — **Office of General Contracting and Business Development**
Works to create an environment for maximum participation by small, disadvantaged, and woman-owned businesses in Federal Government contract awards and large prime subcontract awards.

OIG — **Office of Inspector General**
Conducts and supervises audits, inspections, and investigations relating to SBA programs and operations.

OMB — **U.S. Office of Management and Budget**
White House office that oversees preparation of the Federal budget and supervises its administration in Executive Branch agencies.

OPM — **U.S. Office of PersonnelManagement**
The Federal Government's human resources agency.

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

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

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

PPP — **Paycheck Protection Program**
A loan designed to provide a direct incentive for small businesses to keep their workers on the payroll.

PPS — **Probability Proportional to Size**
A method of sampling that takes the varying size of each item within the population into account when selecting the audit sample.

QAR — **Quality Assurance Review**
A review to identify any deficiencies, to include improper payments.

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

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

SBA — **U.S. Small Business Administration**
The Federal agency whose mission is to maintain and strengthen the nation's economy by enabling the establishment and vitality of small businesses and by assisting in the economic recovery of communities after disasters.

SBDC — **Small Business Development Center**
SBDCs provide management and technical assistance, economic development, and management training to existingand prospective small businesses through cooperative agreements with universities and colleges and Government organizations.

SBG — **Surety Bond Guarantee**
Provides guaranties and bid, performance, and payment bonds for contracts up to $2 million for eligible small businesses that cannot obtain surety bonds through regular commercial channels.

SBGRF **Surety Bond Guarantee Revolving Fund**
A fund at the U.S. Department of the Treasury that collects the SBA's contractor and surety fees and is used to pay claims.

SBIC **Small Business Investment Company**
Provides long-term loans, debt-equity investments, and management assistance to small businesses, particularly during their growth stages.

SBIR **Small Business Innovation Research**
A highly competitive SBA program that encourages domestic small businesses to engage in Federal research/research and development that has the potential for commercialization.

SBLC **Small Business Lending Company**
Non-depository small business lending companies listed by the SBA Office of Capital Access.

SE **Salaries and Expenses**
Operating expenses of the Agency.

SMC **Senior Management Council**
Established by the Administrator to ensure the SBA has an effective system of internal controls.

SOP **Standard Operating Procedure**
The primary source of the Agency's internal control.

STEP **State Trade Expansion Program**
Makes matching fund awards to States to help small businesses enter and succeed in the internal marketplace.

SVOG **Shuttered Venues Operator Grant**
COVID-19 relief program authorized under the American Rescue Plan.

TAP **Transition Assistance Program**
Collaborative program between Federal agencies to assist active duty service members' transition to civilian life through access to employment workshops and other services.

USEAC **U.S. Export Assistance Center**
Centers located nationwide that help firms grow internationally by assisting in developing a plan of action with solutions tailored to their needs.

USSGL **The United States Standard General Ledger**
Provides a uniform chart of accounts and technical guidance for standardizing Federal agency accounting.

VBOC **Veterans Business Outreach Centers**
Provide entrepreneurial development services such as business training, counseling, and mentoring, and referrals for eligible veterans owning or considering starting a small business.

WBC **Women's Business Centers**
Provide long-term training and advising to women who own or manage a business, including financial, management, marketing, and technical assistance and procurement.

WCF **Working Capital Fund**
A fund for IT modernization efforts.

WOSB **Women-Owned Small Businesses Program**
Allows Federal agencies to set aside certain contracts for competition only among small businesses owned and controlled by women

APPENDIX 3 – OIG AUDIT FOLLOW UP ACTIVITY

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

The SBA maintains a database to track the recommendations through to the conclusion, or Final Action. During FY 2024 there were 116 Final Actions, resulting from 11 monetary and 106 non-monetary recommendations.

The following tables depict the SBA's Final Action activity for FY 2024 and the status of corrective action plans not implemented within one year:

- Table I: Final Action on Audit Recommendations with Disallowed or Questioned Costs
- Table II: Final Action on Audit Recommendations with Funds Put to Better Use
- Table III: Final Action on Audit Recommendations Not Completed within One Year

Table I

Final Action on Audit Recommendations with Disallowed or Questioned Costs

October 1, 2023 – September 30, 2024

Recommendations	Number of Recommendations	Disallowed Costs
A. Recommendations with management decisions on which final action had not been taken at the beginning of the period.	11	$ 4,868,703,005
B. Recommendations on which management decisions were made during the period.	6	$ 9,084,426,877
C. Total recommendations pending final action during period.	17	$ 13,953,129,882
D. Recommendations on which final action was taken during the period.		
1. Recoveries:	1	$ 1,969,200
a. Collections and Offsets		
b. Property		
c. Other		
2. Write-Offs		
3. Total	1	$ 1,969,200
E. Recommendations needing final action at the end of the period.	10	$ 9,027,184,651

Table II

Final Action on Audit Recommendations with Funds Put to Better Use

October 1, 2023 - September 30, 2024

Recommendations	Number of Recommendations	Funds to Be Put to Better Use
A. Recommendations with management decisions on which final action had not been taken at the beginning of the period.	0	$0
B. Recommendations on which management decisions were made during the period.	0	$0
C. Total recommendations pending final action during period.	0	$0
D. Recommendations on which final action was taken during the period.		
1. Value of recommendations implemented (completed).	0	$0
2. Value of recommendations that management concluded should not or could not be implemented or completed.	0	$0
3. Total	0	$0
E. Recommendations needing final action at the end of the period.	0	$0

Table III

Final Action on Audit Recommendations Not Completed within One Year As of September 30, 2024

Report #20-03 Audit of SBA's Oversight of High-Risk Lenders

Program: OCA

Date Issued: 11/12/2019

Management Decision Date: 11/15/2019

Explanation: 6 Recommendations.

Recommendations 3, 4 and 6 have been closed by OIG.
Recommendation 1: Significant improvements in the lender oversight procedures have been implemented and will be included in the revised SOP 51 00 2, which The SBA is expecting to finalize and publish in the revised SOP in Q2 FY 2025.
Recommendation 2: The SBA is in communication with OIG seeking resolution as OIG denied the SBA's request for closure on 9/27/2024.
Recommendation 5: The SBA's communication plan has been implemented. The SBA is revising the SOP 21 00 2 to include the communication protocol. This recommendation is currently anticipated to be remediated in Q1 FY 2025.

Report #20-20 Audit of SBA's Compliance with the Debt Collection Improvement Act, as Amended

Program: OCA

Date Issued: 9/30/2020

Management Decision Date: 9/30/2020

Explanation: 10 Recommendations.

Recommendations 4 and 9 have been closed by OIG.
Recommendation 1: The SBA is currently revising documentation to resubmit a request for closure which was previously rejected by OIG.
Recommendations 2, 3, and 8 are currently tied to a memorandum that is being approved by SBA leadership.
Recommendations 5, 6, and 7: The SBA is actively working to remediate these recommendations.
Recommendations 1, 2, 3, 5, 6, 7, 8 and 10 are currently anticipated to be remediated in Q1 FY 2025.

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

Program: OCA

Date Issued: 1/14/2021

Management Decision Date: 12/9/2021

Explanation: 1 Recommendation.

Recommendations 2 and 3 have been closed by OIG.
Recommendation 1: The SBA is reviewing loan documentation to support an updated closure request for this recommendation, after OIG advised that they needed to perform some additional analysis. This recommendation is currently anticipated to be remediated in Q1 FY 2025.

Report #21-08 General Management Advisory SBA's Use of Vendors Without a Contract

Program: OCA

Date Issued: 2/3/2021

Management Decision Date: 2/2/2023

Explanation: 3 Recommendations.

Recommendation 2 has been closed by OIG.
Recommendations 1 and 3 were previously submitted for closure by the SBA, however the closure requests were rejected by OIG. The SBA is currently working with OIG to establish a clear path toward closure for recommendation 1. Currently, recommendation 1 is anticipated to be completed in Q1 FY 2025.
Recommendation 3 will likely require resolution by the Audit Follow-Up Official, as the SBA and OIG are at an impasse regarding the recommendation.

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

Program: OCA

Date Issued: 3/15/2021

Management Decision Date: 3/31/2021

Explanation: 4 Recommendations.

Recommendations 2, 3, 4 have been closed by OIG.
Recommendation 1: The SBA is actively working to remediate this recommendation. The SBA is currently reviewing the loan population and may request additional supplemental documentation, as needed. This recommendation is currently anticipated to be remediated in Q1 FY 2025.

Report #21-14 Audit of SBA's Oversight of Women's Business Centers' Compliance with Cooperative Agreement Financial Requirements

Program: OED

Date Issued: 5/04/2021

Management Decision Date: 3/31/2021

Explanation: 8 Recommendations.

Recommendations 1,4,5,6 and 8: The SBA will update and implement the Office of Women's Business Ownership SOP. The SBA anticipates resubmitting updated closure requests for these recommendations in Q1 FY 2025.
Recommendations 2, 3 and 7: The SBA will develop a summary that crosswalks the costs that were disallowed and recovered, and the costs that were allowed. These recommendations are currently anticipated to be remediated in Q1 FY 2025.

Report #22-01 SBA's Emergency Economic Injury Disaster Loan Grants to Sole Proprietors and Independent Contractors

Program: OCA

Date Issued: 10/07/2021

Management Decision Date: 8/22/2022

Explanation: 1 Recommendation.

Recommendation 1: The SBA's remediation work is ongoing and taking longer than expected. Implementation of the process and procedure to close out the work has been scheduled and is an ongoing project for the SBA. This recommendation is currently anticipated to be remediated in Q1 FY 2025.

Report #22-07 SBA's Oversight of the Grant Recipient's Implementation of the CARES Act Resource Partners Training Portal

Program: OED

Date Issued: 1/18/2022

Management Decision Date: 4/4/2022

Explanation: 5 Recommendation.

Recommendations 1, 3, and 4 were closed by OIG.
Recommendations 3 and 5: The OIG did not approve SBA's request to close recommendations 3 and 5. The SBA and OIG have arrived at an impasse; the SBA is awaiting OIG's memo to the Audit-Follow-Up Official to request assistance in resolving the impasse.

Report #22-08 SBA's Business Development Assistance to 8(a) Program Participants

Program: GCBD

Date Issued: 2/14/2022

Management Decision Date: 11/10/2022

Explanation: 8 Recommendations.

Recommendations 3, 4, 7, and 8 have been closed by OIG.
Recommendations 1, 2, 5 and 6: The SBA issued Procedural Notice 6000-836899, mandated the use of the BOS Analysis Workbook, and updated the SOP to clarify business plan review requirements and detail business development actions. Actions have been completed and the SBA plans to submit documentation for closure in Q1 FY 2025.

Report #22-11 Fiscal Year 2021 Federal Information Security Modernization Act Review

Program: OEMISS

Date Issued: 4/28/2022

Management Decision Date: 4/29/2022

Explanation: 10 Recommendations.

Recommendations 1, 3 - 10– Closed by OIG.
Recommendation 2: The SBA's conducted a re-organization of its Continuity of Operations (COOP) team in FY 2024 to improve efficiency, creating the Office of Executive Management, Installation and Support Services (OEMISS)/Office of Administrative Services (OAS). Significant coordination is needed across the Agency, including program offices and the Chief Information Officer, to adequately plan and prepare for the COOP exercise. The SBA intends to also align the timing of this exercise to enable the SBA to participate in Eagle Horizon 2025, a national-level exercise, which is currently anticipated to be held in Q3 FY 2025.

Report #22-17 COVID-19 Economic Injury Disaster Loan Applications Submitted from Foreign IP Addresses

Program: OCA

Date Issued: 9/12/2022

Management Decision Date: 10/6/2022

Explanation: 2 Recommendations.

Recommendations 1 and 2 were submitted for closure in Q4 FY 2024 and are awaiting a decision from OIG.

Report #22-19 COVID-19 and Disaster Assistance Information Systems Security Controls

Program: OCIO

Date Issued: 9/27/2022

Management Decision Date: 11/23/2022

Explanation: 10 Recommendations.

Recommendations 3, 4, 6, and 9 have been closed by OIG.
Recommendations 1 and 2: The SBA is currently drafting the System Development Methodology SOP. Recommendations 1 and 2 are currently estimated to close in Q1 FY 2025.
Recommendation 5: Engagement with the Enterprise Risk Management team is underway to provide OIG a well-documented, implemented, and proof of concept towards strengthening the perimeter and core of privacy and identity risks. This recommendation is currently estimated to close in Q1 FY 2025.
Recommendations 7 and 10: A new tool is currently going through procurement. Once procured, the SBA will install, attend training, and validate that the tool is working appropriately. Recommendations 7 and 10 are currently anticipated to be remediated by Q2 FY 2025.
Recommendation 8: Procurement is underway in support of this recommendation. This recommendation is currently anticipated to be remediated in Q1 of FY 2025.

Report #22-21 Paycheck Protection Program Eligibility for Nonprofit Organizations

Program: OCA

Date Issued: 9/26/2022

Management Decision Date: 6/3/2024

Explanation: 2 Recommendations.

Recommendation 2 has been closed by OIG.
Recommendation 1: The SBA is reviewing the loans identified in this recommendation. This recommendation is currently anticipated to be remediated in Q3 FY 2025.

Report #22-25 SBA's Guaranty Purchases for Paycheck Protection Program Loans

Program: OCA

Date Issued: 9/30/2022

Management Decision Date: 8/26/2024

Explanation: 3 Recommendations.

Recommendation 1 has been closed by OIG.
Recommendations 2 and 3: The SBA is preparing documentation to resubmit to OIG in updated closure packages. Both recommendations are currently anticipated to be remediated by Q1 FY 2025.

Report #23-03 FY 2022 Federal Information Security Modernization Act Review

Program: OCIO

Date Issued: 12/13/2022

Management Decision Date: 12/16/2022

Explanation: 6 Recommendations.

Recommendations 1, 4, and 6 were closed by OIG.
Recommendations 2 and 3: A new tool is currently going through procurement. Once procured, the SBA will install, attend training, and validate that the tool is working appropriately. Recommendations 2 and 3 are anticipated to be completed in Q2 FY 2025.
Recommendation 5: Procurement is underway in support of this recommendation. This recommendation is currently anticipated to be completed by Q1 2025.

Report #23-10 SBA's Administrative Process to Address Potentially Fraudulent Restaurant Revitalization Fund Awards

Program: OCA

Date Issued: 7/5/2023

Management Decision Date: 8/15/2023

Explanation: 1 Recommendation.

Recommendations 1: The SBA is currently reviewing the RRF awards identified in this recommendation. This recommendation is currently anticipated to be remediated by Q1 FY 2025.

Report #23-11 SBA's Awards for Staffing Support for COVID-19 Economic Relief Loan Programs

Program: OPPCFO

Date Issued: 7/26/2023

Management Decision Date: 8/20/2024

Explanation: 4 Recommendations.

Recommendations 2 – 4 have been closed by OIG.
Recommendation 1: The SBA Procurement has updated its SOP. Updates are expected to be made effective during Q1 FY 2025 at which time the SBA will submit a request to close this recommendation.

Report #23-12 SBA's Corrective Actions to Improve Oversight of the SCORE Association

Program: OED

Date Issued: 9/21/2023

Management Decision Date: 10/25/2023

Explanation: 1 Recommendation.

Recommendation 1 was submitted for closure in Q4 FY 2024 and is currently pending a decision from OIG.

Report #23-15 SBA's Oversight of Restaurant Revitalization Fund Recipients

Program: OCA

Date Issued: 9/29/2023

Management Decision Date: 5/6/2024

Explanation: 6 Recommendations.

Recommendations 1, 5, and 6: The SBA is actively working to remediate these recommendations. This work is dependent upon formal internal guidance to begin the process of finalizing procedures to recover unused funds.
Recommendation 2: The SBA requested additional time to document reviews of the identified award recipients.
Recommendation 3: The Management Decision was approved by OIG and is currently estimated to be remediated in Q3 FY 2025.
Recommendation 4: The SBA requested an extension to assess the post-award review process and manpower requirements to ensure post award reviews are conducted in a prompt manner.

Report #23-16 Ending Active Collections on Delinquent COVID-19 Economic Injury Disaster Loans

Program: OCA

Date Issued: 9/29/2023

Management Decision Date: 8/20/2024

Explanation: 5 Recommendations.

Recommendations 1, 2, and 4 have been closed by OIG.
Recommendations 3 and 5: The SBA is actively working to remediate these recommendations by implementing a system to flag the multiple identified COVID-19 EIDL loans for recommendation 3, and producing the supporting documentation that OIG cited would be sufficient to close recommendation 5. These recommendations are currently anticipated to be remediated in Q1 FY 2025.

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U.S. Small Business Administration

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