Fiscal Year 2025



Agency Financial Report



About This Report

The U.S. Small Business Administration's Agency Financial Report (AFR) for FY 2025 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 2025 Annual Performance Report** (APR) is the other report and is part of the **FY 2027 Congressional Budget Justification** (CBJ). The CBJ/APR is scheduled for publication in early 2026. The reports can be found at: **www.sba.gov/performance**.

FY 2025 Highlights

(Dollars in Thousands)

	FY 2025 (unaudited)	
Principal Program Portfolio[1]	$	500,214,152
Total Assets	$	248,410,141
Total Liabilities	$	255,879,428
Total Net Position	$	(7,469,287)
Total Net Cost of Operations	$	12,124,418
Total Budgetary Resources	$	48,815,506

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

For More Information

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

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

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

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

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The 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 2025 Agency Financial Report** (AFR) provides financial and performance information for the fiscal year beginning October 1, 2024, and ending September 30, 2025. 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 Consolidated Balance Sheet and related Notes. It includes a message from the Chief Financial Officer, the audit transmittal memorandum from the Inspector General, and the Independent Auditors' report.

OTHER INFORMATION



The Other Information section includes the other financial statements and notes. This section also includes the Inspector General's report on the Agency's most serious management and performance challenges along with recommended actions and a summary of the financial statement audit and management assurances. Additionally, the required supplementary information provides a combined statement of budgetary resources.

APPENDICES



The Appendices provide supporting information, including a contact list of useful websites and telephone numbers, a glossary, and a detailed report on audit follow-up activity.

Message From The Administrator



January 21, 2026

I'm pleased to report record results for the U.S. Small Business Administration (SBA) in Fiscal Year (FY) 2025. Under President Donald J. Trump's leadership, this Administration is reversing the damage of the Biden Administration's failed economic policies. Accordingly, the SBA has restored the agency to its founding mission, along with reinstating long-absent financial and operational integrity. The era of mismanagement, neglect, incompetence, and a lack of oversight has ended – along with the bureaucratic expansion, partisan bias, and racial discrimination that characterized the last four years.

The agency-wide reforms that the Trump SBA were able to effect in the span of just one year are consistent with the urgency and quality with which the Trump Administration is executing. There's perhaps no clearer indication of that than in our independent audit, which showed that reversal of the deteriorating risk posture of the agency is well under way. The FY25 audit by KPMG resulted in a 50% reduction in just one year of the agency's material weaknesses, significant deficiencies, and audit recommendations. It also marked the first year that these issues were isolated solely to the pandemic-era programs, and that is the result of our exceptional agency-wide leadership team.

From 2020-2024, the agency doubled in size with a headcount that remained at pandemic-era staffing levels although the pandemic had long-since concluded. The vast majority – 90% – of employees worked from home, as the agency spent hundreds of millions on wasteful grants, contracts and purchases. The SBA poured resources into partisan programs like the Green Lender Initiative, DEI contracting, and voter registration campaigns for their political constituencies ahead of the 2024 presidential election.

Amid the vacuum of focus on small businesses in favor of a political agenda, the agency's core programs suffered. The Biden SBA reduced prudent underwriting standards within the core 7(a) loan program, generating rising defaults, declining bank participation, and ending Fiscal Year 2024 with negative cash flow for the first time in more than a decade. Basic and common-sense guardrails like citizenship and birth date verification were nonexistent. The SBA's Inspector General uncovered an estimated $200 billion in Paycheck Protection Program (PPP) and Covid Economic Injury Disaster Loan (EIDL) fraud, which the agency refused to investigate – exposing taxpayers to substantial losses. In federal contracting, the 8(a) Business Development Program was arbitrarily expanded – advancing the interests of "socially and economically disadvantaged" small businesses to advance DEI at the expense of deserving veteran- and women-owned small businesses.

Against this backdrop, the Trump SBA returned to its founding mission of empowering job creators, delivering disaster relief, and driving economic growth - grounded in financial discipline, program integrity, fighting fraud and responsible oversight of taxpayer resources. Being able to identify our progress on these issues, address opportunities to improve, and to report to you are just a few of the reasons I called for an immediate audit upon being sworn in.

FY25 marked a pivotal year in the fight to restore financial stewardship across the agency. SBA restored strong underwriting standards within the 7(a) and 504 loan programs, and reimplemented lender fees to preserve the zero-subsidy status that ensures our loan guarantees remain self-funding. Across the agency, SBA actioned common-sense oversight, risk management, and internal audit and compliance practices to ensure that every dollar deployed aligned with statutory intent and sound financial standards. Along with our action to immediately terminate the partisan programs of the past and launch multiple fraud investigations, these actions were taken deliberately to protect the long-term solvency of SBA programs, reinforce lender confidence, and reduce taxpayer exposure.

As a result of these reforms, the SBA delivered record levels of capital while improving portfolio quality and operational discipline. During FY25, the agency guaranteed 85,000 loans through its 7(a) and 504 programs, totaling $44.8 billion, resulting in a record year for capital access in SBA's 72-year history. On average, the SBA approved 1,615 small business loans per week, supporting our job creators and economic growth while renewing underwriting rigor.

Meanwhile, the agency launched numerous investigations and audits to root out fraud – working to hold criminals accountable in partnership with law enforcement. The agency initiated a nationwide investigation into PPP and EIDL fraud, as well as a full-scale audit of the 8(a) Program. Amid its effort to end waste and abuse within the federal contracting marketplace, the agency also continued clearing legacy backlogs – most notably in the Veteran Small Business Certification Program – ensuring timely, accurate, and compliant determinations for eligible firms. These actions underscore the agency's zero-tolerance approach to waste, fraud, and abuse – and its commitment to preserving taxpayer funds on behalf of legitimate job creators.

Following the Biden SBA's failure to ensure adequate disaster funding in 2024, the Trump SBA restored integrity to the disaster assistance program, which is a critical component of the SBA's lending operations. In FY25, the agency delivered over $6 billion in disaster assistance, supporting more than 51,000 disaster loans with improved loan approvals in just 17 days, while maintaining strict eligibility and credit controls to protect taxpayer funds.

The SBA's Small Business Investment Company (SBIC) program also closed FY25 at a historic high, reaching $53 billion in combined private capital and SBA leverage, reflecting strong investor confidence and disciplined risk management. This growth was achieved while maintaining oversight standards designed to protect the government's position and ensure long-term program viability as another zero-subsidy program to drive growth and innovation without taxpayer cost burdens.

Collectively, these results powered over $100 billion in a single year to drive the private sector forward, while reflecting a renewed commitment to financial integrity, transparency, and accountability. The SBA's FY25 performance demonstrates that strong oversight and record capital delivery are not competing priorities, but complimentary ones. By restoring discipline, and focusing on measurable outcomes, in just one year, the SBA is already better positioned to support America's entrepreneurs, Main Streets and workers, while upholding the highest standards of fiscal responsibility.

As we look ahead, we are more committed than ever to continuous improvement, modernization, rigorous oversight, accountability for fraud, and responsible stewardship of taxpayer resources. I am confident that the reforms implemented in FY25 have strengthened the foundation of SBA programs

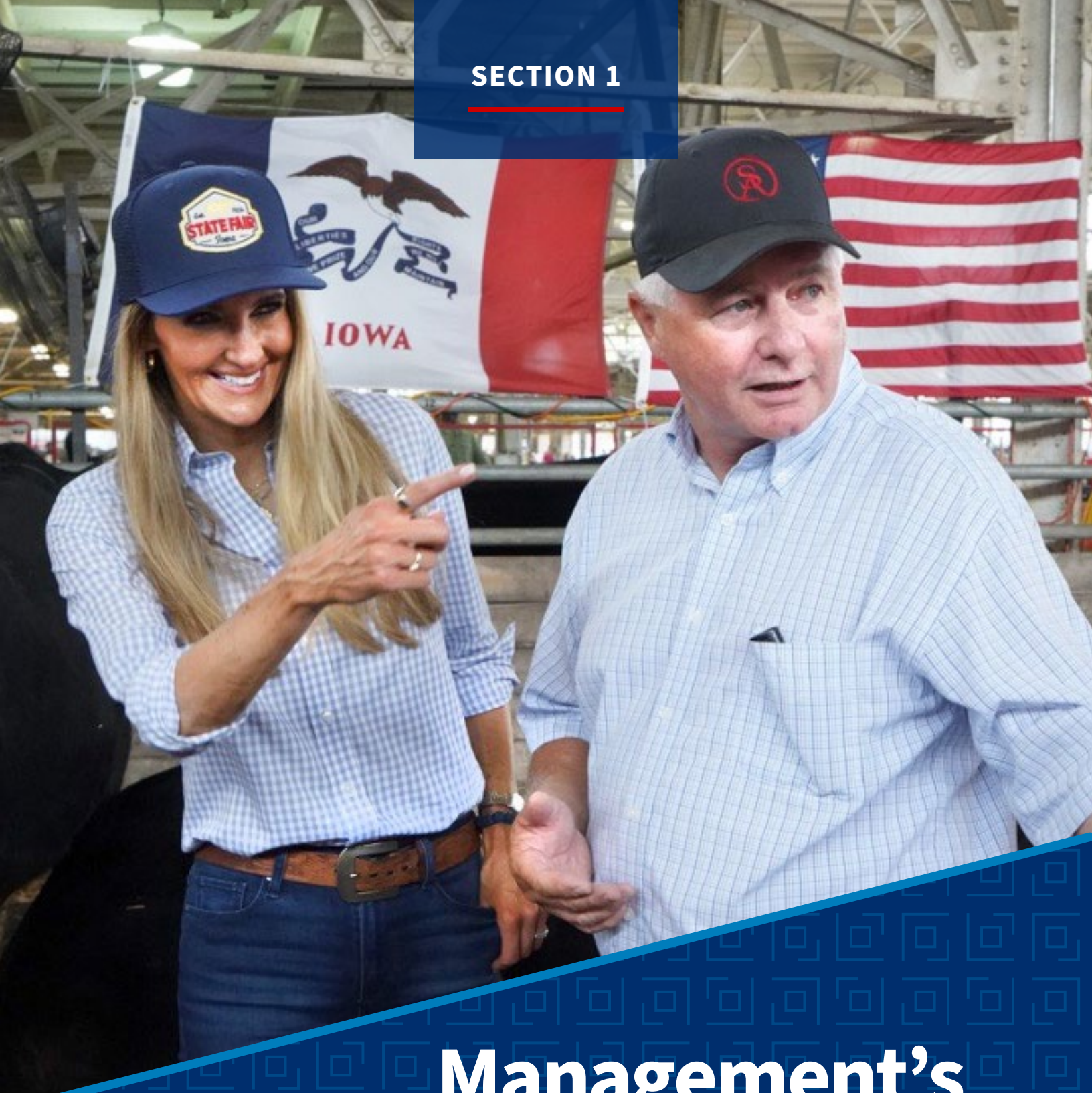
and will continue to deliver durable, transparent, and auditable results for America's small businesses.

Sincerely,



Kelly Loeffler
28th Administrator

SECTION 1



Management's Discussion and Analysis

(UNAUDITED)

The SBA's Organization and Mission

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., and 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.

The SBA is currently developing the **FY 2026-2030 Strategic Plan** which will outline current SBA priorities and how the work of SBA offices supports those priorities. The plan will be found at the following site: **https://www.sba.gov/document/support-sba-strategic-plan**. For more information on current SBA priorities and plans, please reference the **FY 2026 Congressional Budget Justification** and **FY 2026 Annual Performance Plan** documents which can be found at the following site: **https://www.sba.gov/document/report-congressional-budget-justification-annual-performance-report**.

Executive Summary

America's 36 million small businesses play a critical role in job creation and retention. During the last two decades, small businesses have been responsible for creating two out of every three net new jobs. In turn, the U.S. Small Business Administration's assistance to those firms and entrepreneurs helps drive a healthy economy.

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

The following sections highlight financial and performance results for the Agency. Additional information can be found in the Analysis of Financial Results and Summary of Performance Results sections. The complete set of performance results will be reported in the Annual Performance Report to be published in early 2026.

FINANCIAL RESULTS

The loans receivable portion of the SBA credit program portfolio is $234.3 billion driven by new loans disbursed of $3.5 billion, loans purchased of $5.2 billion and collections of $9.3 billion.

For FY 2025, the SBA's total budgetary resources were $17.3 billion, primarily used for staffing, operations, and $12.5 billion in loan subsidy costs. Approximately $2.3 billion remains available for future obligations. Total nonbudgetary resources for loan financing used to make direct loans and purchase guaranteed loans in default were $31.5 billion. These resources supported $26 billion in obligations, with the remaining balance available for future-year obligations or will be returned to Treasury.

The SBA's guarantied portion of the outstanding loan principal increased by $6.1 billion in FY 2025 to $145.6 billion. During FY 2025, new guaranties disbursed by SBA participating banks were $31.8 billion. (Note 5E)

In FY 2025, SBA purchased $5.2 billion in defaulted guaranteed loans to honor SBA's guaranties which exceeded the additional resources available to fund these claim payments (Note 14B), reflecting higher-than-expected defaults within the guarantied loan portfolio.

PERFORMANCE RESULTS

Capital: In FY 2025, the SBA approved over $45 billion, or more than 84,000 7(a) and 504 loans to small businesses; 7(a) loans, 504 loans, microloans, and surety bonds helped to support more than 897,000 American jobs. During FY 2025 the SBA invested more than $5.7 billion in over 1,100 small businesses through the Small Business Investment Company program, which supported over 154,000 jobs.

Contracting: The SBA continued to partner with agencies across the Federal Government to expand small business contracting opportunities. In FY 2024, small businesses were awarded over $183.5 billion in federal contracts. FY 2025 contracting numbers continue to be collected and certified.

The Federal Government continued to exceed its service-disabled veteran-owned small business contracting goals but will face challenges meeting its small disadvantaged, HUBZone, and women-owned small business contracting goals.

Counseling: The SBA helped entrepreneurs start more than 26,000 new businesses in FY 2025 and served over 660,000 unique clients. Additionally, in FY 2025, hundreds of thousands of American small businesses took advantage of counseling, mentoring, and training assistance through the SBA network, which includes 150 Women's Business Centers (WBC), the largest WBC network in the SBA's history, and 31 Veterans Business Outreach Centers (VBOC).

Disaster Assistance: In FY 2025, the SBA approved more than 51,000 direct disaster loans for events such as floods, hurricanes, and tornadoes, totaling nearly $6 billion. The Agency managed 449 disaster assistance declarations during FY 2025.

The SBA's Principal Programs

CAPITAL

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

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

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

Surety Bond Guarantees—A surety bond is a type of contract that guarantees the performance of a contractor. If one party does not fulfill its end of the bargain, the SBG program provides financial compensation to the other party. The SBA guarantees bonds issued by a surety company to encourage the surety company to provide bonds to small businesses, up to $6.5 million for non-federal contracts and up to $10 million for federal contracts.

INVESTMENT AND INNOVATION

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

Small Business Innovation Research—The SBIR program stimulates high-tech innovation by reserving a specific percentage of federal research and development funds for small businesses.

Small Business Technology Transfer—The STTR program reserves a specific percentage of federal research and development funding to award to small business and nonprofit research institution partners.

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

Growth Accelerator Fund Competition Program–GAFC provides $50,000-$200,000 in funding to accelerators, incubators, co-working communities, makerspaces, and other organizations that provide entrepreneurial support, mentorship, and assistance to STEM/R&D entrepreneurs.

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

EXPORTING

Export Loans—The SBA provides several types of export loans, including SBA Export Express loans (up to $500,000), Export Working Capital loans (up to $5 million), and International Trade loans (up to $5 million) that provide small businesses with enhanced export financing options to develop foreign markets, fund their export transactions, and/or support business expansion due to exporting success. 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 are staffed by SBA, Department of Commerce, and Export-Import Bank professionals. Together, their mission is to help small- and medium-sized businesses compete in today's global marketplace by providing export marketing and finance assistance.

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

CONTRACTING AND BUSINESS DEVELOPMENT

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 9 years, a firm is assisted in gaining resources to compete for federal contracts and for contracts in the private sector.
- **HUBZone Small Businesses**—This program provides sole-source and set-aside contracting for firms located in designated economically disadvantaged geographical areas.
- **Veteran-Owned Small Businesses and Service-Disabled Veteran-Owned Small Businesses**—Certified VOSBs have additional opportunities to pursue sole-source and set-aside contracts at the Department of Veteran's Affairs. The SDVOSB program allows federal agencies to set aside contracts for competition only among service-disabled veteran-owned small businesses.

- **Women-Owned Small Businesses**—This program allows 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 WOSBs.

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

COUNSELING AND TRAINING

Small Business Development Centers—SBDCs deliver an array of services to small businesses and prospective business owners using a network of 63 lead centers managing 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 offered by the SBA as part of the Department of Defense Transition Assistance Program (TAP). The course provides an overview of entrepreneurship and applicable business ownership fundamentals. Active-Duty Service members (including National Guard and Reserve), veterans of all eras, and 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 that serve entrepreneurs with in-person mentoring and local training workshops. As the largest volunteer business mentor network in the Federal Government, SCORE adapts its structure and services to meet the needs of small businesses.

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

Community Navigator Pilot Program—Through the Community Navigator Pilot Program, the SBA 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 for the long-term repair and rebuilding of disaster-damaged private property for homeowners, renters, businesses of all sizes, and private nonprofit organizations. It is the only form of SBA assistance that is not limited to small businesses.

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

Analysis of Performance Results

SUMMARY OF PERFORMANCE RESULTS

The following section presents key FY 2025 performance data. The presentation is organized by key programmatic functions of the Agency. Detailed information on SBA program performance data, including explanations of variances, will be presented in the FY 2025 Annual Performance Report to be published in early 2026.

Access to Capital, Investment & Innovation, and Contracting & Business Development

Performance Measure	FY 2025 Goal	FY 2025 Actual
Number of Jobs Supported by 7(a) Loans, 504 Loans, Microloans, and Surety Bonds	762,500	897,145
Number of Jobs Supported by SBIC Financings	140,000	103,732
Number of Jobs Supported by Businesses Receiving Export Grants and Loans	26,000	Data lag [1]
Number of Jobs Supported by Federal Contract Set-Asides	700,000	Data lag [2]
Number of New Business Starts through SBA Counseling and Training Programs	25,700	17,242

Disaster Assistance and Recovery

Performance Measure	FY 2025 Goal	FY 2025 Actual
Small Business Employment in the United States (Millions)	66.5	Data lag [3]
Number of Loans that Include Mitigation Measures	626	861

[1] FY 2025 Q4 STEP grant data not yet available. Full year data will be published in the FY 2025 Annual Performance Report.
[2] Federal contracting data continues to be certified by the SBA, and will be available by summer 2026.
[3] Full year data for FY 2025 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

Mission Support and Advocacy

Performance Measure	FY 2025 Goal	FY 2025 Actual
Customer Satisfaction Rate of Financial Management Services for SBA Employees	4.0	4.8
Federal Employee Viewpoint Survey Global Satisfaction Rate	73%	N/A[4]
Inspector General Maturity Rating	3.8	2.72

[4] OPM has foregone the FEVs survey in 2025.

VERIFICATION AND VALIDATION OF PERFORMANCE DATA

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

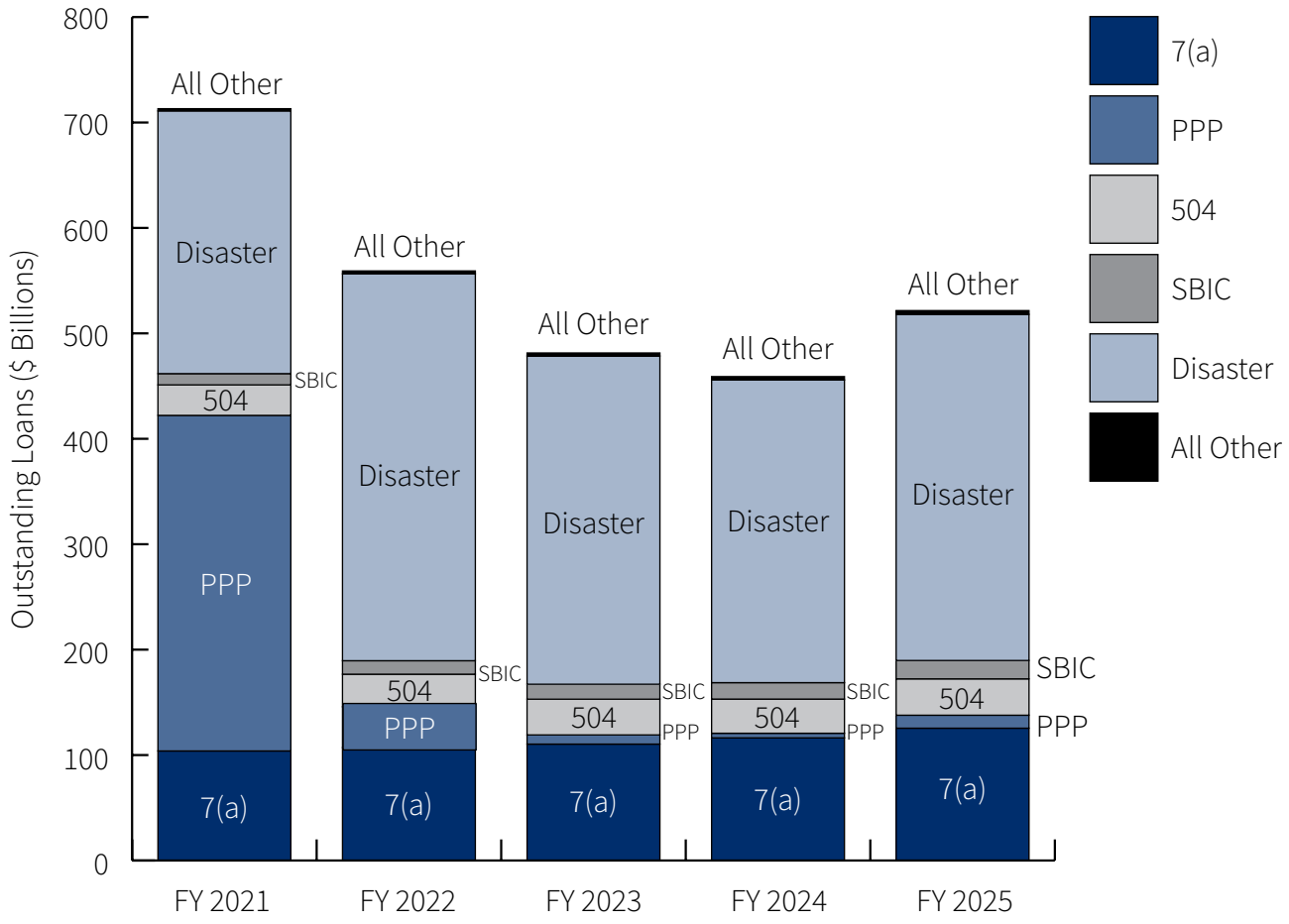
The SBA rigorously pursues the following strategies to ensure data quality: ensuring the validity of performance measures and data; fostering organizational commitment and capacity for data quality; assessing the quality of existing data; and responding to data limitations. For additional information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

OPERATIONAL PORTFOLIO ANALYSIS

The Operational Portfolio Analysis provides information on the SBA's credit programs and does not reference the financial statements. The SBA is the taxpayers' custodian of small business loan guaranties and direct loans with a portfolio of $516.8 billion in FY 2025.[6] During FY 2025, the portfolio increased year over year by $57.9 billion, or 12.6 percent. The largest increase in dollar terms was the Agency's disaster loan portfolio, which increased by $37.9 billion (13.2 percent). This increase is primarily attributable to an accounting policy updated in FY 2025 that delays charge off timing to maintain active balances longer in the collection process. Due to the updated accounting policy, direct or purchased guaranteed direct loans under the COVID-19 Economic Injury Disaster Loan (COVID-19 EIDL) program and Paycheck Protection Program (PPP) that were charged-off in prior years have been returned to an active status. The result of this policy change for the PPP portfolio led to a year-over-year increase of $6.4 billion (143.1 percent). All the remaining loan portfolios also increased on a year over year basis: the 504 loan portfolio increased by $2.1 billion (6.4 percent) and the 7(a) portfolio expanded by $9.3 billion (8.0 percent). The Small Business Investment Company (SBIC) portfolio increased by $1.8 billion (11.2 percent) and all other portfolios increased by $488 million (15.5 percent) (see **Chart I**).

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

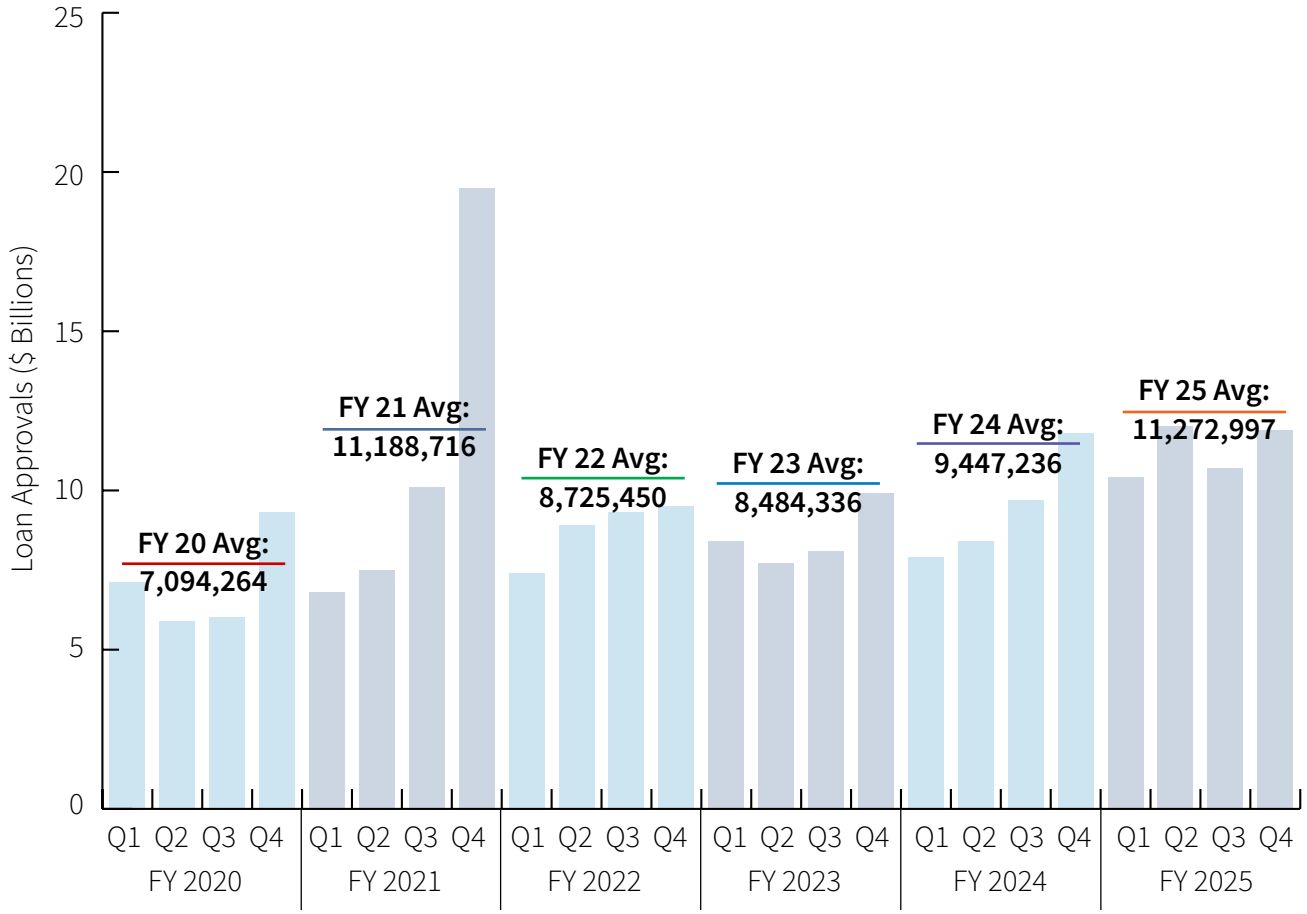
Chart I: Makeup of the SBA's Outstanding Loan Portfolio



New Guarantied Loans

The quarterly average loan volume increased in FY 2025 with an average of $11.3 billion. Chart II demonstrates the trend in loan approvals since FY 2020.

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



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

Continuous Growth in the Economy — Real Gross Domestic Product in the United States increased throughout 2024 and has continued to grow during 2025, with a rate of 3.8 percent in the second quarter of 2025. The increase in real GDP in the second quarter primarily reflected a decrease in imports, which are a subtraction in the calculation of GDP, and an increase in consumer spending. These movements were partly offset by decreases in investment and exports.[7]

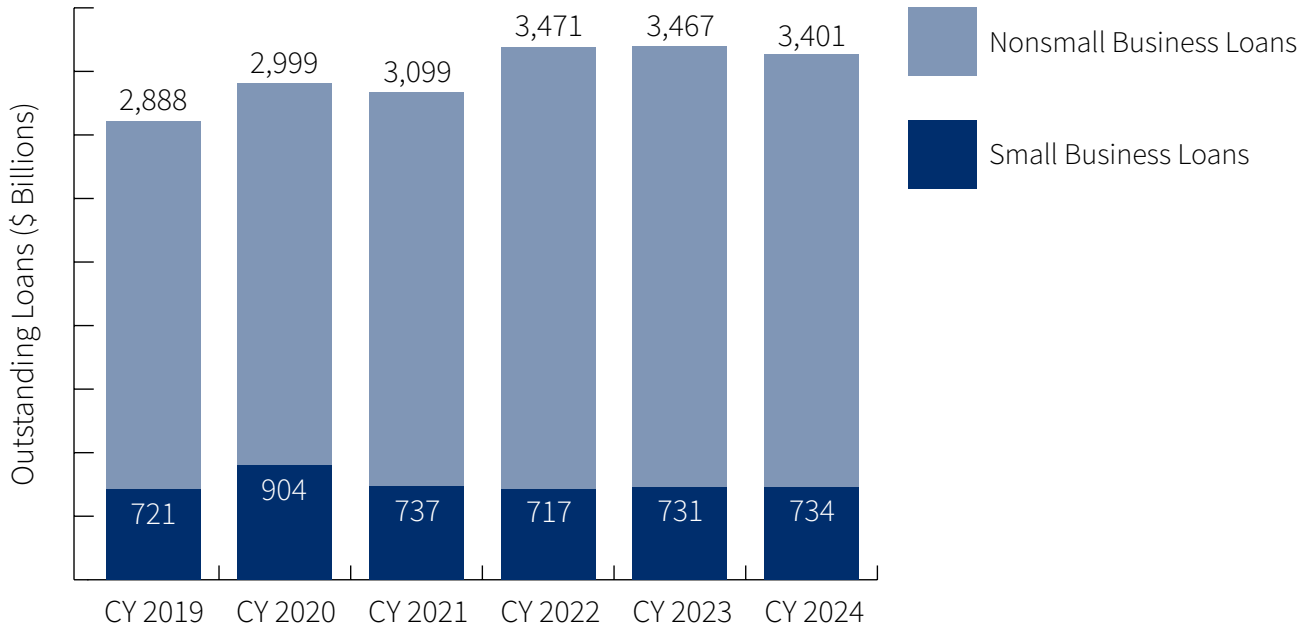
Changes in Market Volatility — During 2022, the monthly inflation reached its highest point, peaking at 6.6 percent in September 2022 to end that year with a 6.2 percent monthly average before coming down during 2023 to an annual monthly average of 4.8 percent. In 2024 inflation came down further to an annual monthly average of 3.4. In 2025 inflation continued to ease with a monthly

[7] U.S. Department of Commerce, Bureau of Economic Analysis: https://www.bea.gov/data/gdp/gross-domestic-product

average of 2.9 through the first six months of the year. Inflationary pressures have significantly increased interest rates across the commercial and consumer loan market. Conversely, while the unemployment rate surged to a peak of 14.7 (April, 2020) during the COVID-19 pandemic period, it has decreased significantly throughout the 2021-2023 period, averaging 3.6 percent monthly for both 2022 and 2023. In 2024 the unemployment rate increased slightly to an average of 4 percent monthly and has stayed roughly the same throughout the first nine months of 2025, peaking at 4.4 percent in September 2025 with a monthly average of 4.2 percent in 2025 year to date.[8]

Market for Small Business Lending — Data from the Federal Deposit Insurance Corporation (FDIC) showed that the total market for business loans increased between 2019–2024 by 15 percent ($526 billion). However, 97.5 percent ($513.1 billion) of this increase comes from loans to nonsmall businesses,[9] whereas total small business loans increased by only $12.9 billion. Thus, the ratio of small business loans compared with the total bank market has decreased between 2019–2024, with a marked decrease during the pandemic years of 2021–2022 (see **Chart III**). Furthermore, the banking industry's trend toward consolidation, reflected in the reduction of commercial banks by 12 percent[10] between 2019–2024 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 vs. Nonsmall Businesses



[8] U.S. Department of Labor, Bureau of Labor Statistics: https://data.bls.gov/timeseries/lns14000000

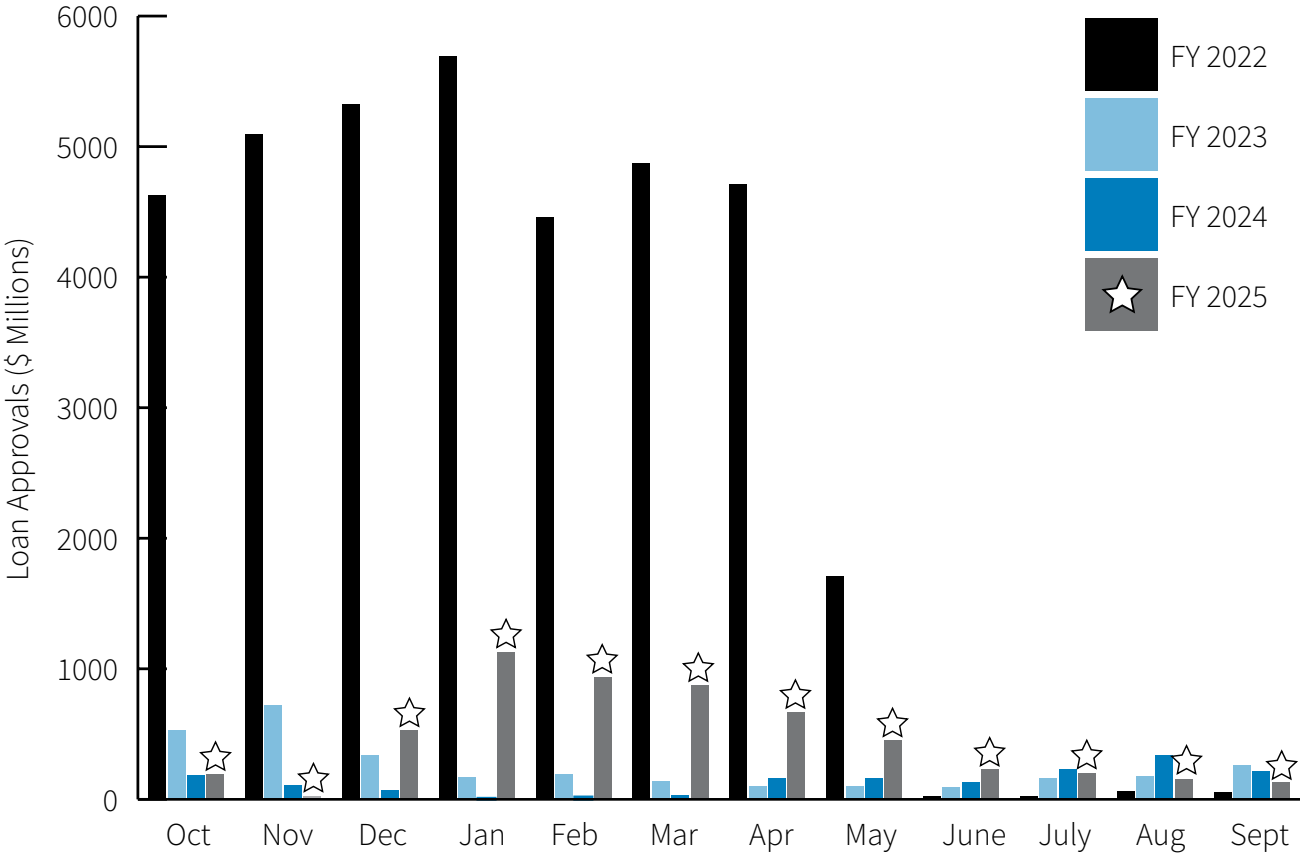
[9] Nonsmall businesses are firms that have more than 500 employees. https://www.fdic.gov/quarterly-banking-profile/quarterly-banking-profile-q3-2025

[10] https://www.fdic.gov/bank/statistical/stats

New Direct Loans

In FY 2025, the SBA's gross approvals for the Disaster Assistance loan program increased by 228 percent to $5.5 billion against an FY 2024 total of $1.7 billion. As of FY 2023, the COVID 19-EIDL program is no longer approving loans for COVID-19, so disaster loan approvals are returning to a comparable level with to the pre-pandemic period. Chart IV illustrates the relative sum of disaster loans in FY 2025 by month, compared with the prior three fiscal years.

Chart IV: Monthly Gross Disaster Assistance Loan Approvals



Aside from the FY 2020 -2022 COVID-19 EIDL loans, the top ten disasters that make up the portfolio's outstanding balance includes lending from FY 2006 (hurricane Katrina), FY 2013 (hurricane Sandy), FY 2018 (hurricanes Harvey, Irma, and Maria), FY 2021, (hurricane Ida), FY 2022 (hurricane Ian), FY 2024 (hurricane Helene), and FY 2025 (hurricane Milton and wildfires in California).

The SBA will continue to make disaster loans an important recovery tool for businesses, homeowners, and renters that survive a disaster.

Portfolio Performance — Delinquencies

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

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

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

As of July 2025, the average FY 2025 YTD 7(a) delinquency rate of 1.15 percent is higher than the FY 2024 average delinquency rate of 0.88 percent. The 7(a) rate remained low throughout FY 2025 though, hovering around one percent every month despite generally trending slightly upwards.

Monthly 504 delinquency rates decreased during 2023 following a period of greater variability in FY 2021-2022, peaking at 3.4 percent in September, 2021. During FY 2022, the delinquency rate trended downward, but experienced high variability throughout that fiscal year. Starting in FY 2023, the 504 delinquency rate is less volatile, and the average FY 2025 YTD 504 delinquency rate of 0.87 percent is only slightly above the FY 2024 average delinquency rate of 0.76 percent.

The SBA will continue to monitor the variability and level of both 7(a) and 504 delinquency rates closely in the post-CARES Act environment.

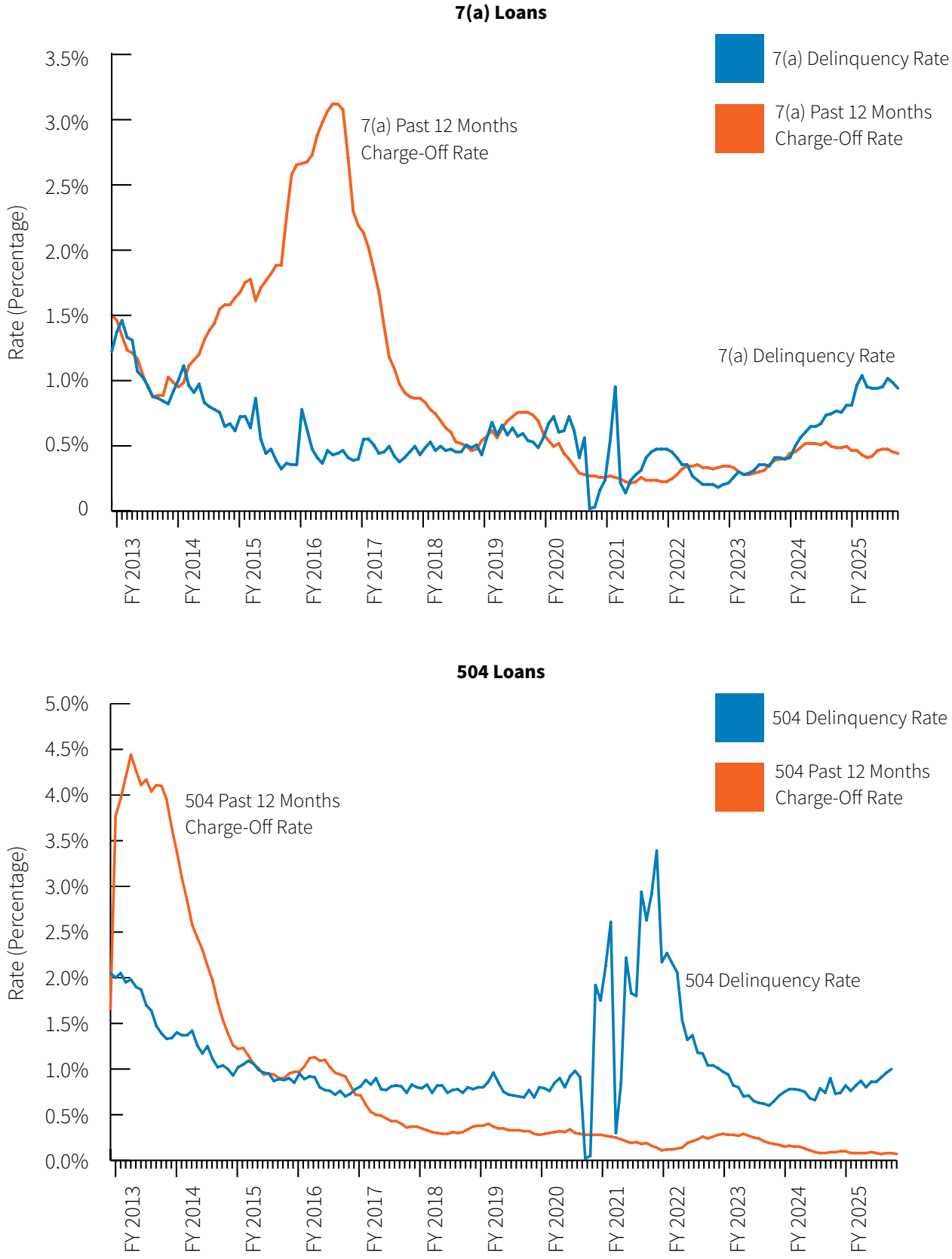
Portfolio Performance — Charge-Offs

The 12-month charge-off rate for the 7(a) loan program sharply declined during FY 2016-2017, has continued to improve and remains very low. By July 2025 it has come down to 0.68 percent (see **Chart V**). The 7(a) loans not sold on the secondary market become a charge-off after all efforts to recover a delinquent balance were exhausted, such as liquidating the underlying collateral. The latent rise of the 7(a) charge-off rate in 2013 is attributable to recession-era loans that were charged-off after efforts to recover delinquent balances had been exhausted. Now that this effort to charge-off the recession-era loans is complete, the charge-off rate again closely trends with the delinquency rate in FY 2025.

The 12-month charge-off rate for the 504 loan program had its historical high during FY 2013, peaking at 4.4 percent in January 2013, but dropping to the very low point of 0.08 percent by July 2025. This trend is not surprising, since the 504 loan program is an economic development program with a commercial real estate focus. As such, recovery rates of defaulted 504 loans are, with some noticeable time lag, significantly impacted by the pricing trend in this sector. The continued downward trend in the 504 delinquency rate during FY 2025 indicates that the volatility during FY 2021-2022 period had little impact on the trajectory of 504 charge-off rates and as of July 2025, does not appear to have been a significant factor.

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

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



Significant Opportunities and Risks

The SBA is dedicated to equipping America's entrepreneurs with the tools to start, grow, and sustain resilient businesses. In today's dynamic economic and technological environment, the Agency faces risks that may affect program delivery and strategic priorities, alongside opportunities that can strengthen its impact and expand the reach of its services. By anticipating disruptions and identifying areas for improvement, the SBA can focus resources where they matter most, enhance program effectiveness, and help small businesses navigate an increasingly complex landscape. This proactive approach positions the Agency to optimize taxpayer resources, foster innovation, and promote resilience across the small business ecosystem.

FINANCIAL INTEGRITY AND RISK MANAGEMENT

The SBA remains committed to maintaining financial integrity and robust risk management practices across all programs. The COVID-19 pandemic revealed gaps in internal controls, loan underwriting, and risk monitoring, underscoring the need for enterprise-wide oversight mechanisms. To address these risks, the Agency continues to improve its Enterprise Risk Management (ERM) and Fraud Risk Management (FRM) programs, integrating lessons learned from prior audits and leveraging insights from the Government Accountability Office (GAO) and Office of Inspector General (OIG). The SBA is implementing advanced monitoring and analytical tools to identify emerging vulnerabilities, improve predictive risk modeling, and facilitate timely intervention in program management. The SBA is also developing a governance, risk and compliance (GRC) tool that will centralize governance, automate risk management, and stay compliant.

Audit remediation remains a top priority. Resources are directed toward resolving outstanding findings from pandemic-era programs, ensuring recovery of ineligible funds, and closing gaps in program oversight. The Agency continues to refine loan underwriting standards, perform rigorous performance analyses, and apply detailed financial modeling to identify emerging lending risks. Looking forward, these efforts position the SBA to anticipate disruptions in program performance, address material weaknesses proactively, and continuously improve operational resilience. By embedding risk awareness into day-to-day processes, the SBA strengthens its capacity to safeguard public funds and guarantees that support reaches eligible small businesses without delay.

DISASTER ASSISTANCE AND RESILIENCE

Natural disasters remain a growing challenge for small businesses and the communities they serve. In 2023 alone, the United States experienced 28 separate weather and climate events, each exceeding $1 billion in damages, marking a record-setting year for billion-dollar disasters.[11] In 2024, there were 27 individual weather and climate disasters with at least $1 billion in damages, trailing only the record-setting 28 events analyzed in 2023.[12] This reflects both the increasing frequency and intensity of disaster events, as well as the heightened economic vulnerability of small businesses in affected regions. The SBA's Disaster Assistance program plays a critical role in mitigating these impacts by providing rapid support to businesses navigating disruption.

The SBA promotes resilience through disaster mitigation loans, allowing businesses to finance improvements that reduce future vulnerability. Targeted field office outreach and community engagement programs extend the Agency's reach in areas that are particularly at risk. Operational enhancements, including accelerated disaster declarations, streamlined loan processing, and specialized support for impacted regions, improve the Agency's responsiveness. Investments in modernized systems and staff training enable quicker disaster response across all programs. By combining proactive mitigation with adaptive operational improvements, the SBA positions itself to reduce future disruption and accelerate recovery to communities nationwide.

TECHNOLOGY, AUTOMATION, AND OPERATIONAL INNOVATION

The rapid evolution of technology presents both opportunities and risks for small businesses. Through digital modernization, including secure platforms with integrated AI and advanced analytics, the SBA improves operational efficiency, enhances customer service, and supports informed decision-making. These technology-driven improvements also address operational risks by strengthening cybersecurity and reducing processing errors.

Emerging technologies provide opportunities to expand access. Virtual training platforms and online tools extend the reach of SBA programs to communities with limited broadband infrastructure. These tools enable small business owners to receive guidance and access financial resources more efficiently. Simultaneously, operational process improvements, such as automated loan processing and integrated program management systems, support faster recovery during disasters and enhance internal coordination. By embracing these innovations, the SBA positions itself to adapt to technological change while mitigating potential operational risks, ultimately enabling small businesses to benefit from a more accessible support system.

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[11] https://www.climate.gov/news-features/blogs/beyond-data/2023-historic-year-us-billion-dollar-weather-and-climate-disasters

[12] https://www.climate.gov/news-features/blogs/beyond-data/2024-active-year-us-billion-dollar-weather-and-climate-disasters

CHANGING WORKFORCE STRATEGY

The SBA's workforce is central to the Agency's ability to deliver on its mission. Shifts in employee demographics, including an increasing proportion nearing retirement, combined with evolving workplace expectations, necessitate proactive workforce planning and training. The Agency is developing policies and programs to support hybrid work models, optimize field and headquarters office configurations, and guarantee continuity of institutional knowledge. Surveys of workspace requirements and employee feedback inform decisions on staffing allocations and technology support, enhancing the Agency's overall effectiveness.

Retention and recruitment remain critical considerations. Competition with private industry and other federal agencies creates pressure to attract and maintain highly skilled personnel. The SBA is enhancing training programs for field staff, equipping them with tools and guidance to support small businesses more effectively. Professional development initiatives focus on preparing staff for emerging challenges, including financial oversight, technology adoption, and customer service innovation. By integrating workforce resilience into planning, the SBA ensures the Agency can maintain mission-critical capacity, respond effectively to emerging business challenges, and continuously adapt to the evolving federal work environment.

SUPPORTING U.S. MANUFACTURING AND INDUSTRIAL COMPETITIVENESS

Small manufacturers are vital to the nation's economic growth and industrial leadership. The SBA is leveraging opportunities to expand support for domestic manufacturing through financing, capital access, and program visibility. Initiatives such as the Made in America program provide tailored resources, including financing options, reshoring guidance, and increased visibility for federal support programs, enabling small manufacturers to scale operations, create jobs, and strengthen domestic supply chains.

By connecting manufacturers with technical guidance and federal capital, the SBA helps reduce reliance on foreign supply chains, improve operational resilience, and support broader economic objectives. These efforts focus on long-term industrial competitiveness and domestic job creation. Through a combination of strategic investment, enhanced visibility of programs, and direct engagement with businesses, the SBA positions small manufacturers to contribute meaningfully to economic recovery and national industrial resilience.

Analysis of Financial Results

BACKGROUND

The SBA is a major Federal credit agency of the U.S. Government, and most the Agency's $48.8 billion budgetary resources support the SBA's credit programs. The SBA provides direct loans to those impacted by disaster and partners with lenders and investors to provide small businesses with access to capital.

Major factors that impact the SBA financial results include timing of borrowing and repayment of Debt to Treasury, annual reestimates, program changes, and disaster activity.

The SBA borrows funds to fund the difference between the loan's estimated cost and the amount of the loan disbursed for disaster and business direct loan programs. Funds are also borrowed to fund cash shortfalls related to the timing of disbursements and collection of resources. (Note 8)

The cost of loan programs is reestimated annually. Based upon the reestimates, additional funds are made available to the SBA with an upward reestimate funded by permanent indefinite appropriations, or they are returned to Treasury with a downward reestimate. (Note 14)

Program changes have had a driving impact on SBA costs and balances. In particular, COVID programs resulted in a marked increase in loans disbursed in prior fiscal years, whereas in the current fiscal year the SBA has transitioned to recovering these program costs and returning to the traditional business loan guarantees and disaster lending programs.

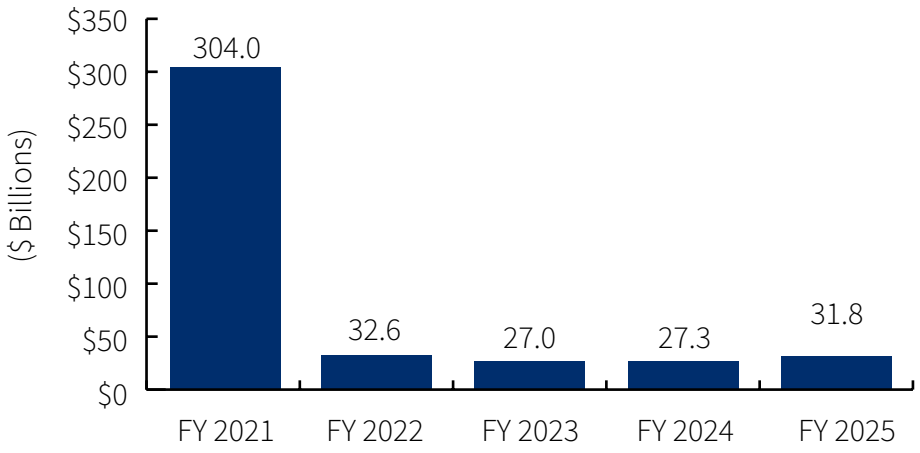
The SBA provides direct loans to support individuals and businesses impacted by disasters. These payments assist communities return to normalcy in the wake of a disaster.

The SBA supports small businesses' access to capital by guaranteeing loans from lenders. Loan guarantees allow lenders to share the risk of default with the SBA. The SBA's 2025 guarantee programs charged lenders sufficient fees to allow the programs to operate with zero subsidy from the government. Lenders work with borrowers to determine their needs and credit worthiness.

LOAN GUARANTIES

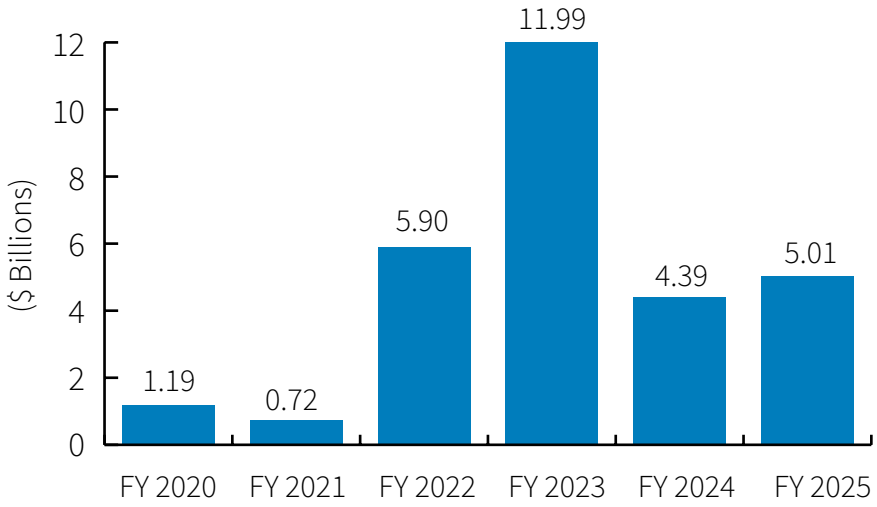
During FY 2025 SBA guarantied $31.8 billion of new loans disbursed by SBA's lending partners. Loan guarantees and the related disbursements are disclosed in SBA's financial disclosures. (Note 5E)

Guarantied Loans Disbursed



If a borrower defaults on an SBA guarantied loan SBA reimburses the lender for the guarantied portion of the loan. The SBA added $5.01 billion defaulted loan guarantees to its credit receivables in FY 2025.

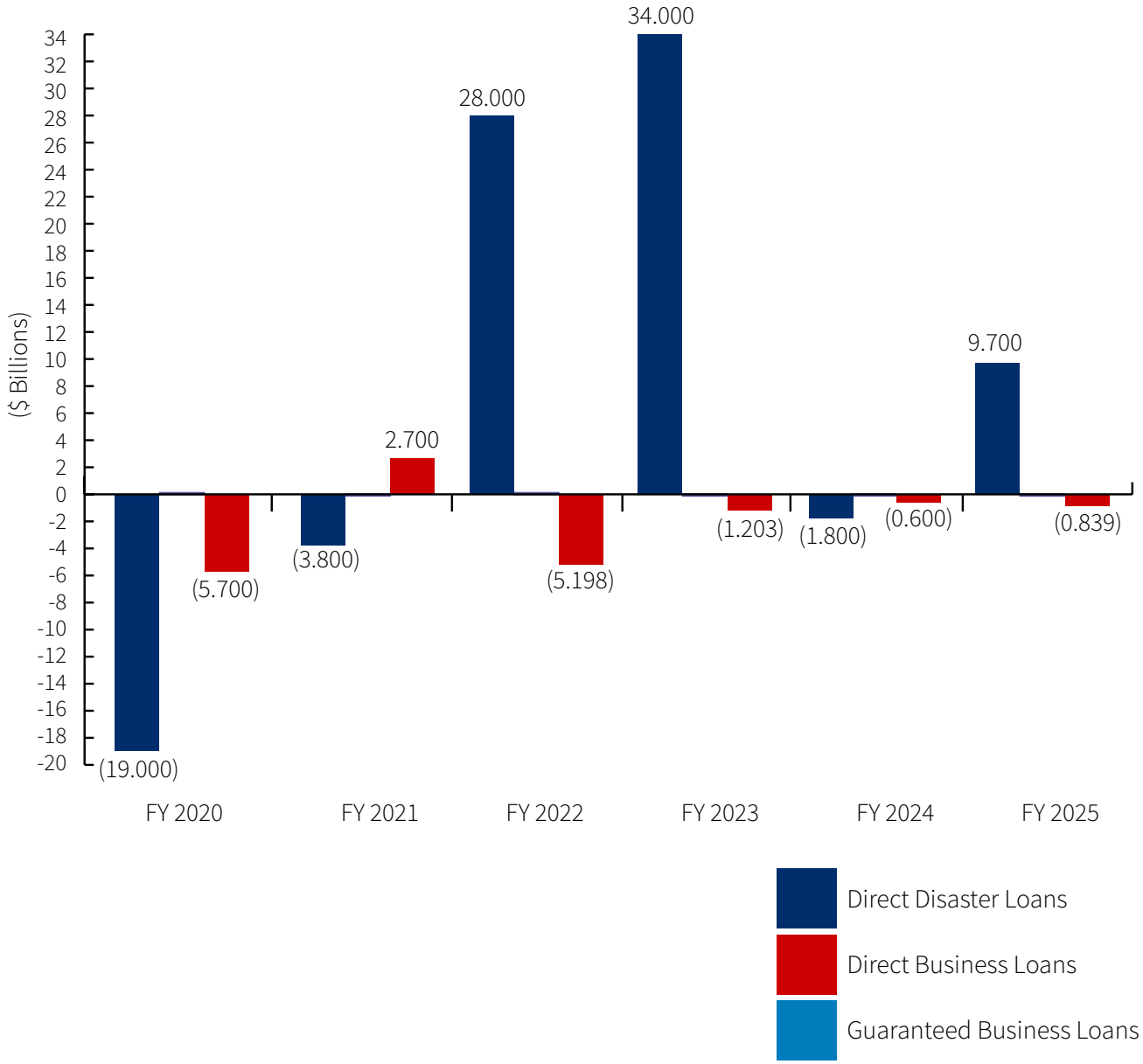
Purchases of Guarantied Loans



CREDIT PROGRAM SUBSIDY REESTIMATES

Credit Program Subsidy Reestimates reflects the net subsidy reestimates for the guaranteed business and direct disaster loan programs from FY 2020 through FY 2025. The Disaster Assistance loan program had a net upward reestimate of $9.7 billion in FY 2025 compared to a $1.8 billion downward reestimate in FY 2024. Further detail on subsidy reestimates can be found in Note 14 of the financial statements in the Other Information section of this report.

Credit Program Subsidy Reestimates



FINANCIAL POSITION

ASSETS

The SBA had total assets of $248.4 billion at the end of FY 2025. Assets consist primarily of Fund Balance with Treasury and Credit Program Receivables and Related Foreclosed Property.

The following major activity impacted Fund Balance with Treasury

- Spending Authority collections of $10.5 billion
- New Borrowings $14.8 billion less repayments of $30.1 billion (Note 8)
- Loans Disbursed $3.5 billion (Note 5E)
- Default Claims paid $5.2 billion (Note 14B)
- Reestimate Collections net of disbursements $-1.4 billion

LIABILITIES

The SBA had total liabilities of $255.9 billion at the end of FY 2025. Liabilities consist primarily of the Principal Payable to the Bureau of Fiscal Service, Liability for Loan Guaranties, and Downward Reestimate Payable to Treasury.

The Principal Payable to the Bureau of the Fiscal Service is $249.3 billion a decrease of $15.3 billion from FY 2024 because of repayment of debt of $30.1 billion exceed new borrowings of $14.8 billion. Repayment of debt is driven by spending authority collections in the current year and prior year that have not been used to liquidate debt. (Note 8)

Loan Guarantee Liabilities is the estimate of the net present value of the future amount the SBA will pay, net of fee collections, to liquidate expected purchases of guarantied loans under its guarantied loan programs. Loan Guarantee Liability is $3.0 billion at the end of FY 2025 -- a decrease of $1.8 billion due to a decrease in estimated recoveries. (Note 14B)

Downward Reestimate Payable to Treasury was $2.8 billion at the end of FY 2025, representing a decrease of $7 billion from FY 2024. The decrease was primarily due to a smaller downward reestimate for Disaster loans. (Note 14)

NET POSITION

Cumulative Results of Operations is the cumulative difference between unfunded expenditures and financing sources since the inception of the Agency. The cumulative results of operations were $ (11.6) billion at the end of FY 2025 a $4.3 billion decrease from FY 2024 primarily because of unfunded subsidy reestimates. Subsidy reestimates determined at year-end are funded in the following year.

Unexpended Appropriations increased $1 billion to $4.2 billion at the end of FY 2025 from FY 2024 primarily because the appropriations received were greater than the amount of funded spending from the current year. The increase affected Budgetary Financing Sources and Ending Net Position.

NET COST OF OPERATIONS

Net Cost of Operations was $12.1 billion in FY 2025. Net Costs of Operations primarily reflect the costs of SBA credit programs subsidy expenses during the year for new loans and subsidy reestimates at year-end. The primary component of the net cost was a Disaster Assistance program upward reestimate of $9.7 billion due to lower than projected collections on COVID EIDL loans. (Note 14E)

BUDGETARY RESOURCES

Total Budgetary Resources for FY 2025 of $48.8 billion include Budgetary balances of $17.3 billion and Non-budgetary credit reform financing balances of $31.5 billion. Non-budgetary credit reform financing accounts record cash flows from post-1991 direct loans and loan guarantees.

Budgetary resources include a carryover from the prior year of $4.2 billion, appropriations of $11.9 billion, and spending authority of $1.2 billion which funded $12.5 billion of obligations. Of the remaining $4.7 billion unobligated balance $2.3 billion can fund future obligations, Non-budgetary resources include a carryover from the prior year of $7.8 billion, $14.5 billion of borrowing authority and $9.2 billion of spending authority which funded $26 billion of obligations. The remaining unobligated balance of $5.5 billion will be used to fund default claims and repay debt to Treasury.

Analysis of the SBA's Systems, Controls, and Legal Compliance

INTERNAL CONTROL ENVIRONMENT

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

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

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

For FY 2025, SBA's non-compliance with OMB Circular A-123 requirements reflects the impact of organizational changes and inconsistencies in execution of internal control across multiple program offices. The SBA has faced challenges in sustaining a consistent control environment and effective oversight body, which has diminished the overall effectiveness of internal control processes. SBA prioritized the following actions to stabilize the control environment and mitigate audit risk:

- Engage with external auditors to align expectations and mitigate audit risks;
- Prioritize immediate compliance needs, especially those tied to OMB Circular A-136 and financial reporting deadlines; and
- Continue performing corrective action plans and remediation activities for known deficiencies, even if full resolution is not feasible within the fiscal year.

As part of fiscal year 2026 planning, the Office of Performance, Planning, and the Chief Financial Officer (OPPCFO) has begun implementing initiatives to strengthen the agency's control environment, beginning with defining roles and responsibilities for internal controls, and standardizing documentation. OPPCFO will also improve the trainings and tools designed for program support offices and district offices, to support management in assessing and documenting the effectiveness of internal controls within their respective areas of responsibility. These improvements will align with the internal control framework outlined in GAO's **Standards for Internal Control in the Federal Government**, known as the Green Book.

In 2025, 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 (CARES) Act, Economic Aid Act, and American Rescue Plan Act (ARPA). Although most of the pandemic programs have ceased making disbursements they are still included in our oversight and monitoring efforts through ongoing audit remediation activities.

In FY 2025, the SBA implemented a new audit remediation strategy through collaboration between OPPCFO and responsible program offices targeting five key target areas identified as having the greatest impact on strengthening control activities and advancing progress toward an unmodified financial statement audit opinion. This approach produced meaningful improvements in internal controls related to SVOG, RRF, Financial Reporting, Service Organizations, and Access Controls. Additional audit remediation efforts were performed in areas such as COVID EIDL, PPP, ELC, Debt Relief Program, and Information Technology.

In FY 2026, the SBA will develop a refreshed financial statement audit remediation strategy to continue its efforts toward achieving a clean audit opinion and strengthening financial accountability across the agency.

Related to the SBA's effort to report accurate and complete financial statements, the Agency delivers enterprise level cybersecurity and privacy services that empower the SBA to better support the small business community through robust yet flexible processes and mechanisms.

The Information Security Division is in the process of procuring a new Governance Risk Platform tool and Security Training Platform which will allow SBA to mature its Security Program, thereby enhancing its security posture. Additionally, OCIO successfully closed several audit findings pertaining to user separations and network MFA. This should be reflected with an increased FISMA maturity rating for FY25.

The SBA will continue to incorporate the changes derived from the evaluation criterion and continue developing its cybersecurity program in the areas of configuration management, cybersecurity training, asset management, vulnerability management, supply chain risk evaluation and management, red team penetration testing, network segmentation, Dev/Sec/Ops, risk quantification, and automation of controls assessments.

FINANCIAL MANAGEMENT SYSTEMS STRATEGY

The goal of the SBA's Financial Management Systems Strategy is to provide accurate financial information to support transparency on the financial performance of the agency to all stakeholders; provide management with timely and accurate data to support management analysis and decision-making; and enable the Agency to keep pace with its lending partners and effectively use automation to achieve operational efficiency.

Over the past year, SBA's strategy to achieve these goals has been focused on:

- **Compliance with Laws & Regulations.** As demonstrated throughout the **FY 2025 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.[13] For compliance with DCIA, the Agency undertook the reversal from charge-off of over 1.1 million loans for subsequent referral to Treasury Debt Management Service (DMS), as well as pursuing authority with DOJ to refer potentially fraudulent loans to Treasury for collection. For compliance with executive orders, the Agency acquired new Treasury Services (AVS/EVS) for future implementation.
- **Producing reliable and timely financial information.** 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.
- **Cost-effective Service delivery.** Through the Presidents efforts to reduce wasteful spending, the SBA is assessing our IT infrastructure to improve security posture and gain cost efficiencies. The Agency held detailed system spending reviews to coordinate IT spending, determine strategic contract consolidations, and assess improvements in mission delivery. Other improvements include further integration and consolidation of grant making with the Department of Health and Human Services (HHS) Grant Solutions, a QSMO designated provider.

As SBA reflects on the accomplishments and lessons learned from this past year, we believe that adjusting our focus slightly will better enable us to support our goal of timely and accurate financial information to support transparency and Agency analysis and decision making. In the coming year, we plan to focus on the following key areas:

- **Compliance with Laws, Regulations, and Executive Orders.** While we made significant progress in the past year, we need to continue work towards greater compliance in a number of areas, including DCIA referral; continuing to work towards legal methods of referral to Treasury

[13] 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.

for the Agency fraud population; implementation of requirements related to executive orders, especially EO 14247 **Modernizing Payments To and From America's Bank Account** and EO 14249 **Protecting Americas Bank Account Against Fraud, Waste, and Abuse**. Significantly, OMB has pending guidance (required under EO 14249) regarding the consolidation of core financial management systems. This guidance, when issued, may have significant future impact on the Agency's Financial Systems Strategy & Environment.

- **Financial Systems Reconciliations.** To provide more timely and accurate Financial Data, the Agency needs to implement additional reconciliations to ensure that transactions from the point of entry all the way through to the Agency General Ledger and Financial Statements are reconciled on a regular, recurring basis. Discrepancies identified should be inventoried, root-causes identified, and processes established to manage and correct differences between systems. These reconciliations should be a centralized resource that gives visibility and control to program offices, as well as serving as an early warning system to identify emerging problems and ensure that differences, when present, are known, controlled, and mitigated.
- **Internal Controls.** Internal controls are critical to the accuracy, quality, and timeliness of financial data. The Agency has an opportunity to re-evaluate the control environment to ensure that controls are operating as intended; that the control environment adapts to changing risks with the implementation of new controls; and the implementation of a systematic approach to risk identification, evaluation, control implementation, and monitoring. The feedback loop of financial systems reconciliations and control evaluation & implementation is a significant opportunity for the Agency to exploit.

Management Assurances: FMFIA and FFMIA Assurance Statement for Fiscal Year 2025

SBA management is responsible for maintaining effective internal controls, managing risks, and ensuring that financial management systems operate in accordance with applicable laws and regulations. This responsibility includes compliance with the Federal Managers' Financial Integrity Act (FMFIA) of 1982, the Federal Financial Management Improvement Act (FFMIA) of 1996, and the standards set forth in OMB Circular No. A-123, Management's Responsibility for Enterprise Risk Management and Internal Control. In fulfillment of these requirements, the Agency has conducted comprehensive assessments of its internal controls and financial management systems for Fiscal Year (FY) 2025. This letter provides management's assurance regarding the effectiveness of these controls and the substantial compliance of financial systems. The Agency remains committed to transparency, accountability, and continuous improvement in all operations.

AMENDING PRIOR AGENCY DEFICIENCIES

Our SBA management team recognized the Agency's deteriorating control environment upon entering office a few months into FY 2025. In an effort to move away from a toxic control environment under the Biden Administration, SBA senior management immediately hired leaders with the necessary skillsets to set a new course at the Agency and remedy the ineffective internal control environment. In just nine months, the SBA has established a strong governance framework to address operational and financial risks, as well as inform an appropriate allocation of resources. The Agency successfully restored prudent lending standards and returned the 7(a) portfolio to a zero-subsidy model, thereby protecting taxpayer dollars. Under the Trump Administration, SBA's senior management has already generated real progress in substantially remediating non-pandemic related material weaknesses and significant deficiencies.

MATERIAL WEAKNESSES AND REMEDIATION

Based on the results of FY 2025 assessments, SBA management provides reasonable assurance that internal controls were generally effective, except for the following material weaknesses:

- Controls over COVID-19 Economic Injury Disaster Loans (EIDLs)
- Controls over Paycheck Protection Program (PPP) Loan Guarantees
- Entity Level Controls

In addition, the auditor reported a material weakness related to controls over the subsidy reestimate. SBA management acknowledges the conditions but has concluded that one of the cited conditions is encompassed within the SBA's existing material weaknesses related to controls over COVID-19 EIDL loans and controls over PPP loan guarantees. Because the root causes and corrective actions overlap, SBA management does not classify this as a separate material weakness. Management concluded that the remaining condition does not rise to the level of a material weakness.

The FFMIA requires federal agencies to implement and maintain financial management systems that substantially comply with federal financial management systems requirements, federal account-

ing standards, and the United States Standard General Ledger. While the auditor reported that the Agency does not comply with certain federal financial systems requirements and federal accounting standards, SBA management's assessment did not identify substantial FFMIA noncompliance. SBA management believes the identified deficiencies were caused by factors external to the core financial management systems, rather than a limitation in the system's design or ability to prepare financial statements, disclosures, and related information. Based on the FFMIA criteria, the SBA is providing reasonable assurance that its financial management systems substantially comply with FFMIA standards for FY 2025.

CONCLUSION

Based on FY 2025 assessments, SBA management provides reasonable assurance that internal controls over operations, reporting, and compliance, as well as the financial management systems, are effective and substantially compliant with federal requirements. Management acknowledges remaining material weaknesses and continues to implement structured remediation actions with measurable results. The SBA remains committed to transparency, accountability, and continuous improvement to safeguard public resources and maintain durable internal controls across all programs and functions.



Kelly Loeffler
Administrator
January 21, 2026

SUMMARY OF MATERIAL WEAKNESSES

1. Controls over COVID-19 EIDLs Need Improvement

SBA management identified deficiencies in the implementation of an accounting policy change that occurred in the last quarter of the fiscal year. Specifically, management identified that there were loans that were eligible for reinstatement that were not reinstated as of September 30, 2025. This occurred because SBA did not have sufficient time prior to fiscal year end to complete the process of reversing previously recorded charge off transactions for the impacted loans. The SBA will continue to develop corrective actions to analyze the completeness and accuracy of the population and design and implement controls related to the charge-off and reinstatement process.

2. Controls over PPP Loan Guarantees Need Improvement

SBA management identified deficiencies in the controls related to the review of PPP loan forgiveness. Specifically, a funds recovery process for the PPP program has not been approved or implemented. In addition, SBA identified that certain post payment reviews that have not been completed due to staffing constraints and volume. The population of forgiven PPP loans requires a risk-based, comprehensive analysis to determine if additional post payment reviews may be needed and to ensure there is an accurate and complete population of PPP Loan Guarantees. The SBA continues to implement a corrective action plan to analyze the population of forgiven PPP loans and prioritize decision making related to a possible funds recovery plan.

3. Entity Level Controls Need Improvement

SBA management identified deficiencies in the entity level controls system to produce reliable and accurate financial reporting. Specifically, operational challenges impeded the SBA's ability to support effective entity level controls. Deficiencies were identified in: (a) the SBA's establishment of an effective control environment, (b) performance of effective risk assessment procedures, (c) design and implementation of effective control activities, (d) information and communication control processes, and (e) monitoring processes. The agency is prioritizing strengthening its internal control framework in accordance with the Government Accountability Office's (GAO) Standards and the Office of Management and Budget (OMB) Circular A-123, Managements Responsibility for Enterprise Risk Management and Internal Control. The SBA continues to implement corrective actions by engaging and communicating 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.

SECTION 2



Financial Reporting

(UNAUDITED)

Message From the Chief Financial Officer



January 21, 2026

I am pleased to issue the Small Business Administration's (SBA) FY 2025 Agency Financial Report as of September 30, 2025. This report presents the Agency's financial results in accordance with U.S. Office of Management and Budget (OMB) guidance, and the financial statements have been developed within Generally Accepted Accounting Principles.

The SBA remains fully committed to advancing its mission of supporting America's small businesses while strengthening operational integrity, program oversight, and strategic management. Throughout FY 2025, the Agency continued to reinforce internal controls and apply rigorous oversight mechanisms to safeguard taxpayer funds. Under the current administration, SBA has prioritized enterprise-wide initiatives designed to improve oversight, reduce fraud risk, and improve program outcomes across its operating portfolio.

The FY 2025 Agency Financial Report reflects meaningful, evidence-based progress resulting from sustained leadership focus, cross-functional collaboration, and disciplined execution of corrective action plans. During the fiscal year, three previously identified material weaknesses and two previously identified significant deficiencies were fully remediated, and one material weakness was downgraded to a significant deficiency. Importantly, material weaknesses and significant deficiencies unrelated to COVID-19 pandemic-era programs have now been substantially resolved, demonstrating measurable improvement in SBA's core financial management and control environment.

These results reflect deliberate, methodical efforts to address longstanding issues while simultaneously stabilizing operations that were significantly stressed during the unprecedented scale and speed of pandemic response programs. Management has taken care to distinguish between legacy risks arising from emergency-era programs and the control framework governing SBA's current and future operations.

Key Accomplishments in FY 2025 include:

- Strengthened controls over general information technology systems, guaranteeing that financial and operational data is securely processed, reconciled, and reported
- Rigorous evaluation and monitoring of service organizations, which enhances oversight of outsourced functions and reduces risk of errors or misstatements
- Implementation of accounting and funds recovery policies and procedures for COVID-19 pandemic-era programs, improving documentation, reconciliation, and recoverability of funds distributed under these programs
- Improved documentation, reconciliation and reporting processes across business lines, supporting greater transparency and facilitating audit readiness

Collectively, these actions reinforce SBA's stewardship of taxpayer funds and demonstrate management's evidence-driven approach to financial integrity. They also reflect the Agency's ability to balance operational complexity with the need for robust controls, even in high-volume, high-risk program environments.

We remain focused on sustaining these improvements and building upon them in the year ahead. The remaining material weaknesses are related to entity-level controls and complex challenges related to the COVID-19 pandemic era programs. In FY 2026, the agency will refine the corrective action plans for each remaining material weakness. The Agency recognizes strong entity-level controls are foundational to effective financial management and reliable financial reporting. Accordingly, the Agency is prioritizing strengthening its internal control framework in accordance with the Government Accountability Office's (GAO) Standards and OMB Circular A-123, Managements Responsibility for Enterprise Risk Management and Internal Control.

During the audit, management and the auditors held differing professional judgements related to assertions over the completeness of the COVID-19 EIDL loan program and the severity classification of identified control deficiencies. While these disagreements did not prevent the completion of the audit, they do contribute additional complexities around resolving certain audit findings. Management respects the independent role of the auditors and values their perspectives, and we remain committed to constructive engagement to resolve these matters. We will continue to evaluate auditor recommendations, and where appropriate, refine our processes and controls to address areas of concern.

I would like to thank our financial management staff, program offices, auditors, and the SBA leadership team for their dedication and professionalism throughout this process. Their work is the foundation of SBA's continued financial integrity and ensures that taxpayer funds are managed responsibly while supporting the nation's small business community.

Sincerely,



Nathan Davis

Chief Financial Officer and Chief Risk Officer

OFFICE OF INSPECTOR GENERAL
U.S. SMALL BUSINESS ADMINISTRATION

DATE: January 21, 2026

TO: Kelly Loeffler
Administrator

FROM: William W. Kirk
Inspector General

SUBJECT: Independent Auditors' Report on SBA's Fiscal Year 2025 Financial Statements (Report 26-03)

I am pleased to present the attached independent auditors' report on the U.S. Small Business Administration's (SBA) financial statement for fiscal year (FY) 2025. The Chief Financial Officers Act of 1990, as amended, requires the Inspector General or an independent auditor, as determined by the Inspector General, to audit SBA's financial statements.

We contracted with the independent certified public accounting firm KPMG LLP to conduct an audit of SBA's consolidated balance sheet as of September 30, 2025 and the related notes. KPMG was not engaged to audit the consolidated statement of net cost, consolidated statement of changes in net position, and combined statement of budgetary resources. Our contract required KPMG to conduct the audit in accordance with *Government Auditing Standards* (GAS) and Office of Management and Budget Bulletin No. 24-02, Audit Requirements for Federal Financial Statements.

KPMG issued a disclaimer of opinion on the consolidated balance sheet as of September 30, 2025. The basis for the disclaimer was that because of control deficiencies identified, SBA was unable to provide adequate evidential matter in support of a significant number of transactions and account balances related to the Paycheck Protection Program and Economic Injury Disaster Loan programs. Additionally, management was unable to provide sufficient appropriate audit evidence to support the data used to develop assumptions used in the subsidy allowance estimate for SBA's direct loan and loan guaranty programs.

During the audit, KPMG identified four material weaknesses and one significant deficiency in internal control over financial reporting. We note that SBA made considerable progress addressing prior year audit findings, resulting in the successful remediation of two material weaknesses (controls over general information technology and controls over the evaluation of service organizations) and the downgrading of one material weakness (controls over monitoring

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Restaurant Revitalization Fund and Shuttered Venue Operators Grant programs) to a significant deficiency. Appendices I and II of this report describe details of KPMG's conclusions about the material weaknesses and significant deficiency. KPMG also identified three instances of noncompliance with applicable laws or other matters, which are discussed in Appendix III of this report.

We reviewed KPMG's report and related documentation and inquired of its personnel. Our review, as differentiated from an audit of the financial statements in accordance with GAS, was not intended to enable us to express, and we do not express, opinions on 1) SBA's financial statements or internal control over financial reporting; 2) whether SBA's financial systems complied substantially with the Federal Financial Management Improvement Act of 1996 requirements; 3) or conclusions on compliance and other matters. KPMG is responsible for the attached auditors' report dated January 21, 2026 and the conclusions expressed. Our review disclosed no instances where KPMG did not comply in all material respects with GAS.

We appreciate the cooperation and assistance extended to KPMG and our office 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: Bill Briggs, Deputy Administrator, Office of the Administrator
Wesley Coopersmith, Chief of Staff, Office of the Administrator
Ben Grayson, Deputy Chief of Staff, Office of the Administrator
Robin Wright, Chief Operating Officer, Office of the Administrator
Nathan Davis, Chief Financial Officer and Chief Risk Officer, Office of Performance, Planning, and the Chief Financial Officer
Deborah Chen, Deputy Chief Financial Officer, Office of Performance, Planning, and the Chief Financial Officer
Thomas Kimsey, Associate Administrator, Office of Capital Access
Chris Stallings, Associate Administrator, Office of Disaster Recovery and Resilience
Wendell Davis, General Counsel, Office of General Counsel
Michael Simmons, Attorney Advisor, Office of General Counsel

Attachment

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 Statement

Disclaimer of Opinion

We were engaged to audit the consolidated balance sheet of the United States (U.S.) Small Business Administration (SBA) as of September 30, 2025, and the related notes to the consolidated balance sheet (the consolidated financial statement).

We do not express an opinion on the accompanying consolidated financial statement 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 statement.

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 Venue 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 statement. 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. Additionally, management was unable to provide sufficient appropriate audit evidence to support the data used to develop assumptions used in the subsidy allowance estimate for SBA's direct loan and loan guaranty programs. As a result of these matters, we were unable to determine whether any adjustments might have been necessary related to the Credit Program Receivables and Related Foreclosed Property, Net; Downward Reestimate Payable to Treasury; Loan Guarantee Liabilities; and the related notes.

Other Matters

Report on Certain Fiscal Year 2025 Information

We were not engaged to audit the consolidated statements of net cost and changes in net position, and combined statement of budgetary resources for the year ended September 30, 2025, 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 statement. Such information is not a required part of the consolidated financial statement or supplementary information required by the Federal Accounting Standards Advisory Board. The information on these websites or the other interactive data

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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 Statement

Management is responsible for the preparation and fair presentation of the consolidated financial statement 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 the consolidated financial statement that is free from material misstatement, whether due to fraud or error.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statement

Our responsibility is to conduct an audit of the SBA's consolidated financial statement 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 the consolidated financial statement.

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 statement. Such information is the responsibility of management and, although not a part of the basic consolidated financial statement, 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 statement 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 statement as of September 30, 2025, we considered the SBA's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on the consolidated financial statement, but not for the purpose of expressing an opinion on the effectiveness of the SBA's internal control. Accordingly, we do not express an opinion on the effectiveness of the SBA's internal control. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement

will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in the accompanying Appendix I to be areas of material weaknesses.

SBA management did not report the material weakness, Controls over Subsidy Reestimate Need Improvement, in its Statement of Assurance, included in Management's Discussion and Analysis section of the accompanying Agency Financial Report.

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, 2025, 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 the accompanying Appendix III.

We also performed tests of the SBA's compliance with certain provisions referred to in Section 803(a) of the *Federal Financial Management Improvement Act of 1996* (FFMIA). Providing an opinion on compliance with FFMIA was not an objective of our engagement, and accordingly, we do not express such an opinion. The results of our tests disclosed instances, described in 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 statement, 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 statement 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. This communication is an integral part of an engagement to audit in accordance with *Government Auditing Standards* in considering the SBA's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Washington, DC
January 21, 2026

Appendix I

U.S. Small Business Administration

Material Weaknesses

The following deficiencies are considered to be areas of 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 Program Need Improvement**
3. **Controls over Subsidy Reestimate Need Improvement**
4. **Entity Level Controls Need Improvement**

Background

The COVID-19 EIDL direct loan and PPP guaranty loan programs were authorized and funded by the Coronavirus Aid, Relief, and Economic Security Act of 2020, and the Paycheck Protection Program and Health Care Enhancement 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 EIDL and PPP programs affect a substantial proportion of the consolidated financial statement.

The 7(a) Loan Guaranty Program, SBA's primary business loan program, provides loan guarantees to lenders that allow them to provide financial help for small businesses.

1. Controls over COVID-19 EIDLs Need Improvement

The COVID-19 EIDL 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. As COVID-19 EIDLs began repayment in fiscal years 2023 and 2024, a substantial number became delinquent, and many were identified by management as potentially fraudulent. Consequently, management charged off many of these delinquent and potentially fraudulent COVID-19 EIDLs. In fiscal year 2025, management implemented a funds recovery accounting policy for COVID-19 EIDLs and concluded that all COVID-19 EIDLs previously charged off on the basis of a prior charge-off policy should be reinstated and recorded as Credit Program Receivables in accordance with SFFAS 2. As a result of the updated funds recovery accounting policy, SBA reinstated a large volume of COVID-19 EIDLs as Credit Program Receivables. Management reinstated these loans based on the anticipation of further collectability.

Management did not design and implement adequate monitoring controls over the COVID-19 EIDL portfolio to ensure reliable financial reporting as of the end of the fiscal year. Management's analysis did not support the completeness and accuracy of the COVID-19 EIDL population of loans and related data elements as of the balance sheet date. Management did not sufficiently design and implement a review control to identify a complete population of loans with eligibility concerns that are critical in assessing the completeness and accuracy of the COVID-19 EIDL Credit Program Receivable balances. In addition, the monitoring controls for reviewing the loan status of COVID-19 EIDLs were not adequately designed to detect instances where the recorded loan status was not supported by the underlying accounting records or loan life cycle events.

Management did not apply consistent accounting treatment of COVID-19 EIDLs with fraud-related hold codes where there is no anticipated further collectability. As a result, a sub-population of loans with these fraud-related hold codes were not excluded from the Credit Program Receivable balance based on management's fiscal year 2025 funds recovery accounting policy.

Further, management's review controls over their reinstatement process did not provide sufficient evidence to support the completeness and accuracy of the COVID-19 EIDL population as of the balance sheet date. For example, a sub-population of charged-off loans that management intended to reinstate had not been reinstated as of fiscal year-end and therefore were not reflected in the Credit Program Receivable balance. In addition, management reinstated certain loans which were not eligible for reinstatement.

These deficiencies were caused by challenges, such as complexity and considerable effort, in retroactively generating the necessary point-in-time historical population data from the current system used for the portfolio analysis as of the end of the fiscal year. Additionally, management's review controls were not adequately designed and implemented to identify a complete and accurate population of COVID-19 EIDLs with potential eligibility concerns. Further, the reinstatement controls implemented by management were not implemented effectively to complete all eligible loan reinstatements before fiscal year-end. Finally, management's information systems were not designed to properly update the loan status of COVID-19 EIDLs to ensure the loan status was correct and supported by the underlying transactions.

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; Principle 11, Design Activities for the Information System; 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 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 statement.

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. Establish and document a process to generate, save, and securely retain complete data extracts of loan populations and relevant data elements (e.g., loan status, balances) as of the date that management's analyses are performed (such as the fiscal year-end). This process will ensure relevant data is maintained by management to support their analyses for financial reporting purposes.

2. Implement a comprehensive, risk-based, and proactive process that regularly assesses the loan population for potential fraud or ID theft concerns (e.g. periodic systematic reviews, data analytics, or other proactive monitoring controls). **(2024, recommendation 1)**

3. Apply consistent accounting treatment of non-performing loans with open agency hold codes.

4. Consistently implement financial reporting controls to ensure the Credit Program Receivable balance is completely and accurately stated throughout the fiscal year. If new policies are implemented, conduct an analysis to assess the financial reporting implications. **(2024, recommendation 2)**

5. Review controls over information technology program changes within the applicable systems of record for loan accounting so that they are designed, implemented and operating effectively, to ensure changes are appropriate and function as intended, and the information systems reflect the underlying accounting transactions. **(2024, recommendations 3 & 4)**

2. Controls over PPP Loan Program Need Improvement

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

Management's post-payment review control was not sufficiently designed and implemented to determine the appropriate status and financial reporting impact of PPP loans forgiven as of September 30, 2025. Specifically, management indicated that post-payment reviews were conducted on only two percent of the total population of forgiven PPP loans. Additionally, management's process and related control activities for recovering funds of PPP loans with eligibility concerns that were identified and confirmed after forgiveness were not fully documented or implemented. While management established a funds recovery accounting policy, the implementation of related control activities was ongoing as of fiscal year-end.

These deficiencies were caused by the volume of forgiveness payments and management's ability to remediate other deficiencies, which prevented SBA from completing all corrective actions. Consequently, the risk assessment process did not adequately evaluate or address the risks associated with post-payment review and funds recovery for PPP 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 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 Credit Program Receivables and Related Foreclosed Property, Net, and Downward Reestimate Payable to Treasury line items, and other related elements in the consolidated financial statement.

Recommendations – Controls over PPP Loan Program Need Improvement

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

6. Establish regular monitoring and reporting control activities to track progress of post payment reviews, to ensure timely and effective decision making related to implementation of funds recovery policies and procedures. **(2024, recommendation 7)**
7. Strengthen the risk assessment process and conduct a risk-based, comprehensive analysis of the entire population of forgiven PPP loans to identify whether additional reviews may be needed in determining the complete and accurate population for funds recovery. **(2024, recommendation 8)**

3. Controls over Subsidy Reestimate Need Improvement

Statement of Federal Financial Accounting Standards Number 2, *Accounting for Direct Loans and Loan Guarantees*, requires that direct loans and loan guarantees obligated 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 annually the future net cash inflows and outflows for the COVID-19 EIDLs and PPP loan portfolios as of the end of the fiscal year.

Management's review controls were not adequately designed and implemented over the data inputs used in the PPP and 7(a) Loan Guaranty subsidy reestimate models. Specifically, management did not provide sufficient documentation to evidence adequate review controls to validate the reliability of loan data used in key assumptions for the cash flow PPP model to develop the subsidy cost estimates. Further, management did not provide sufficient appropriate audit evidence to support the reliability for all key data elements used in the 7(a) reestimate model.

In addition, 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.

These deficiencies were caused by management's inability to coordinate and obtain the supporting documentation necessary to provide sufficient appropriate audit evidence to support the relevant data elements. Additionally, the control environment was insufficient with respect to the design and implementation of controls over the review of the PPP and COVID-19 EIDL portfolios. This review control was not sufficiently precise to ensure that the data inputs used for the reestimate models were complete and accurate.

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 deficiencies described above may result in a material misstatement to the subsidy reestimate impacting the Liability for Loan Guarantees, the Allowance for Direct Loan Receivables, and the Downward Reestimate Payable to Treasury and the related elements in the consolidated financial statement.

Recommendations – Controls over Subsidy Reestimate Need Improvement

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

8. Identify and implement a method to improve SBA's ability to demonstrate evidence of adequate support and controls over relevant data elements in a timely manner.
9. Continue implementing review controls in collaboration with relevant program offices for the PPP and COVID-19 EIDL portfolios to accumulate relevant, complete and accurate data on which to base the reestimate. **(2024, recommendation 23)**

4. Entity Level Controls Need Improvement

Management faced challenges in maintaining an adequate entity level controls system and enterprise risk management infrastructure and did not design or implement effective controls necessary to achieve its intended objective of 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

Management did not establish an effective control environment. The following deficiencies were identified:

- Management did not establish an agency-wide oversight body to govern the internal control system during the fiscal year.
- Management did not establish a formal internal control plan to support the entity's financial reporting objectives. In addition, there was no formal planning and accountability for the design and testing of controls.
- Management did not effectively identify and remediate gaps in personnel roles and responsibilities within the agency's organizational structure, particularly regarding the delegation of authority and assignment of roles within certain program offices.

B. Risk Assessment

Management did not perform effective risk assessment processes. The following deficiencies were identified:

- Management did not establish a coordinated agency-wide risk assessment framework and a comprehensive evaluation of financial reporting. In addition, management did not perform an analysis of program and agency changes to address evolving risks specific to the fiscal year.
- Management did not implement adequate risk assessment processes to effectively identify, analyze, and respond to relevant financial and reporting compliance risks for fiscal year 2025. For example, management did not sufficiently evaluate the risks related to the large-scale reinstatement of certain pandemic program transactions or consider the potential impact on the completeness of related portfolio balances in the consolidated financial statement. Additionally, management did not adequately respond to the increased risk of noncompliance with applicable laws arising from the significant volume of loans in delinquency status during fiscal year 2025.

C. Control Activities

Management did not adequately design and implement effective control activities. The following deficiencies were identified:

- Management did not develop or implement agency-wide internal control testing plans during the fiscal year to support the entity's financial reporting and compliance objectives, respond to relevant risks, or to achieve an effective internal control system.
- Management did not adequately design or implement controls within the relevant program offices to operate at a sufficient level of precision to achieve the reporting objective of preparing financial statements free from material misstatement. For instance, the COVID-19 EIDLs and PPP loan review processes were not designed to ensure that the reviews conducted were precise enough to confirm that the related balances were free of material misstatement.

D. Information & Communication

Management did not adequately design and implement effective information and communication control processes. Specifically, management did not establish an agency-wide oversight body during the fiscal year to govern the internal control system. As a result, quality information on internal controls, policies, and procedures was incomplete, insufficient, unavailable, and impeded effective communication across all levels of authority and lines of responsibility to achieve internal control objectives.

E. Monitoring

Management did not design and implement effective monitoring processes. The following deficiencies were identified:

- Management did not establish formal internal control testing plans at the agency-wide level, resulting in a lack of effective monitoring activities to evaluate the effectiveness of internal controls across the agency.

- While certain deficiencies identified in the prior year were remediated, management did not fully design and implement corrective action plans to effectively remediate prior year findings in the current fiscal year.

These deficiencies were caused by operational challenges that impeded the agency's ability to support effective entity level controls throughout the fiscal year. A transition plan was under development at the end of the fiscal year to respond to resource constraints in order to properly prioritize and execute the agency's enterprise risk management process, including the establishment of an agency-wide oversight body, development of internal control testing plans, and risk assessment frameworks.

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

- GAO's Green Book, Principle 2, Exercise Oversight Responsibility; Principle 4, Demonstrate Commitment to Competence; 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 13, Use Quality Information; Principle 14, Communicate Internally; Principle 16, Perform Monitoring Activities; and 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 statement, and noncompliance with the relevant laws and regulations would neither be prevented nor detected and corrected in a timely manner.

Recommendations – Entity Level Controls Need Improvement

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

10. Finalize and implement the transition plan to respond to resource constraints, which includes establishing the proper delegation of authority for personnel roles and responsibilities, ensuring the agency can properly design and effectively operate entity level controls throughout the fiscal year.

11. Establish an agency-wide oversight body to provide governance, guidance, information and communication over internal control systems and risk management activities.

12. Design, implement, and document comprehensive internal control testing plans and regularly monitor and evaluate the effectiveness of internal controls. **(2024, recommendation 32)**

13. Coordinate with key stakeholders to develop robust risk assessment frameworks to identify, analyze, and respond to emerging or evolving risks across the agency. **(2024, recommendation 31)**

Appendix II

U.S. Small Business Administration

Significant Deficiencies

Monitoring of Restaurant Revitalization Fund and Shuttered Venue Operators Grant 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. In fiscal year 2025, SBA implemented a process for funds recovery for RRF awards with eligibility concerns.

Management did not sufficiently design and implement monitoring controls to evaluate the accuracy and completeness of accounts receivable balances impacted by their recovery of funds efforts. Management reviewed a sample of RRF awards and completed testing at the end of the fiscal year. However, management did not perform a detailed analysis and extrapolation of results. Further, management did not assess whether additional testing was needed to support the balances recorded at fiscal year-end.

These deficiencies were caused by management's risk assessment process not incorporating a final evaluation of sample results to determine whether the sampling risk was appropriate and supported their adjustments to accounts receivable related to the recovery of funds for RRF awards.

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

- GAO's Green Book, 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 misstatement to the Other than Intragovernmental Accounts Receivable, Net, line item and the related elements in the consolidated financial statement.

Recommendations – Monitoring of RRF Awards

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

14. Design and implement key monitoring control procedures earlier in the fiscal year to allow adequate time for thorough execution, review, and analysis before year-end. **(2024, recommendation 15)**
15. Conduct a risk-based, comprehensive analysis of the RRF sample review results to identify whether additional reviews may be needed in determining the complete and accurate population for funds recovery. **(2024, recommendation 16)**

B. Monitoring of SVOG Awards

The period to use SVOG funds for eligible purposes expired in fiscal year 2023. 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. In fiscal year 2025, SBA implemented a process for funds recovery for SVOG awards with eligibility concerns.

Management's monitoring controls over SVOG awards to ensure compliance with the CARES Act and related legislation, as well as accurate financial reporting at fiscal year-end were not fully implemented. Specifically, as of September 30, 2025, certain awards lacked a submitted Expense Report or SF-425. Management also selected samples of SVOG awards to assess the accuracy of report submissions and recipient eligibility. However, sample reviews were not completed by the end of the fiscal year. Furthermore, management's funds recovery process was not fully implemented for SVOG awards with identified eligibility concerns to support the balances recorded at year-end.

These deficiencies were caused by the design and implementation of the funds recovery procedures occurring close to fiscal year-end, resulting in insufficient time to thoroughly execute sample reviews.

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

- Federal Accounting Standards Advisory Board (FASAB) Statement of Federal Financial Accounting Standards 1 (SFFAS 1): Accounting for Selected Assets and Liabilities
- GAO's Green Book, Principle 10, Design Control Activities; and Principle 13, Use Quality Information

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

Recommendations – Monitoring of SVOG Awards

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

16. Complete the outstanding sample reviews to identify the complete population of 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. This will ensure the data provided to the Office of Performance, Planning, and the Chief Financial Officer (OPPCFO) is complete, accurate and reported in a timely manner for year-end financial reporting. **(2024, recommendations 18 & 19)**

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 481,258 COVID-EIDLs and 81,782 PPP loans were noncompliant with DCIA requirements for the fiscal year ended September 30, 2025.

In addition, management did not design and implement effective controls to identify and refer 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 configuration in place to refer delinquent loans to Treasury within the appropriate timeframe.

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; Principle 10, Design Control Activities; and Principle 16, Performing Monitoring 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:

17. Reevaluate delinquency policies and procedures, such as system controls and configurations, to ensure borrowers are notified timely of delinquency, and if applicable, subsequently referred within the required timeframe. **(2024, recommendation 52)**

18. Update risk assessment and monitoring controls to address and mitigate noncompliance risks related to DCIA. **(2024, recommendation 51)**

19. Document the review and assessment of current and prospective processes and policies to ensure they address compliance risks. **(2024, recommendation 50)**

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

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

- Document a comprehensive evaluation of internal control over financial reporting regarding current programs while giving consideration to relevant risks during the fiscal year.
- Design or establish a formal internal control program, including the design and implementation of risk assessment processes and testing across SBA programs and functions.
- Ensure their own assurance process was sufficient to identify material weaknesses and significant deficiencies that existed during the fiscal year in addition to those identified by external auditors.

This noncompliance was caused by operational challenges that impeded the agency's ability to support effective entity level controls and FMFIA compliance throughout the fiscal year. A transition plan was under development at the end of the fiscal year to properly prioritize and execute the agency's enterprise risk management process, which led to insufficient oversight and validation in management's assurance process.

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 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 statement.

Recommendations – FMFIA

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

20. Strengthen controls, such as entity level controls, manual controls, general information technology controls, and system application controls by developing standardized procedures for assessing and reporting on internal controls across all offices within SBA. **(2024, recommendation 53)**
21. Collaborate with appropriate program office management to assess internal control testing results and revise corrective action plans to remediate identified control deficiencies. **(2024, recommendation 54)**
22. Update existing policies and implement effective monitoring controls that incorporate independent validations of program offices' Statement of Assurance (SOA) process. Ensure that SOAs from all program offices are thoroughly documented and independently reviewed for completeness and accuracy, providing a reliable basis for the Administrator's SOA. **(2024, recommendation 55)**

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 direct and guaranty loan transactions do not enable reliable and accurate financial reporting, do not ensure compliance objectives are met.

- Federal Accounting Standards. The deficiencies identified and reported in Appendix I – Material Weaknesses, provide an indication that SBA's financial systems were substantially noncompliant with applicable federal accounting standards. For example, management did not apply consistent accounting treatment over the COVID-19 EIDL and PPP loan programs.

Management did not substantially meet FFMIA requirements because of the reasons discussed in Appendix I – Material Weaknesses and due to an inadequate agency-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 statement.

Recommendations – FFMIA

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

23. 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. **(2024, recommendation 56)**

CFO Response to Audit Report on FY 2025 Financial Statements

DATE: January 21, 2026

TO: William Kirk, Inspector General

FROM: Nathan Davis, Chief Financial Officer and Chief Risk Officer

SUBJECT: FY 2025 Financial Statement Audit

The Small Business Administration (SBA) has reviewed the Independent Auditors' Report issued by KPMG, which includes a disclaimer of opinion on the Agency's FY 2025 Consolidated Balance Sheet. The independent audit of the Agency's financial statements and related processes is a core component of SBA's financial management program, and management takes the results of this audit seriously.

The FY 2025 Agency Financial Report (AFR) reflects meaningful improvements resulting from sustained leadership focus, cross-functional collaboration and disciplined execution of corrective action plans. During the fiscal year, material weaknesses related to Controls over Service Organizations and Controls over General Information Technology were fully remediated. In addition, significant deficiencies related to Controls over Payments for Debt Relief and Controls over Reporting of Contingencies were also fully remediated. Further, the material weakness related to Controls over Monitoring of Restaurant Revitalization Fund and Shuttered Venues Operators Grant Programs was downgraded to a significant deficiency. These outcomes demonstrate tangible progress in strengthening SBA's financial management and internal control environment.

The auditors identified material weaknesses related to the internal controls over four areas: COVID-19 Economic Injury Disaster Loans (EIDL), Paycheck Protection Program (PPP) Loan Program, Subsidy Reestimate, and Entity Level Controls. Management agrees that certain conditions identified in the audit report and associated with these material weaknesses were the result of the auditors' inability to obtain sufficient and appropriate audit evidence. However, management does not fully concur with several underlying characterizations and contributing factors that are presented within the audit report for the reported material weaknesses related to internal controls over COVID-19 EIDL and Subsidy Re-estimate. In particular,

- Management disagrees with the characterization that the COVID-19 EIDL population analysis was inadequate as of the balance sheet date (September 30, 2025). Management assessed the population and concluded that it was complete and appropriate for financial reporting purposes. Management acknowledges, however, that certain data attributes supporting this analysis were not available in the form requested by KPMG at the time of their audit procedures (December 2025), due to the inability to reproduce the population at

a prior point in time. This limitation reflects challenges associated with retrospective audit evidence requirements rather than deficiencies in management's assessment as of the reporting date. (Material Weakness 1)

Additionally, management disagrees with the auditors' conclusions regarding certain review controls. SBA does not believe that additional reviews of the population for potential fraud or identity theft would alter management's assessment of the completeness of the population for financial reporting purposes. (Material Weakness 1, Recommendation 1)

Management agrees that a material weakness exists related to controls over COVID-19 EIDLs because of inconsistent accounting treatment of the COVID EIDL population and the need for improvements in the controls over the reinstatement process implemented in the fourth quarter of FY 2025. (Material Weakness 1)

- Management does not believe that there is a clear or likely indicator that SBA does not have adequate controls over the data inputs used in the 7(a) Loan Guaranty subsidy reestimate model. The conditions noted by the auditor in the reported subsidy reestimate material weakness were primarily due to the timing of when the audit procedure was initiated and performed; the complexity involved with obtaining documentation from third parties, which increases the amount of time necessary to obtain supporting documents; and the fact that this was the first time this audit procedure was performed, which led to a "learning curve" for both the auditor and SBA as to the best approach for testing and obtaining documentation for audit evidence. Although SBA does not agree that the conditions reported are likely to result in a material misstatement, SBA is committed to identifying and implementing a method that improves SBA's ability to demonstrate evidence of adequate support and controls over the over the data elements in a timely manner. (Material Weakness 3)

  Additionally, management disagrees with the inclusion of PPP and COVID-19 EIDL within the reported material weakness related to controls over the subsidy reestimate. The underlying conditions and impacts associated with PPP and COVID-19 EIDL are already reflected within Material Weaknesses 1 and 2. Because the root causes and corrective actions overlap, inclusion within the subsidy reestimate material weakness is duplicative and may be misleading. Additionally, as indicated above, management disagrees with the auditor regarding COVID-19 EIDL review controls. SBA does not believe additional reviews of the population would alter its assessment of completeness of the population. (Material Weakness 3, Recommendation 9)

- Management does not agree that SBA is not in substantial compliance with the FFMIA. SBA's core financial management systems are substantially compliant with Federal financial management systems requirements, applicable Federal accounting standards and

USSGL at the transaction level. The deficiencies the auditor cited as causing FFMIA non-compliance were due to factors external to the core financial management systems, rather than a limitation in the system's design or ability to prepare financial statements, disclosures and related information. For example, SBA's assessment is that the material weaknesses cited by the auditor are related to the COVID-19 EIDL and PPP programs are the result of material uncertainty regarding completeness of populations and potential funds recovery policy decisions. As such, management does not believe this constitutes substantial FFMIA noncompliance. (Compliance C, Recommendation 23)

Management respects the independent role of the auditors and values their perspectives, and we remain committed to constructive engagement to resolve these matters. At the same time, management believes it is important to distinguish between limitations associated with large-scale COVID-19 pandemic-era programs, which were executed under emergency conditions, and the effectiveness of SBA's current control environment governing ongoing operations.

Notwithstanding these differences, management recognizes the seriousness of the conditions contributing to the disclaimer of opinion. SBA remains focused on sustaining the improvements achieved in FY 2025 and building upon them in the year ahead. Management will continue to evaluate auditor recommendations and, where appropriate, refine our processes and controls to address identified areas of concern.

We appreciate the efforts of the Office of the Inspector General and KPMG, and we remain committed to continued progress in strengthening SBA's financial management and oversight capabilities.

Appendix V

Auditors' Response to Management's Response

We acknowledge SBA management's response to our Independent Auditors' Report, presented in Attachment IV, and commend their commitment to financial management and the accountability for and transparency of their programs. SBA management agreed with two of the areas of material weakness included in our report, *Controls over Paycheck Protection Program (PPP) Loan Program Need Improvement* and *Entity Level Controls Need Improvement*. However, management did not agree in part with the other two areas of material weaknesses included in our report, *Controls over Coronavirus Disease 2019 (COVID-19) Economic Injury Disaster Loans (EIDLs) Need Improvement* and *Controls over Subsidy Reestimate Need Improvement.* Additionally, management did not agree with our finding over the agency's substantial noncompliance with *Federal Financial Management Improvement Act of 1996 (FFMIA).*

We have reviewed management's responses and have determined that all aspects of the material weaknesses in internal control over financial reporting and substantial noncompliance with FFMIA remain appropriate. We provide the following additional information related to the *Controls over Coronavirus Disease 2019 (COVID-19) Economic Injury Disaster Loans (EIDLs) Need Improvement*, *Controls over Subsidy Reestimate Need Improvement,* and our findings related to substantial noncompliance with the *Federal Financial Management Improvement Act of 1996 (FFMIA).*

In the area of COVID-19 EIDL:

- Management indicated that they assessed the COVID-19 EIDL portfolio and determined it was complete and accurate. However, the data supporting management's analysis and conclusion did not substantiate management's analysis performed. We identified examples where loans were included in the COVID-19 EIDL population and the Credit Program Receivable balance at September 30, 2025, however these loans were recorded with a zero balance in management's analysis. As a result, the data utilized in management's analysis did not support management's conclusion regarding the completeness and accuracy of the COVID-19 EIDL population. Further, management indicated that their inability to provide supporting evidence over the COVID-19 EIDL population was due to an audit evidence requirement. However, OMB Circular A-123, *Management's Responsibility for Internal Control*, requires management to establish and maintain effective internal controls to ensure reliable financial reporting. As part of this responsibility, management must maintain sufficient documentation to support its financial transactions and account balances.

- Management indicated that they believe additional review would not alter their assessment of the completeness of the COVID-19 EIDL population. However, management's review control is not designed to remove COVID-19 EIDLs with similar eligibility concerns from the portfolio in a consistent manner. We identified COVID-19 EIDLs with similar eligibility characteristics that were both included in the Credit Program Receivable balance as of September 30, 2025, and written off to be excluded from this balance, which resulted in inconsistent accounting treatment. As a result, management did not design and implement adequate monitoring controls and review processes to support the completeness and accuracy of the COVID-19 EIDL portfolio and related financial data as of year-end.

In the area of the Subsidy Reestimate:

- Management disagrees with our finding that SBA did not have adequate controls over the data inputs. However, management did not provide the necessary supporting documentation for the integral data related to borrower characteristics and the underlying loans used in the 7(a) Loan Guaranty subsidy reestimate model. Management attributed the material weakness in the 7(a) Loan Guaranty reestimate to the nature and timing of the audit procedures and complexity involved in obtaining supporting documentation from third parties. However, it is management's responsibility to maintain, support, and report the information for the loan guaranty reestimate. The material weakness resulted from

management's ineffective coordination with third parties to obtain the necessary supporting documentation for the relevant data elements. As a result, the loan guaranty reestimate material weakness existed as of September 30, 2025.

- Management indicated that elements of material weakness entitled *Controls over Subsidy Reestimate Need Improvement* are already covered by material weaknesses entitled *Controls Over COVID-19 EIDLs Need Improvement* and *Controls Over PPP Loan Program Need Improvement*. This is not accurate, as the material weakness entitled *Controls Over Subsidy Reestimate Need Improvement* specifically pertains to the controls over the data inputs used in the subsidy reestimate models, while the material weaknesses entitled *Controls Over COVID-19 EIDLs Need Improvement* and *Controls Over PPP Loan Program Need Improvement* address separate findings relating to the controls over the COVID-19 EIDL portfolio and controls over the post-payment review of forgiven PPP loans, respectively.

In the area of FFMIA:

- Management indicated that they believe SBA's financial management systems are in substantial compliance with Federal financial management systems requirements and Federal accounting standards. FFMIA defines Federal financial management systems as software, hardware, processes, procedures, and controls necessary to support financial management. In our evaluation of management's compliance with FFMIA and based on the Basis for Disclaimer of Opinion and the material weaknesses identified, we determined that management was unable to demonstrate substantial compliance with Federal financial management systems requirements. Additionally, management was unable to consistently, completely, and accurately record and account for balances and transactions in accordance with generally accepted accounting principles, resulting in substantial noncompliance with Federal accounting standards.

Financial Statement and Notes

The U.S. Small Business Administration prepares its financial statement as a critical aspect of ensuring accountability and stewardship for the public resources entrusted to the SBA. Preparation of this statement is also an important part of the 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 statement and the quality of internal controls.

The Consolidated Balance Sheet and related Notes are found in this section. All other financial statements and related Notes are found in the Other Information section of this report.

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 **Notes to the Consolidated Balance Sheet** provide information to explain the basis of the accounting and presentation used to prepare the Consolidated Balance Sheet and to explain specific items in the statement. These also provide information to support how particular accounts have been valued and computed.

(Dollars in Thousands)

U. S. Small Business Administration

CONSOLIDATED BALANCE SHEET

As of September 30, 2025 (Unaudited)

		2025
ASSETS (Note 3)		
Intragovernmental Assets		
Fund Balance with Treasury (Note 2)	$	13,712,860
Accounts Receivable, Net (Note 4)		377
Advances and Prepayments		5,874
Total Intragovernmental Assets		13,719,111
Other than Intragovernmental Assets		
Cash and Other Monetary Assets		9,893
Accounts Receivable, Net (Note 4)		276,726
Loans Receivables, Net:		
Credit Program Receivables and Related Foreclosed Property, Net (Note 5)		234,337,317
Property, Plant and Equipment, Net (Note 6)		56,051
Advances and Prepayments		11,043
Total Other than Intragovernmental Assets		234,691,030
Total Assets	**$**	**248,410,141**
LIABILITIES		
Intragovernmental Liabilities		
Accounts Payable:		
Accounts Payable, Capital Transfers:		
Net Assets of Liquidating Funds Due to Treasury (Note 9)	$	75
Accounts Payable		9,684
Debt:		
Loans Payable:		
Principal Payable to the Bureau of the Fiscal Service (Note 8)		249,335,902
Advances from Others		8,293
Other Liabilities:		
Benefit Program Contributions Payable		15,628
Liability to the General Fund of the U.S. Government for Other Non-Entity Assets:		
Downward Reestimate Payable to Treasury (Note 5)		2,869,138
Other (Note 10)		102,303
Total Intragovernmental Liabilities		252,341,023
Other than Intragovernmental Liabilities		
Accounts Payable		166,610
Federal Employee Salary, Leave, and Benefits Payable (Note 11)		87,733
Post-Employment Benefits Payable (Note 11)		27,747
Loan Guarantee Liabilities (Note 5)		3,019,305
Other Liabilities:		
Accrued Grant Liability		55,775
Surety Bond Guarantee Program Future Claims (Note 7)		89,590
Other (Note 10)		91,641
Total Other than Intragovernmental Liabilities		3,538,401
Total Liabilities		**255,879,424**
Commitments and Contingencies (Note 12)		
NET POSITION		
Unexpended Appropriations - Funds from Other Than Dedicated Collections		4,151,458
Cumulative Results of Operations - Funds from Other Than Dedicated Collections		(11,620,741)
Total Net Position		**(7,469,283)**
Total Liabilities and Net Position	**$**	**248,410,141**

The accompanying notes are an integral part of this statement.

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. The 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 Consolidated Balance Sheet was prepared to report the financial position of the Agency, as required by the Chief Financial Officers Act of 1990 and the Government Management Reform Act of 1994. The Consolidated Balance Sheet was prepared from the Agency's financial records in accordance with Generally Accepted Accounting Principles (GAAP), issued by the Federal Accounting Standards Advisory Board (FASAB), and the Office of Management and Budget (OMB) Circular A-136, Financial Reporting Requirements, as revised.

The accounting structure of federal agencies is designed to reflect both the accrual and budgetary accounting transactions. Under the accrual method of accounting, revenues are recognized when earned and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash. Budgetary accounting facilitates compliance with legal constraints and controls over federal funds.

The Federal Credit Reform Act (FCRA) of 1990 governs the SBA's accounting transactions 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 guarantied loans is all the direct loans obligated, or loan guaranties committed, in a given fiscal year. Increases to individual loans in a cohort that are made in a subsequent fiscal year are accounted for in the subsequent year's loan cohort. Cohort cash flows include loan repayments, recoveries on defaulted guaranties and loan fees received by the SBA that are due from the lenders and borrowers when the loan is made and during the life of the loan cohort, as well as expenditures by the SBA for defaulted guaranties, loan servicing expenses, and other required SBA expenditures. An initial allowance or liability for loan guaranties is established in the original year of the loan cohort. The initial amount

the allowance and liability for each cohort is reestimated annually at fiscal year-end, and the adjusted amount is included in the SBA's annual financial statements.

USE OF ESTIMATES

The 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.

ACCOUNTS RECEIVABLE

Accounts receivable are amounts due to the Agency from other federal agencies (intragovernmental) and the public (other than intragovernmental). Other than intragovernmental receivables result from overpayments to recipients of grants and other financial assistance programs. Intragovernmental receivables result from reimbursable agreements entered into by the Agency with other agencies to provide various goods and services. Accounts receivable are reduced to net realizable value by an allowance for uncollectible amounts.

ADVANCES AND PREPAYMENTS

Advances are cash outlays made by a Federal entity to its employees, contractors, grantees, or others to cover part or all 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.

CASH AND OTHER MONETARY ASSETS

The SBA field offices deposit collections from borrowers in the SBA's account at the Treasury using an electronic deposit system. At the end of the fiscal year, collections temporarily held by the SBA field offices pending deposit are recorded as Undeposited Collections - Cash in Transit.

PROPERTY, PLANT AND EQUIPMENT

The SBA records PP&E at cost less accumulated depreciation. Capitalization and depreciation policies are as follows:

Equipment

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

Leasehold Improvements

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. The SBA expenses leasehold improvements not meeting the capitalization criteria.

Internal Use Software

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.

LEASES

Effective October 1, 2023, SFFAS No. 54. Leases, revised the financial reporting standards for Federal lease accounting, which provides a comprehensive set of standards to recognize Federal lease activities in a reporting entity's financial reports and note disclosures. The statement requires Federal lessees to recognize a lease liability and asset at the commencement of the lease term for all material non-intragovernmental, non-short-term contracts when the reporting entity has the right to control access to or obtain benefits from the use of real property, equipment, or other assets. Implementation of this standard had an immaterial impact on the SBA's financial reporting as its leases for real property are intragovernmental leases, which do not require the recognition of a lease liability or asset, and the SBA does not explicitly lease equipment or other assets in the normal course of business. The SBA will continue to evaluate its contract activity to identify any potential embedded leases. However, the SBA will not report any embedded leases in accordance with the three-year transitional accommodation period provided to entities implementing SFFAS No. 54 Leases in SFFAS No. 62, Transitional Amendment to SFFAS No. 54.

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.

ADVANCES FROM OTHERS

Advances received from other federal entities are recorded when received and liquidated when the SBA records a expense funded by the advance.

BENEFIT PROGRAM CONTRIBUTION PAYABLE

A liability is recorded for accrued benefits payable that will be liquidated when the related payments are recorded.

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 lawsuits, and claims brought against the Agency. In the opinion of the 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, Commitments and Contingencies note for further details. The resolution of all other legal proceedings, actions, suits, and claims will not materially affect the financial position or results of the SBA's operations.

CUMULATIVE RESULTS OF OPERATIONS

The Cumulative Results of Operations, presented on the Consolidated Balance Sheet, 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 the 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.

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.

Federal Employees' Compensation Act

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

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

Note 2. Fund Balance with Treasury

The U.S. Department of the Treasury processes cash receipts and disbursements on the SBA's behalf to pay liabilities and finance loan program costs. Cash receipts are deposited into the SBA's account at the Treasury. The SBA's fund balances with the Treasury are available to make expenditures to liquidate allowable obligations, except for the Budget Clearing Accounts which are not available to the SBA to obligate or expend until applied.

Records are maintained for the 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.

Fund Balance with Treasury (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 a combination of receipts, other inflows, and borrowing from the public (if there is a budget deficit).

(Dollars in Thousands)

As of September 30,		2025
Appropriated Funds	$	5,856,283
Financing Funds		7,648,624
Liquidating Funds		519
Revolving Funds		115,308
Trust Fund		485
Budget Clearing Accounts Balance		91,641
Total Fund Balance with Treasury	**$**	**13,712,860**

Note 3. Non-Entity Assets

Non-Entity Assets consist of assets that belong to other entities but are included in the SBA consolidated financial statements and are offset by various liabilities to accurately reflect the SBA's net position. The SBA's non-entity accounts receivable principally consist of disaster loan downward re-estimates from FY 2025 of $2.3 billion and business guaranteed loans of $0.6 billion. The SBA performs eliminations between the credit agency payable and the non-entity receivable for compiling the balance sheet. The downward reestimate amounts are reflected in the consolidated balance sheet in the liabilities section as downward reestimate payable to treasury.

(Dollars in Thousands)

As of September 30,		2025
Intragovernmental Assets:		
Accounts Receivable, Net	$	2,869,138
Total Intragovernmental Assets		**2,869,138**
Other Than Intragovernmental Assets:		
Accounts Receivable, Net		101,167
Total Other Than Intragovernmental Assets		**101,167**
Total Non-Entity Assets		2,970,305
Eliminations		(2,869,138)
Total Entity Assets		248,308,974
Total Assets	**$**	**248,410,141**

Note 4. Accounts Receivable, Net

Accounts receivable are amounts due to the SBA from other federal agencies (intragovernmental) and the public (other than intragovernmental).

Other than Intragovernmental includes amounts owed by the public to the SBA for grants and direct payments whose recipients have not provided sufficient documentation for the SBA to determine that the payments have been earned as well as guaranty fees in the SBA's loan and surety bond programs and miscellaneous receivables (Other).

An Allowance for Loss on uncollectible Restaurant Revitalization Fund Receivables and Shuttered Venue Operators Grant Receivables is based upon historical recovery rates in the Paycheck Protection Program which is similar in nature, originating during the COVID era with no personal guarantee or collateral.

The Allowance for Loss for Other receivables is the allowance for uncollectible Surety Bond Guaranty fees based on an aging of delinquent balances. Amounts over 180 days past due on guarantied loans purchased by the SBA are written off for financial reporting purposes.

(Dollars in Thousands)

As of September 30, 2025	Restaurant Revitalization Fund	Shuttered Venue Operators Grant	Guaranty Fees Receivable	Total
Intragovernmental				
Administrative Receivables	$ -	$ -	$ 377	$ 377
Total Intragovernmental	**$ -**	**$ -**	**$ 377**	**$ 377**
Other than Intragovernmental				
Accounts Receivable Gross	$ 2,363,589	$ 706,689	$ 146,735	$ 3,217,013
Allowance For Loss	(2,262,428)	(675,107)	(2,752)	(2,940,287)
Total Other than Intragovernmental, Net	**$ 101,161**	**$ 31,582**	**$ 143,983**	**$ 276,726**

Note 5. Credit Program Receivables and Liability for Loan Guaranties

A. LOAN PROGRAM DESCRIPTIONS AND ACCOUNTING

Loan Program Descriptions

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

Major Direct Loan and Loan Guaranty Programs

Program Group	Program Type	Program
Disaster	Direct	Disaster Assistance Loans
Business	Guarantied	7(a) Loan Guaranty
Business	Guarantied	504 Certified Development Company
Business	Guarantied	Small Business Investment Company Debentures
Business	Direct	7(m) Microloan

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

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 guarantied 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.

Guarantied 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 the SBA's timely payment requirement of principal and interest due for debentures in the 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 guarantied 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, 2025 the SBA's foreclosed property was $20.8 million related to 74 loans. The properties had been held for an average of 1,806 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 the SBA's Balance Sheet. The liability for guarantied 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 guarantied loans purchased by the SBA.

Valuation Methodology for Pre-FCRA Liability for Loan Guaranties

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

Reestimates

Reestimates mean revisions of the subsidy cost estimate of a cohort (or risk category) based on information about the actual performance and/or estimated changes in future cash flows of the cohort. Reestimates must be made immediately after the end of each fiscal year, as long as any loans in the cohort are outstanding, unless a different plan is approved by OMB (see section 185.6). An upward reestimate indicates that insufficient funds had been paid to the financing account, so the increase (plus interest on reestimates) is paid from the program account to the financing account to make it whole. Permanent indefinite budget authority is available for this purpose pursuant to section 504(f) of the FCRA. A downward reestimate indicates that too much subsidy had been paid to the financing account. The excess (plus interest) is disbursed to a downward reestimate receipt account.

Significant Transactions During FY 2025

As a result of an updated accounting policy to more accurately value the gross receivable, the SBA returned 697,793 COVID EIDLs totaling $48.9 billion and 448,816 purchased defaulted PPP loans totaling $10.2 billion from charge off to a new loan status "SBA Uncollectible". These loans are either at Treasury for collection efforts or are eligible for Treasury referral. Due to the subsidy allowance, there is no impact to the net credit program receivables line. In FY 2026, the SBA will review its other loan programs to ensure consistency with this new accounting treatment.

B. CREDIT PROGRAM RECEIVABLES AND RELATED FORECLOSED PROPERTY, NET

(Dollars in Thousands)

As of September 30, 2025	Pre-1992 Loans	Post-1991 Loans	Total
Direct Business Loans			
Business Loans Receivable	$ 6,021	$ 226,053	$ 232,074
Interest Receivable	-	2,142	2,142
Foreclosed Property	2,631	-	2,631
Allowance	(8,652)	(18,170)	(26,822)
Total Direct Business Loans	**-**	**210,025**	**210,025**
Direct Disaster Loans			
Disaster Loans Receivable	32	324,938,778	324,938,810
Interest Receivable	1	11,024,930	11,024,931
Foreclosed Property	-	4,939	4,939
Allowance	-	(103,975,451)	(103,975,451)
Total Direct Disaster Loans	**33**	**231,993,196**	**231,993,229**
Defaulted Guarantied Business Loans & Other Loans Receivable			
Defaulted Guarantied Business Loans	2,579	15,117,991	15,120,570
Other Loans Receivable (see note below)	-	36,551	36,551
Interest Receivable	-	291,477	291,477
Foreclosed Property	1,263	11,979	13,242
Allowance	(3,842)	(13,323,935)	(13,327,777)
Total Defaulted Guarantied Business Loans & Other Loans Receivable	**-**	**2,134,063**	**2,134,063**
Total Credit Program Receivables & Related Foreclosed Property, Net			**$234,337,317**

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

C. 2025 SUBSIDY RATES BY PROGRAM AND COMPONENT

The subsidy rates in Table D 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.

Loan Program	Total Subsidy	Financing	Default	Other	Fee
Guaranty					
7(a)	**0.00%**	0.00%	3.23%	0.00%	-3.23%
504 CDC	**0.00%**	0.00%	3.77%	0.36%	-4.13%
504 Refi	**0.00%**	0.00%	3.92%	0.36%	-4.28%
SBIC Debentures	**0.00%**	0.00%	5.05%	0.02%	-5.07%
Direct					
Disaster	**22.22%**	15.67%	9.70%	-3.15%	0.00%
Microloan	**10.53%**	8.85%	1.93%	-0.25%	0.00%

D. LOAN GUARANTEE LIABILITIES

For guaranteed loans outstanding, the present value of estimated net cash outflows of the loan guarantees is recognized as a liability. Credit programs re-estimate the liability for outstanding loan guarantees as required in Statement of Federal Financial Accounting Standards (SFFAS) 2. An increase or decrease in loan guarantee liability resulting from the re-estimates is recognized as an increase or decrease in subsidy expense for the current reporting period. The SBA currently has outstanding loan guarantee liabilities of $3.0 billion.

E. LOANS PRINCIPAL OUTSTANDING

(Dollars in Thousands)

Loans Outstanding as of September 30,		2025
Total Principal Outstanding at Face Value	$	175,043,268
Total Principal Outstanding Guarantied by the SBA		145,606,225

Note: SBA's guarantied loan servicing agent provides data to the SBA on the unpaid principal balance of guarantied loans with a one-month lag.

Note 6. Property, Plant, and Equipment, Net

(Dollars in Thousands)

As of September 30, 2025	Useful Life (Years)	Cost	Accumulated Depreciation and Amortization	Net Book Value
Equipment	2-25	$ 2,675	$ (2,675)	$ -
Leasehold Improvements	2-5	1,811	(1,811)	-
Software in Development		5,643	-	5,643
Software in Use	5	181,984	(131,576)	50,408
Total General Property and Equipment, Net		**$ 192,113**	**$ (136,062)**	**$ 56,051**

RECONCILIATION PROPERTY, PLANT AND EQUIPMENT, NET

As of September 30,	2025
Balance Beginning of Year	**$ 79,875**
Capitalized Acquisitions	5,758
Depreciation Expense	(29,582)
Balance at End of Year	**$ 56,051**

See Note 1 for a description of accounting policy.

Note 7. 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.

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

(Dollars in Thousands)

As of September 30,	2025
Intragovernmental Liabilities - Benefit Program Contributions Payable	
Unfunded Employment Taxes Payable	$ 4,879
Unfunded Federal Employees' Compensation Act Payable	6,560
Total Intragovernmental Liabilities - Benefit Program Contributions Payable	**11,439**
Other than Intragovernmental Liabilities - Federal Employee Benefits Payable	
Accrued Unfunded Annual Leave	$ 50,167
Federal Employees' Compensation Act Payable	27,747
Total Other than Intragovernmental Liabilities - Federal Employee Benefits Payable	**77,914**
Surety Bond Guarantee Program Future Claims	**$ 89,590**
Total Liabilities Not Covered by Budgetary Resources	**$ 178,943**
Total Liabilities Covered by Budgetary Resources	255,608,840
Total Liabilities Not Requiring Budgetary Resources	91,641
Total Liabilities	**$ 255,879,424**

Note 8. Debt

The FCRA permits agencies to borrow from Treasury to support credit programs. Borrowings payable to the Treasury funded disbursements of new loans, payment of downward subsidy reestimates, and the payment of other credit program outlays and related costs. 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. Approximately 99% of SBA debt is attributable to direct loan programs.

INTRAGOVERNMENTAL DEBT

(Dollars in Thousands)

As of September 30,		2025
Principal Payable to the Bureau of the Fiscal Service		
Beginning Balance	$	264,662,710
New Borrowings		14,778,023
Repayments		(30,104,831)
Total Principal Payable to the Bureau of the Fiscal Service	**$**	**249,335,902**

Note 9. 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,	2025
Disaster Loan Fund	$ 33
Business Loan and Investment Fund	42
Total Due to Treasury	**$ 75**

Note 10. Other Liabilities

Intragovernmental Other Liabilities - Payable to Treasury represent the amount of non-entity assets held in a General Fund Receipt Account due to Treasury for the estimated recovery of payments made by the Restaurant Revitalization Fund.

Other than Intragovernmental Other Liabilities primarily represent fund balance with treasury not yet reclassified as of the balance sheet date.

Other liabilities are shown in the following table.

All liabilities reflected are current liabilities.

(Dollars in Thousands)

As of September 30,		2025
Intragovernmental Other Liabilities		
Employment Taxes Payable	$	1,136
Payable to Treasury		101,167
Total Intragovernmental Other Liabilities		**102,303**
Other than Intragovernmental Other Liabilities		
Budget Clearing Accounts		91,641
Total Other than Intragovernmental Other Liabilities		**91,641**
Total Other Liabilities	**$**	**193,944**

Note 11. Federal Employment Benefits Payable

Federal Employment Benefits Payable are shown in the following table.

(Dollars in Thousands)

As of September 30,		2025
Federal Employee Salary, Leave, and Benefits Payable		
Accrued Funded Payroll and Leave	$	36,911
Employer Contributions and Taxes Payable		655
Unfunded Leave		50,167
Total Federal Employee Salary, Leave, and Benefits Payable	**$**	**87,733**
Post-Employment Benefits Payable		
Actuarial FECA Liability	$	27,747
Total Post-Employment Benefits Payable	**$**	**27,747**

Note 12. 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.

PROBABLE LIKELIHOOD OF AN ADVERSE OUTCOME

The SBA does not have any material probable contingencies. Any probable losses would be classified as immaterial and would have inconsequential effects on the financial performance or position of the SBA.

REASONABLY POSSIBLE LIKELIHOOD OF AN ADVERSE OUTCOME

The SBA is subject to other potential losses where it is reasonably possible that an adverse outcome will result. Since some of the potential liabilities represent claims with no stated amount, the exact amount of total potential loss is unknown, but it is believed these claims could result in potential estimable losses as of September 30, 2025, of up to $253 million if the outcomes were adverse to the SBA. For most claims, any amounts ultimately due will be paid out of Treasury's Judgment Fund. For certain claims to be paid by Treasury's Judgment Fund, once the claims are settled or court judgments are assessed relative to the SBA, the liability will be removed, and an Imputed Financing Source will be recognized.

SECTION 3



Other Information

(UNAUDITED)

Other Information

The information contained in the section is unaudited.

This section consists of financial statements, notes, and other information other than that related to the Consolidated Balance Sheet.

The **Consolidated Statement of Net Cost** shows, by major program category, 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 the 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.

(Dollars in Thousands)

U. S. Small Business Administration

CONSOLIDATED STATEMENT OF NET COST

For The Year Ended September 30, 2025 (Unaudited)

		2025
Access to Capital, Investment & Innovation, Contracting & Business Development		
Gross Cost	$	1,077,610
Less: Earned Revenue		545,092
Net Program Costs		**532,518**
Disaster Assistance and Recovery		
Gross Cost		15,920,959
Less: Earned Revenue		4,550,934
Net Program Costs		**11,370,025**
Mission Support and Advocacy		
Gross Cost		165,062
Net Program Costs		**165,062**
Inspector General and Congressional Initiatives		
Gross Cost		56,809
Net Program Costs		**56,809**
Net Cost of Operations	**$**	**12,124,414**

Note 16: The accompanying notes are an integral part of these statements.

(Dollars in Thousands)

U. S. Small Business Administration

CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION

For The Year Ended September 30, 2025 (Unaudited)

		2025
Funds from other than Dedicated Collections		
Unexpended Appropriations:		
Beginning Balance	$	3,092,566
Appropriations Received		12,043,886
Other Adjustments:		
Rescissions		(149,212)
Adjustment - Cancelled Authority		(16,430)
Return of Unrequired Liquidating Fund Appropriation		(412)
Other Adjustments		(138)
Appropriations Used		(10,818,802)
Total Unexpended Appropriations	**$**	**4,151,458**
Cumulative Results of Operations:		
Beginning Balance	$	(7,346,654)
Appropriations Used		10,818,802
Donations of Cash and Cash Equivalents		2
Imputed Financing		55,953
Other:		
Current Year Liquidating Equity Activity		7,947
Non-entity Activity		(3,032,377)
Net Cost of Operations		**12,124,414**
Net Change in Cumulative Results of Operations		**(4,274,087)**
Total Cumulative Results of Operations	**$**	**(11,620,741)**
Ending Net Position	**$**	**(7,469,283)**

The accompanying notes are an integral part of these statements.

(Dollars in Thousands)

U. S. Small Business Administration

COMBINED STATEMENT OF BUDGETARY RESOURCES

For The Year Ended September 30, 2025 (Unaudited)

	Budgetary	Nonbudgetary Financing	Total
BUDGETARY RESOURCES			
Unobligated Balance from Prior Year Budget Authority, Net (discretionary and mandatory)	$ 4,156,418	$ 7,777,561	$ 11,933,979
Appropriations (discretionary and mandatory)	11,894,262	-	11,894,262
Borrowing Authority (discretionary and mandatory)	-	14,522,564	14,522,564
Spending Authority from Offsetting Collections	1,237,937	9,226,764	10,464,701
Total Budgetary Resources	**$ 17,288,617**	**$ 31,526,889**	**$ 48,815,506**
STATUS OF BUDGETARY RESOURCES			
New Obligations and Upward Adjustments (total)	$ 12,534,817	$ 25,997,479	$ 38,532,296
Unobligated Balance, end of year:			
Apportioned, unexpired accounts	1,748,202	2,637,794	4,385,996
Unapportioned, unexpired accounts	596,034	2,891,616	3,487,650
Unexpired Unobligated Balance, end of year	2,344,236	5,529,410	7,873,646
Expired Unobligated Balance, end of year	2,409,564	-	2,409,564
Unobligated Balance, end of year (total)	4,753,800	5,529,410	10,283,210
Total Status of Budgetary Resources	**$ 17,288,617**	**$ 31,526,889**	**$ 48,815,506**
OUTLAYS, NET and DISBURSEMENTS, NET			
Net Outlays (discretionary and mandatory)	$ 10,866,439		$ 10,866,439
Distributed Offsetting Receipts	(10,030,589)		(10,030,589)
Agency Outlays, Net (discretionary and mandatory)	**$ 835,850**		**$ 835,850**
Disbursements, Net (total) (mandatory)		**$ (10,219,149)**	

Note 17: The accompanying notes are an integral part of these statements.

Note 13. Reporting Entity and Summary of Significant Accounting Policies (Other Information)

BASIS OF ACCOUNTING AND PRESENTATION

The SBA prepares financial statements to report its financial position, and the 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 (GAAP), issued by the Federal Accounting Standards Advisory Board (FASAB), and the Office of Management and Budget (OMB) Circular A-136, Financial Reporting Requirements, as revised.

The accounting structure of federal agencies is designed to reflect both the accrual and budgetary accounting transactions. Under the accrual method of accounting, revenues are recognized when earned and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash. Budgetary accounting facilitates compliance with legal constraints and controls over federal funds.

BUDGETS AND BUDGETARY ACCOUNTING FOR LOAN PROGRAMS

The 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 the 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.

The 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.

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 the SBA's proprietary statements, but they are required to be disclosed in the notes to the SBA's financial statements. SBA's fiduciary balances are on deposit in commercial banks.

EMPLOYEE BENEFITS

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. The SBA's contributions to both retirement plans, as well as to the government-wide Federal Insurance Contribution Act administered by the Social Security Administration, are recognized on the Consolidated Statement of Net Cost as current operating expenses.

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

Imputed Financing Costs

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

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

Note 14. Credit Program Disbursements, Expenses and Reconciliations of Receivables, Subsidy Allowance, and Liability for Loan Guaranties

A. SUBSIDY COST ALLOWANCE BALANCES

(Dollars in Thousands)

For The Year Ended September 30,	2025
Post-1991 Business Direct and Purchased Guarantied Loans	
Beginning Balance of Allowance Account	**$ 2,493,967**
Current Year's Subsidy (see 14.C for breakdown by component)	4,329
Loans Written Off	(3,347,899)
Loans Written Off Reversals	10,235,792
Subsidy Amortization	(1,263)
Allowance Related to Guarantied Loans Purchased This Year	3,642,796
Miscellaneous Recoveries and Costs	316,941
Balance of Subsidy Allowance Account before Reestimates	13,344,663
Reestimates	(2,558)
Ending Balance of Allowance Account	**$ 13,342,105**
Post-1991 Disaster Direct Loans	
Beginning Balance of Allowance Account	**$ 40,913,937**
Current Year's Subsidy (see 14.C for breakdown by component)	761,214
Loans Written Off	(14,850,405)
Loans Written Off Reversals	59,684,829
Subsidy Amortization	7,996,516
Miscellaneous Recoveries and Costs	(251,781)
Balance of Subsidy Allowance Account before Reestimates	94,254,310
Reestimates	9,721,141
Ending Balance of Allowance Account	**$ 103,975,451**

Note: The Loans Written Off Reversals line includes loans that were returned to regular servicing in FY 2025 and reestablished as gross loan receivables, as a result of the Hardship Accommodation Program (HAP), which ended in March 2025. The FY 2025 increase in loans to regular servicing was primarily due to an update the SBA made to its accounting policy to more accurately value the gross receivable for loans that were referred to Treasury for collection efforts or are eligible for Treasury referral. See Note 5A for additional information.

B. LIABILITY FOR LOAN GUARANTIES

(Dollars in Thousands)

For The Year Ended September 30,		2025
Post-1991 Business Loan Guaranties		
Beginning Balance of Liability for Loan Guaranties	**$**	**4,827,018**
Claim Payments to Lenders/Guarantee Payments		(5,156,075)
Fees		1,489,895
Interest Supplements Paid		184,842
Interest Revenue on Uninvested Funds		136,549
Interest Expense on Entity Borrowings		(74,772)
Current Year's Subsidy (see Note 14C for breakdown by component)		7,061
Upward Reestimates		1,177,567
Downward Reestimates		(538,625)
Loan Modifications		(178,334)
Adjustment Due to Reestimate & Guarantied Loan Purchases		1,513,279
Miscellaneous Recoveries and Costs		(369,100)
Total Ending Balance of Liability for Loan Guaranties	**$**	**3,019,305**

C. SUBSIDY EXPENSE BY COMPONENT

(Dollars in Thousands)

For The Year Ended September 30,		2025
Business Loan Guaranties		
Defaults	$	12,807
Fees		(6,029)
Other		283
Subsidy Expense Before Reestimates and Loan Modifications		7,061
Loan Modifications		(178,334)
Components of Subsidy Reestimates		
Technical Assumptions/Default Reestimates		645,782
Interest Rate Reestimates		(6,840)
Total of the above Components of Subsidy Reestimates		638,942
Total Guarantied Business Loan Subsidy Expense	**$**	**467,669**
Business Direct Loans		
Interest	$	3,556
Defaults		898
Other		(125)
Subsidy Expense Before Reestimates and Loan Modifications		4,329
Components of Subsidy Reestimates		
Technical Assumptions/Default Reestimates		(2,545)
Interest Rate Reestimates		(13)
Total of the above Components of Subsidy Reestimates		(2,558)
Total Business Direct Loan Subsidy Expense	**$**	**1,771**
Disaster Direct Loans		
Interest	$	524,694
Defaults		341,729
Other		(105,209)
Subsidy Expense Before Reestimates and Loan Modifications		761,214
Components of Subsidy Reestimates		
Technical Assumptions/Default Reestimates		9,625,085
Interest Rate Reestimates		96,056
Total of the above Components of Subsidy Reestimates		9,721,141
Total Disaster Direct Loan Subsidy Expense	**$**	**10,482,355**

Note: In FY 2025, loan modifications were required to increase fees for 7(a) loans effective March 27, 2025, and to include the effects of temporary expansion of Community Advantage lending and the expected rollout of Manufacturers' Access to Revolving Credit (MARC) program.

D. 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 Year Ended September 30,		2025
Disaster Direct Loan Programs	$	1,009,000
Business Loan Programs		162,420
Total Administrative Expense	**$**	**1,171,420**

E. 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 2025 for the 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 Guarantied Loan Programs

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

(Dollars in Thousands)

For The Year Ended September 30,		2025
7(a)	$	563,694
7(a) - Recovery Act		(3,499)
7(a) - Jobs Act		(1,995)
7(a) - COVID Support		46,299
504 CDC		(271,376)
504 CDC - Recovery Act		(2,713)
504 CDC - Jobs Act		(265)
504 CDC - COVID Support		(15,534)
504 CDC - Debt Refinancing		(29,012)
504 CDC - Debt Refinancing - COVID Support		(3,568)
504 First Mortgage Loan Pooling - Recovery Act		(1,121)
SBIC Debentures		(78,472)
SBIC Participating Securities		1,369
Secondary Market Guaranty Program		(659)
Paycheck Protection Program		435,965
ARC - Recovery Act		(171)
All Other Guaranty Loan Programs		(1)
Total Guarantied Loan Program Subsidy Reestimates	**$**	**638,942**

The 7(a) Loan Guaranty program, SBA's flagship program, had a net upward reestimate of $563.7 million in FY 2025. The upward reestimate is concentrated in the 2018 to 2025 cohorts. These cohorts had higher-than-expected losses in FY 2025. The 2025 cohort has higher future loss projections than previously estimated. These higher projected losses are in part due to loan compositional differences from the initial estimate, implying higher than anticipated credit risk for these loans.

The 7(a) Recovery Act program had a net downward reestimate of $3.5 million. The reestimate is mostly due to lower-than-expected losses in FY 2025.

The 7(a) Jobs Act cohort had a net downward reestimate of $2.0 million. The reestimate is mostly due to lower-than-expected losses in FY 2025.

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 upward reestimate of $46.3 million. The reestimate is primarily driven by higher-than-expected losses in FY 2025.

The 504 Certified Development Company program had a net downward reestimate of $271.4 million. The reestimate is mostly due to better-than-expected loan performance in FY 2025 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 $2.7 million. The reestimate is mostly due to better-than-expected loan performance in FY 2025. Aggregate purchases were lower than projected and recoveries were higher than projected by the prior year model.

The 504 Jobs Act program had a net downward reestimate of $0.3 million. The reestimate is mostly due to better-than-expected loan performance in FY 2025.

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 $15.5 million. The reestimate is mostly due to better-than-expected loan performance in FY 2025. Aggregate purchases were lower than projected and recoveries were higher than projected by the prior year model.

The 504 Debt Refinancing program had a net downward reestimate of $29.0 million. The reestimate is mostly due to better-than-expected loan performance in FY 2025 contributing to a downward reestimate for most cohorts. Aggregate purchases were lower 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 $3.6 million. The reestimate is in part due to better than projected loan performance in FY 2025. Aggregate purchases were lower than projected by the prior year model.

The Section 504 First Mortgage Loan Pooling program had a net downward reestimate of $1.1 million in FY 2025. The reestimate is mostly due to higher than projected recoveries and lower than projected purchases which were partially offset by higher than projected advances in FY 2025.

The SBIC Debentures program had a net downward reestimate of $78.5 million. The reestimate is primarily driven by better-than-anticipated program performance in FY 2025. Actual purchases in FY 2025 were lower than projected leading to lower lifetime expected purchase rates for cohorts 2019-2024. Recoveries on previously purchased debentures were lower in FY 2025 than projected, partially offsetting the reduction in lifetime expected purchases in the program.

The SBIC Participating Securities program had a net upward reestimate of $1.4 million. The reestimate is primarily due to lower than projected recoveries and lower cash inflows in FY 2025. A reduction in expected inflows in future years also contributed to the upward reestimate.

The Secondary Market Guaranty program had a net downward reestimate of $0.7 million in FY 2025. The reestimate is a result of offsetting reestimates across cohorts, driven mainly by changes to projected earnings on security investments.

The Paycheck Protection Program (PPP) had a net upward reestimate of $436 million in FY 2025. The reestimate is primarily due to higher FY 2025 actual purchases relative to the prior year model projections. The increased purchase volume is primarily driven by the processing of guarantee purchase transactions in Q4 of FY 2025.

The America's Recovery Capital program had a net downward reestimate of $0.17 million. The reestimate is primarily due to higher than projected recoveries in FY 2025.

All Other Guaranty Loan programs had a net reestimate of less than $0.001 million.

Business Direct Loan Programs

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

(Dollars in Thousands)

For The Year Ended September 30,		2025
7(m) Microloan	$	(2,492)
7(m) Microloan - Recovery Act		(14)
Intermediary Lending Pilot Program		(52)
Total Direct Loan Program Subsidy Reestimates	**$**	**(2,558)**

The 7(m) Direct Microloan program had a net downward reestimate of $2.5 million. The reestimate is primarily due to aggregate actual defaults being lower and prepayments being higher than projected in FY 2025.

The 7(m) Direct Microloan Recovery Act program had a downward reestimate of $0.01 million. The re-estimate is due to higher than projected aggregate actual recovery in FY 2025 and minor differences in actual FY 2025 inflows relative to prior year projections.

The Intermediary Lending Pilot had a net downward reestimate of $0.05 million. The reestimate is mostly due to higher aggregate recoveries and prepayments relative to what was forecasted in the prior year model.

Disaster Direct Loan Program

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

(Dollars in Thousands)

For The Year Ended September 30,		2025
Disaster	$	9,721,141
Total Disaster Direct Loan Program Subsidy Reestimates	**$**	**9,721,141**

The Disaster Assistance program had a net upward reestimate of $9,721.14 million. The upward reestimate is primarily due to lower than projected cash collections on COVID EIDL loans in FY 2025, attributed to lower than projected prepayments on loans in regular service and recoveries on defaulted loans, particularly for larger COVID EIDL loans. Lower than projected collections also contributed to decrease in expected prepayments and recoveries in future years. and recoveries in future years. These factors contribute to an upward reestimate, particularly the FY 2021 and FY 2022 COVID EIDL cohorts which have a higher concentration of larger loans. Partially offsetting the upward reestimate, SBA returned many COVID EIDL loans to regular servicing in FY2025, separate from those placed into the newly introduced SBA-Uncollectible status, resulting in improved expectations for future loan collections. This activity was concentrated in the FY 2020 COVID EIDL cohort.

F. LOANS RECEIVABLE

Business Direct

(Dollars in Thousands)

As of September 30, 2025	Pre-1992 Loans	Post-1991 Loans	Total
Loans Receivable Direct, Net, beginning of year	**$ -**	**$ 213,992**	**$ 213,992**
Loans Disbursed	-	43,518	43,518
Principal & Interest Payments Received	-	(36,092)	(36,092)
Foreclosed Property	6	-	6
Loans Written Off	-	(45)	(45)
Interest Revenue on Uninvested Funds	-	(2,458)	(2,458)
Interest Expense on Entity Borrowings	-	6,399	6,399
Subsidy Expense	-	(4,329)	(4,329)
Upward Reestimates	-	(203)	(203)
Downward Reestimates	-	2,761	2,761
Subsidy Allowance	-	(2,679)	(2,679)
Other non-cash reconciling items	(6)	(10,839)	(10,845)
Loans Receivable Direct, Net, end of year	**$ -**	**$ 210,025**	**$ 210,025**

Disaster Direct

(Dollars in Thousands)

As of September 30, 2025	Pre-1992 Loans	Post-1991 Loans	Total
Loans Receivable Disaster, Net, beginning of year	**$ -**	**$256,247,176**	**$256,247,176**
Loans Disbursed	-	3,484,233	3,484,233
Principal & Interest Payments Received	(168)	(7,745,471)	(7,745,639)
Foreclosed Property	-	(840)	(840)
Loans Written Off	-	(14,850,405)	(14,850,405)
Interest Revenue on Uninvested Funds	-	(550,662)	(550,662)
Interest Expense on Entity Borrowings	-	4,729,312	4,729,312
Subsidy Expense	-	(761,214)	(761,214)
Upward Reestimates	-	(12,029,628)	(12,029,628)
Downward Reestimates	-	2,308,487	2,308,487
Subsidy Allowance	-	(12,187,284)	(12,187,284)
Other non-cash reconciling items	201	13,349,492	13,349,693
Loans Receivable Disaster, Net, end of year	**$ 33**	**$231,993,196**	**$231,993,229**

Business Guarantied

(Dollars in Thousands)

As of September 30, 2025	Pre-1992 Loans	Post-1991 Loans	Total
Defaulted Guaranteed Loans Receivable, Net, beginning of year	**$ -**	**$ 1,646,649**	**$ 1,646,649**
Claim Payment to Lenders/Guarantee Payments	-	5,156,075	5,156,075
Principal & Interest Payments Received	(394)	(665,840)	(666,234)
Fees	-	(1,489,895)	(1,489,895)
Foreclosed Property	(1)	(9,009)	(9,010)
Loans Written Off	-	(3,347,855)	(3,347,855)
Subsidy Allowance	-	1,057,355	1,057,355
Other non-cash reconciling items	395	(213,417)	(213,022)
Defaulted Guaranteed Loans Receivable, Net, end of year	**$ -**	**$ 2,134,063**	**$ 2,134,063**

G. LOANS DISBURSED

(Dollars in Thousands)

New Loans Disbursed During the Year Ended September 30,		2025
Direct Loans		
Business Direct Loan Program	$	43,518
Disaster Loan Program		3,484,233
Total Direct Loans Disbursed	**$**	**3,527,751**
Guarantied Loans		
Total Principal Disbursed at Face Value	$	39,930,460
Total Principal Disbursed Guarantied by the SBA		31,812,913

Note 15. Leases

The SBA leases its facilities from the General Services Administration (GSA). The SBA enters into an Occupancy Agreement with the GSA for each facility. 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 Statement of Net Cost when incurred. Lease expenses for FY 2025 are $44.0 million.

(Dollars in Thousands)

For The Year Ended September 30,	2025
Major Underlying Asset Category	
Buildings	$ 42,930
Vehicles	1,111
Total Intragovernmental Lease Expenses as Lessee	**$ 44,041**

The SBA's non-federal leases include office equipment and parking. The SBA has determined that there is no material impact to the SBA financial statements as the total value does not round up to $1.0 million.

Note 16. Consolidated Statement of Net Cost

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

Gross Cost

The full and net operating costs of SBA's major programs are presented in the Consolidated Statement of Net Cost. Full costs are comprised of all direct costs for the program and those indirect costs which can be reasonably assigned or allocated to the program, 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 programs to arrive at net cost of operations. 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. Two major sources of earned revenue include 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 Major Program Category

The SBA reports net costs by major program category. Access to Capital, Investment and Innovation, Contracting and Business Development programs strengthen the domestic economy by promoting the "Made in America" initiative to grow U.S. manufacturing, expanding access to capital, and fostering American innovation. Disaster Assistance and Recovery programs prepare communities to address risks and help disaster survivors recover and rebuild their communities. Mission Support and Advocacy supports the agency addressing fraud risks, program evaluation, and advocacy for small business. Agency administrative overhead costs are fully allocated to the programs. Inspector General and Congressional Initiatives are program costs associated with the Office of the Inspector General and Congressional Initiatives. The OIG's mission and funding are a separate and independent part of the SBA.

Intragovernmental Gross Cost is incurred by the SBA in exchange transactions with other federal agencies. Other than Intragovernmental Gross Cost is incurred in exchange transactions with the public. Intragovernmental Earned Revenue is earned by the SBA in exchange transactions with other federal agencies. Other than Intragovernmental Earned Revenue 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 Other than Intragovernmental Gross Cost relate to the source of goods and services received by the SBA and not to the classification of related revenue. Revenue or cost being defined as "Intragovernmental" or "Other than Intragovernmental " 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 Year Ended September 30,	2025
Access to Capital, Investment & Innovation, Contracting & Business Development	
Intragovernmental Gross Cost	$ 197,976
Other than Intragovernmental Gross Cost	879,634
Gross Program Costs	**1,077,610**
Intragovernmental Earned Revenue	140,855
Other than Intragovernmental Earned Revenue	404,237
Program Earned Revenue	**545,092**
Disaster Assistance and Recovery	
Intragovernmental Gross Cost	$ 4,942,723
Other than Intragovernmental Gross Cost	10,978,236
Gross Program Costs	**15,920,959**
Intragovernmental Earned Revenue	550,662
Other than Intragovernmental Earned Revenue	4,000,272
Program Earned Revenue	**4,550,934**
Mission Support and Advocacy	
Intragovernmental Gross Cost	$ 37,464
Other than Intragovernmental Gross Cost	127,598
Gross Program Costs	**165,062**
Inspector General and Congressional Initiatives	
Intragovernmental Gross Cost	$ 12,894
Other than Intragovernmental Gross Cost	43,915
Gross Program Costs	**56,809**
Net Cost of Operations	**$ 12,124,414**

Note 17. 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, 2025. SBA's budgetary resources were $17.3 billion for the fiscal year ended September 30, 2025. Additionally, $31.5 billion of nonbudgetary resources (including borrowing authority and collections of loan principal, interest, and fees in financing funds) were reported for the fiscal year ended September 30, 2025.

NET ADJUSTMENTS TO UNOBLIGATED BALANCE, BROUGHT FORWARD, OCTOBER 1

The beginning balance brought forward for FY 2025 decreased by $3.8 billion in total. This amount reflects an increase of $1.1 billion in recoveries and a decrease of $4.9 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 after 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 Fiscal Service when funds needed to disburse direct loans and purchase guarantied loans exceed subsidy costs and collections in the nonbudgetary loan financing funds. In FY 2025, the SBA received $14.5 billion of borrowing authority from the OMB. 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 guarantied business loans, and 30 years for disaster loans.

UNOBLIGATED BALANCES

Unobligated balances at September 30, 2025 is $10.3 billion which include $5.9 billion of unavailable unobligated balances. These balances are unavailable primarily because the balances are expired or unapportioned by the OMB. The SBA accumulates the majority of the unobligated balances in its nonbudgetary financing accounts during the fiscal year ($5.5 billion in FY 2025) from fees and subsidy to fund default claims in future years. In addition, unobligated balances are accumulated in budgetary accounts from appropriations ($4.8 billion in FY 2025) 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)

For The Year Ended September 30,		2025
Intragovernmental		
Unpaid	$	758.2
Paid		9.1
Total Intragovernmental		767.3
Other than Intragovernmental		
Unpaid	$	2,865.4
Paid		10.8
Total Other than Intragovernmental		2,876.2
Total Undelivered Orders	**$**	**3,643.5**

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

There was no material difference between the FY 2024 Statement of Budgetary Resources and the President's FY 2026 budget submission. The President's FY 2027 Budget with actual numbers for FY 2025 has not yet been published and will be available at a later date on the OMB website. The SBA expects no material differences between the President's Budget "actual" column and the FY 2025 reported results when the budget becomes available in early 2026.

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 18. 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 the SBA's proprietary statements, but they are required to be disclosed in the notes to the SBA's financial statements. The SBA's fiduciary balances are on deposit in commercial banks.

The Master Reserve Fund (MRF) is a fiduciary activity administered by the SBA's 7(a) Fiscal Transfer Agent. The balance in the MRF is invested, according to the SBA policy, entirely in Treasury securities. The MRF is an integral part of the 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) guarantied loans that are purchased by secondary market investors. The MRF receives monthly payments from SBA guarantied borrowers and disburses monthly to 7(a) secondary market pool investors based on a schedule of amounts due. The 7(a) secondary market program includes the SBA's guaranty of timely payment, as well as a default guaranty, to 7(a) secondary market investors. The MRF supports $39.2 billion and $38.1billion of outstanding SBA guarantied 7(a) secondary market pool principal as of September 30, 2025 and 2024.

The Master Reserve Account (MRA) is a fiduciary activity administered by the 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 the SBA's guaranty of timely payment, as well as a default guaranty, to 504 secondary market investors. The MRA supports $37.3 billion and $34.8 billion of SBA guarantied 504 debentures outstanding in the secondary market as of September 30, 2025 and 2024.

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

(Dollars in Thousands)

Fiduciary Assets						
For The Year Ended September 30,	**2025**			**2024**		
	MRF	**MRA**	**Total**	**MRF**	**MRA**	**Total**
Cash	$ -	$ -	$ -	$ -	$ 17	$ 17
Short Term Securities						
Money Market Funds	551,928	637,502	1,189,430	404,727	632,313	1,037,040
Treasury Bills	43,910	-	43,910	128,114	-	128,114
Total Cash and Short Term Securities	**595,838**	**637,502**	**1,233,340**	**532,841**	**632,330**	**1,165,171**
Long Term Securities						
Treasury Notes/Bonds Including Interest	1,089,303	-	1,089,303	1,082,771	-	1,082,771
Total Long Term Securities	**1,089,303**	**-**	**1,089,303**	**1,082,771**	**-**	**1,082,771**
Net Assets	**$ 1,685,141**	**$ 637,502**	**$ 2,322,643**	**$ 1,615,612**	**$ 632,330**	**$ 2,247,942**

(Dollars in Thousands)

Fiduciary Assets						
For The Year Ended September 30,	**2025**			**2024**		
	MRF	**MRA**	**Total**	**MRF**	**MRA**	**Total**
Beginning Net Assets	**$ 1,615,612**	**$ 632,330**	**$ 2,247,942**	**$ 1,893,951**	**$ 584,118**	**$ 2,478,069**
Receipts						
Earned Income	87,493	39,656	127,149	99,129	43,165	142,294
Contributions	12,213,013	14,577,822	26,790,835	12,086,813	12,937,091	25,023,904
Net Realized Gain (Loss)	28	-	28	127	-	127
Total Receipts	**12,300,535**	**14,617,478**	**26,918,012**	**12,186,069**	**12,980,256**	**25,166,325**
Less Disbursements						
Payments to Investors	12,231,005	14,612,306	26,843,311	12,464,408	12,932,044	25,396,452
Expenses	-	-	-	-	-	-
Total Disbursements	**12,231,005**	**14,612,306**	**26,843,311**	**12,464,408**	**12,932,044**	**25,396,452**
Ending Net Assets	**$ 1,685,141**	**$ 637,502**	**$ 2,322,643**	**$ 1,615,612**	**$ 632,330**	**$ 2,247,942**

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 $82.5 million and $100.2 million at September 30, 2025 and September 30, 2024. The other two non-MRF accounts are non-fiduciary in nature and are maintained for administrative actions and fees.

Note 19. Reconciliation of Net Operating Cost and Net Budgetary Outlays

SFFAS 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 (BAR) 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.

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 an expense.

BUDGET AND ACCRUAL RECONCILIATION

(Dollars in Thousands)

	Federal	Non-federal	Total 2025
Net Operating Cost (SNC)	**$ 4,499,540**	**$ 7,624,874**	**$ 12,124,414**
Components of Net Operating Cost not Part of the Budgetary Outlays			
Property, plant and equipment depreciation expense	-	(29,583)	(29,583)
Year-end credit reform subsidy reestimates	(10,386,964)	-	(10,386,964)
President's Budget adjustment to downward reestimates	(19,265)	-	(19,265)
Downward Modification	182,504	-	182,504
President's Budget adjustment to upward reestimates	48,703	-	48,703
Increase/(decrease) in assets not affecting Budget Outlays:			
Accounts Receivable, Net	53	132,636	132,689
Advances	(1,386)	(1,322)	(2,708)
Loans Receivable, Net	-	38	38
Other assets	-	(8,618)	(8,618)
(Increase)/decrease in liabilities not affecting Budget Outlays:			
Accounts Payable	(7,193)	427,418	420,225
Accrued Grant Liability	-	85,698	85,698
Federal Employee Salary, Leave, and Benefits Payable	-	(5,753)	(5,753)
Post-Employment Benefits Payable	-	1,526	1,526
Surety Bond Guarantee Program Future Claims	-	(12,322)	(12,322)
Other Liabilities	(108,826)	(45)	(108,871)
Other Financing Sources:			
Imputed Cost	(55,953)	-	(55,953)
Total Components of Net Operating Cost Not Part of the Budget Outlays	**$(10,348,327)**	**$ 589,673**	**$ (9,758,654)**

Continued...

...Continued

	Federal	Non-federal	Total 2025
Components of the Budget Outlays That Are Not Part of Net Operating Cost			
Acquisition of Capital Assets	-	5,759	5,759
Other Financing Sources:			
Donation of Cash and Cash Equivalents	-	(2)	(2)
Effect of prior year credit reform subsidy reestimates	8,494,922	-	8,494,922
Total Components of the Budget Outlays That Are Not Part of Net Operating Cost	**$ 8,494,922**	**$ 5,757**	**$ 8,500,679**
Other Reconciling Items			
Distributed Offsetting Receipts	-	(10,030,589)	(10,030,589)
Total Other Reconciling Items	**$ -**	**$(10,030,589)**	**$(10,030,589)**
Total Net Outlays			**$ 835,850**
Budgetary Agency Outlays, Net (SBR)			
Budgetary Agency Outlays, Net			**$ 835,850**

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 the SBA's financial statements and the SBA's reclassified statements prior to elimination of intragovernmental balances and prior to aggregation of repeated Financial Report line items. A copy of the 2024 Financial Report can be found here: Bureau of the Fiscal Service - Reports, Statements & Publications (treasury.gov) and a copy of the 2025 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, nonprofit entities, and State, local, and foreign governments.

The SBA does not have funds from dedicated collections.

(Dollars in Thousands)

FY 2025 SBA Statement of Net Cost		
STRATEGIC GOAL 1: **Access to Capital, Investment & Innovation, Contracting & Business Development**		
Gross Cost	$	1,077,610
Less: Earned Revenue		545,092
Net Cost of Strategic Goal 1		**532,518**
STRATEGIC GOAL 2: **Disaster Assistance and Recovery**		
Gross Cost		15,920,959
Less: Earned Revenue		4,550,934
Net Cost of Strategic Goal 2		**11,370,025**
STRATEGIC GOAL 3: **Mission Support and Advocacy**		
Gross Cost		165,062
Net Cost of Strategic Goal 3		**165,062**
COST NOT ASSIGNED TO STRATEGIC GOALS		
Gross Cost		56,809
Net Cost Not Assigned to Strategic Goals		**56,809**
Net Cost of Operations	**$**	**12,124,414**

Line Items Used to Prepare FY 2025 Government-Wide Statement of Net Cost		
		Non-Federal Cost
$	12,029,384	Non-Federal Gross Cost
	12,029,384	**Total Non-Federal Cost**
		Intragovernmental Costs
	169,300	Benefit Program Costs
	55,953	Imputed Costs
	105,486	Buy /Sell Costs
	4,810,715	Borrowing and Other Interest Expense
	49,602	Other Expenses (w/o Reciprocals)
	5,191,056	**Total Intragovernmental Costs**
	17,220,440	**Total Reclassified Gross Cost**
	4,404,509	**Non-federal Earned Revenue**
		Intragovernmental Earned Revenue
	1,848	Buy/Sell Revenue
	689,669	Borrowing and Other Interest Revenue
	691,517	**Total Intragovernmental Earned Revenue**
	5,096,026	**Total Reclassified Earned Revenue**
$	**12,124,414**	**Net Cost**

(Dollars in Thousands)

FY 2025 SBA Statement of Changes in Net Position			Line Items Used to Prepare FY 2025 Government-Wide Statement of Changes in Net Position	
Funds from other than Dedicated Collections				
Unexpended Appropriations:				
Beginning balance	$	3,092,566	$ 3,092,566	Unexpended Appropriations, Beginning Balance
Appropriations Received		12,043,886	11,877,694	Appropriations Received
Other Adjustments:				
Rescissions		(149,212)		
Adjustment - Cancelled Authority		(16,430)		
Return of Unrequired Liquidating Fund Appropriation		(412)		
Other Adjustments		(138)		
Appropriations Used		(10,818,802)	(10,818,802)	Appropriations Used
Total Unexpended Appropriations	**$**	**4,151,458**	**$ 4,151,458**	**Total Unexpended Appropriations**
Cumulative Results of Operations:				
Beginning Balance	$	(7,346,654)	**$ (7,346,654)**	Cumulative Results, Beginning Balance
Other Adjustments:				
Current Year Liquidating Equity Activity		7,947	10,818,802	Appropriations Expended
Appropriations Used		10,818,802	7,947	Non-expenditure Transfers-Out of Unexpended Appropriations and Financing Sources
Donations of Cash and Cash Equivalents		2	**10,826,749**	**Total Appropriations Used**
			(47,483)	Other Taxes and Receipts
			(47,483)	**Total Non-Federal Non-Exchange Revenue**
			149,642	Collections Transferred into a TAS Other than the General Fund of the US Government
			149,642	**Total Federal Non-Exchange Revenue**
Imputed Financing		55,953	55,953	Imputed Financing
Other:			(10,066,433)	Non-Entity Collections Transferred to the General Fund of the U.S. Government
Non-entity Activity		(3,032,377)	6,931,899	Accrual for Non-Entity Amounts to be Collected and Transferred to the General Fund of the U.S. Government
			(3,078,581)	**Total Transfers and Imputed Financing**
Net Cost of Operations		**12,124,414**	**12,124,414**	**Net Cost of Operations**
Total Cumulative Results of Operations	**$**	**(11,620,741)**	**$ (11,620,741)**	**Total Cumulative Results of Operations**
Ending Net Position	**$**	**(7,469,283)**	**$ (7,469,283)**	**Net Position**

(Dollars in Thousands)

Required Supplementary Information

COMBINING STATEMENT OF BUDGETARY RESOURCES

For The Year Ended September 30, 2025 (Unaudited)

	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)	$ 2,002,204	$ 6,064,802	$ 163,936	$ 1,712,759	$ 114,312	$ 1,193,460	$ 25,217
Appropriations (discretionary and mandatory)	904,395	-	10,326,947	-	-	358,798	88,620
Borrowing Authority (discretionary and mandatory)	-	978,887	-	13,543,677	-	-	-
Spending Authority from Offsetting Collections	-	3,543,861	-	5,682,903	29,798	1,208,122	15
Total Budgetary Resources	**$ 2,906,599**	**$ 10,587,550**	**$ 10,490,883**	**$ 20,939,339**	**$ 144,110**	**$ 2,760,380**	**$ 113,852**
STATUS OF BUDGETARY RESOURCES							
New Obligations and Upward Adjustments (total)	$ 935,786	$ 7,254,443	$ 9,920,056	$ 18,743,036	$ 28,912	$ 1,323,981	$ 48,750
Unobligated Balance, end of year:							
Apportioned, unexpired accounts	3,836	1,492,735	456,418	1,145,059	11,098	973,351	62,848
Unapportioned, unexpired accounts	64,652	1,840,372	114,409	1,051,244	104,100	24,223	216
Unexpired Unobligated Balance, end of year	68,488	3,333,107	570,827	2,196,303	115,198	997,574	63,064
Expired Unobligated Balance, end of year	1,902,325	-	-	-	-	438,825	2,038
Unobligated Balance, end of year (total)	1,970,813	3,333,107	570,827	2,196,303	115,198	1,436,399	65,102
Total Status of Budgetary Resources	**$ 2,906,599**	**$ 10,587,550**	**$ 10,490,883**	**$ 20,939,339**	**$ 144,110**	**$ 2,760,380**	**$ 113,852**
OUTLAYS, NET and DISBURSEMENTS, NET							
Net Outlays (discretionary and mandatory)	$ 940,911		$ 9,501,527		$ (3,850)	$ 111,094	$ 47,193
Distributed Offsetting Receipts	-		-		-	(10,030,589)	-
Agency Outlays, Net (discretionary and mandatory)	**$ 940,911**		**$ 9,501,527**		**$ (3,850)**	**$ (9,919,495)**	**$ 47,193**
Disbursements, Net (total) (mandatory)		**$ 3,389,318**		**$ (13,608,467)**			

(Dollars in Thousands)

Required Supplementary Information

COMBINING STATEMENT OF BUDGETARY RESOURCES

For The Year Ended September 30, 2025 (Unaudited)

	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)	$ 7,892	$ 101,703	$ 467,579	$ 45,164	$ 15,079	$ 19,355	$ 517	$ 4,156,418	$ 7,777,561	$ 11,933,979
Appropriations (discretionary and mandatory)	10,109	316,800	(107,165)	-	(15,079)	10,837	-	11,894,262	-	11,894,262
Borrowing Authority (discretionary and mandatory)	-	-	-	-	-	-	-	-	14,522,564	14,522,564
Spending Authority from Offsetting Collections	-	-	-	-	-	-	2	1,237,937	9,226,764	10,464,701
Total Budgetary Resources	**$ 18,001**	**$ 418,503**	**$ 360,414**	**$ 45,164**	**$ -**	**$ 30,192**	**$ 519**	**$ 17,288,617**	**$ 31,526,889**	**$ 48,815,506**
STATUS OF BUDGETARY RESOURCES										
New Obligations and Upward Adjustments (total)	$ 9,634	$ 252,188	$ 91	$ 20	$ -	$ 15,363	$ 36	$ 12,534,817	$ 25,997,479	$ 38,532,296
Unobligated Balance, end of year:										
Apportioned, unexpired accounts	8,367	126,490	45,419	45,144	-	14,750	481	1,748,202	2,637,794	4,385,996
Unapportioned, unexpired accounts	-	-	288,432	-	-	-	2	596,034	2,891,616	3,487,650
Unexpired Unobligated Balance, end of year	8,367	126,490	333,851	45,144	-	14,750	483	2,344,236	5,529,410	7,873,646
Expired Unobligated Balance, end of year	-	39,825	26,472	-	-	79	-	2,409,564	-	2,409,564
Unobligated Balance, end of year (total)	8,367	166,315	360,323	45,144	-	14,829	483	4,753,800	5,529,410	10,283,210
Total Status of Budgetary Resources	**$ 18,001**	**$ 418,503**	**$ 360,414**	**$ 45,164**	**$ -**	**$ 30,192**	**$ 519**	**$ 17,288,617**	**$ 31,526,889**	**$ 48,815,506**
OUTLAYS, NET and DISBURSEMENTS, NET										
Net Outlays (discretionary and mandatory)	$ 9,386	$ 270,840	$ (21,254)	$ (4,090)	$ (2,084)	$ 16,731	$ 35	$ 10,866,439		$ 10,866,439
Distributed Offsetting Receipts	-	-	-	-	-	-	-	(10,030,589)		(10,030,589)
Agency Outlays, net (discretionary and mandatory)	**$ 9,386**	**$ 270,840**	**$ (21,254)**	**$ (4,090)**	**$ (2,084)**	**$ 16,731**	**$ 35**	**$ 835,850**		**$ 835,850**
Disbursements, Net (total) (mandatory)									**$ (10,219,149)**	

U.S. Small Business Administration
Office of Inspector General

Top Management and Performance Challenges

Facing the Small Business Administration in Fiscal Year 2026

Report 26-01 | December 18, 2025



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NOTICE:

Pursuant to the James M. Inhofe National Defense Authorization Act for Fiscal Year 2023, Public Law 117-263, Section 5274, any nongovernmental organizations and business entities identified in this report have the opportunity to submit a written response for the purpose of clarifying or providing additional context as it relates to any specific reference contained herein. Comments must be submitted to AIGA@sba.gov within 30 days of the final report issuance date. We request that any comments be no longer than two pages, Section 508 compliant, and free from any proprietary or otherwise sensitive information. The comments may be appended to this report and posted on our public website.

Message From the Deputy Inspector General



Each year, in accordance with the Reports Consolidation Act of 2000, the U.S. Small Business Administration (SBA) Office of Inspector General (OIG) provides a vital assessment of the agency's top management and performance challenges. It is our statutory responsibility to detect and deter fraud, waste, abuse, and mismanagement in agency programs and services.

While the immediate economic crisis of the Coronavirus 2019 pandemic is behind us, the vulnerabilities it exposed are not. These persistent challenges — including improper payments, ensuring program eligibility, and strengthening internal controls — are not relics of the past. They are systemic issues that continue to challenge SBA's flagship capital, contracting, counseling, and disaster assistance programs. Our work remains focused on how these risks persist and how we can best support the agency in mitigating them for the future.

OIG has conducted a significant body of work to inform this assessment. Our audits have explored critical areas, such as the effective use of technology and the alignment of technology with the comprehensive review of eligibility criteria, which are essential safeguards against fraud and abuse. We are actively engaged with our strategic partners to further use the U.S. Department of the Treasury's Do Not Pay system and other measures to identify and eliminate improper payments. As SBA pursues new priorities, such as an increased focus on manufacturing loans, we are committed to providing independent and objective oversight of these and other critical SBA programs to promote effective and efficient implementation.

We recognize that SBA has undergone significant changes in its operations, including organizational restructuring and workforce reductions. Our continuing oversight will consider the effects of these changes on program operations within our prioritized work. Our partnership with SBA is vital to our shared goal of protecting the integrity of the agency's programs. We acknowledge SBA's continued commitment to being responsive to our recommended corrective actions.

The nation can depend on OIG to continue to leverage our strategic partnerships and risk-based approaches to identify and address the most serious challenges facing SBA. Our ultimate goal is to improve the integrity, accountability, and performance of the agency's programs, ensuring they operate as effectively as possible for the American people and are free from fraud, waste, and abuse.

Sheldon Shoemaker
Deputy Inspector General

Introduction

The Top Management and Performance Challenges Facing the Small Business Administration (SBA) in Fiscal Year (FY) 2026 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 2026

Challenge	Issues
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 Planning and Modeling for Future Disaster Responses Overseeing Lenders
Challenge 3 **Measuring Performance and Monitoring SBA Programs**	Measuring Program Performance Monitoring Program Performance Results Ensuring Funds Are Used as Intended
Challenge 4 **Financial Reporting and Managing Data**	Improving Internal Controls Through Financial Statements Audit Remediation Authorized Data Sharing
Challenge 5 **Managing Risks in Information Technology Systems**	Improving Information Technology Systems Management Preparing for Artificial Intelligence Challenges Deploying and Monitoring New Third-Party Systems Cybersecurity and Modernization



Challenge 1: Protecting the Integrity of SBA Programs

The SBA provides loan guaranties, direct disaster assistance loans, government contracting certifications, and business development programs to qualifying small business owners, entrepreneurs, and those recovering from a declared disaster. SBA's challenge is to fulfill its mission of quickly delivering services and capital while also protecting the integrity of its programs. A strong internal control environment will help mitigate this challenge. Agency leaders have implemented new verification measures to ensure only eligible Americans benefit from SBA programs.[A] We will continue to provide oversight as the agency moves forward with fraud protection efforts.

MANAGING FRAUD RISK

SBA's four pandemic relief programs delivered 22.1 million loans and grants to help eligible small business owners and entrepreneurs. SBA used limited front-end fraud detection internal controls when it initially distributed the $1.2 trillion.[1] The agency was following legislative requirements intended to expedite aid to small business owners adversely affected by the pandemic.

The challenge of managing fraud risk continues as SBA conducts post-payment automated and manual reviews of Paycheck Protection Program (PPP) loans. Post-payment reviews are when loans are examined for eligibility after the funds have already been paid to the borrower and forgiven. PPP borrowers can continue to apply for forgiveness for up to 5 years from the issuance of the loan, so through 2026. The statutes of limitations for fraud in the PPP and Coronavirus 2019 (COVID-19) Economic Injury Disaster Loan (EIDL) program were extended from 5 years to 10. In most cases, the U.S. government will have until 2032 to prosecute wrongdoers and return misused and fraudulently obtained funds to taxpayers.

In a recent management advisory, we reported how SBA presumed that post-payment reviews of PPP loans would offset the risks of eliminating key up-front internal controls.[2] SBA started flagging these loans for review in July 2021; however, as of May 2024, SBA had not completed reviewing 37,938 loans totaling about $4.6 billion. According to the agency, these reviews are ongoing and will continue as resources allow. SBA is drafting a recovery plan for any loans deemed ineligible. For loans suspected of fraud, SBA did provide information to lenders on how to refer PPP loans, but the agency did not always keep record and review the referrals.

The federal government does have a front-end fraud detection system in place. The U.S. Department of the Treasury's Do Not Pay system is available to help verify applicant eligibility for loans or grants before they are issued. The Do Not Pay system is a series of databases designed to prevent and detect improper payments to those not eligible for government funds because of past fraudulent activity or other high-risk factors. SBA eventually started using the Do Not Pay system for its pandemic assistance programs. The agency is in the process of adding additional front-end verification checks

[A] SBA, News Release 25-42, "SBA Highlights Range of New Measures to Stop Fraud" (April 10, 2025).



Example of a Massive Scheme to Defraud SBA Preferred Lenders

Fourteen defendants were arrested in a global criminal network charged with conspiracy to defraud the government in obtaining over $25 million in taxpayer-funded federally guaranteed small business loans and pandemic relief funds over a period of 7 years.

One ringleader allegedly defrauded numerous banks and the SBA Preferred Lender Program, a program designed to help small businesses that otherwise might not obtain financing.

He allegedly directed sham corporations to open bank accounts, make false statements, and concoct documents to support loan applications. He also allegedly purchased phony tax returns that falsely reported millions in revenue.

U.S. Attorney's Office Central District of California

that include Do Not Pay for disaster assistance, 7(a), and 504 program loans.

We also found SBA performed limited oversight of non-bank lenders and lender service providers even though the agency had processes in place. After the non-bank lenders and service providers were approved to become PPP lenders, SBA could have better assessed the risk of allowing them to continue to operate in the program. We found that non-bank lenders made $14.2 billion in suspected fraudulent loans at a rate more than five times higher than loans made by traditional bank lenders. We also found the rate of suspected fraudulent loans made by lenders using service providers was more than three times the rate of loans processed by lenders that did not use a service provider. For more on this topic see our Overseeing Lenders section.

In 2023, SBA adopted several new changes to its flagship 7(a) loan program that dramatically reduced underwriting standards. Ultimately, these changes increased potential risk. Many of these changes were reversed in 2025; In 2023, SBA adopted several new changes to its flagship 7(a) loan program that dramatically reduced underwriting standards. Ultimately, these changes increased potential risk. Many of these changes were reversed in 2025; however, the loans made during that time remain susceptible to increased risk and financial loss.[B]

Our investigative work has revealed a pattern of fraud by loan packagers and other fee-based agents in the 7(a) loan guaranty program. We found SBA's loan programs are susceptible to borrower fraud from false statements and documentation, misrepresentation of equity injections, and misuse of proceeds. These patterns of fraud continue to pose a risk to taxpayer resources due, in part, to SBA allowing applicants to attest to their own eligibility (see Improving Verification of Eligibility).

[B] SBA, News Release 25-41,"SBA Initiates Actions to Reverse Biden-Era Mismanagement of Core 7(a) Lending Program" (March 27, 2025).

This past year, the agency has expanded the chief financial officer's role to include ensuring agency-wide risk factors are monitored and mitigated. An effective risk management program is sustained by implementing corrective actions and strengthening internal controls, ultimately reducing fraud and enhancing program integrity for current and future programs.

IMPROVING VERIFICATION OF ELIGIBILITY

SBA should obtain evidence to verify an applicant's compliance with program requirements before issuing loans, grants, or conferring certifications. The agency should be able to ensure only eligible applicants receive program benefits. One of the biggest challenges in this area is self-certification. Self-certification is when a person is allowed to make an official declaration that their business complies with standards set for that program without independent evidence. Requiring participants to provide supporting documentation could mitigate the risks associated with self-certification.

We found that SBA allowed self-certification in the Small Business Innovation Research and Small Business Technology Transfer programs. Business owners were asked to submit and verify reports, sales, and investments documentation, but SBA then did not always review the material.[3]

SBA also allowed applicants to the Restaurant Revitalization Fund (RRF) and Shuttered Venue Operators Grant (SVOG) pandemic relief grant programs to self-certify their eligibility.[4] Applicants attested that they qualified by both industry and operational status during the eligibility period. We found this self-certification made the programs vulnerable to fraud or misuse. SBA has not made progress in resolving multiple audit recommendations for SBA to review billions in grant awards. Progress had been delayed as the agency contemplated recovery strategies. SBA plans to recover funds for any improper payments made to RRF recipients starting in FY 2026. However, it remains that agency managers will only review 10,050 awards, despite OIG identifying over 61,000 awards that lacked sufficient support to determine whether the payment was made to an eligible entity. This means the agency could miss the opportunity to recoup over $9.5 billion in potentially improper RRF payments.

Another area of concern is the verification of eligibility for SBA contracting certifications. The U.S. government is the largest single purchaser of goods and services in the world, awarding over $760 billion in prime contracts annually. Congress established SBA contracting certification programs to ensure that a fair proportion of federal awards and subcontracts are awarded to small businesses. Congress intended for these programs to assist small businesses with overcoming the complexities of the federal contracting system. The programs were intended to help build stronger businesses, expanding competition in the marketplace and strengthening the overall U.S. economy.

SBA works to maximize opportunities for small businesses in government contracting, but because it relies on self-certification for a key eligibility requirement, fraudsters can take advantage of the programs.

SBA has seen unscrupulous business owners misrepresent themselves to compete for a contract set aside for a disadvantaged small business, capitalizing on the smaller pool of applicants and taking away the opportunity from an eligible and deserving small business. Fraud in these contracting certification programs contradicts the intent of the congressional mandate to support small business.

OIG investigators currently have 27 cases involving allegations of firms not meeting contracting program requirements, including in the 8(a) Business Development, Women-Owned Small Business, Service-Disabled Veteran-Owned Small Business, and Historically Underutilized Business Zone (HUBZone) programs.

In our reviews of the HUBZone and Women-Owned Small Business programs, we recommended SBA check each business seeking these certifications to ensure they can be categorized as "small."[5] SBA decided instead to continue to rely on small business owners attesting that they meet these requirements. The agency has maintained its position that self-certification is the most efficient method, but agreed to implement procedures to monitor contract volume and provide additional training to mitigate the risk of HUBZone firms outgrowing their size.

Relying on self-certification without any verification perpetuates a system in which ineligible business owners can obtain benefits meant for disadvantaged businesses, depriving these business owners of the opportunities that should rightfully be theirs under the statute. Unscrupulous business owners can make unsupported claims to attest they are eligible for these certification programs in SAM.gov or SBA's Small Business Search Database. Federal contracting officers check these databases when awarding a set-aside contract; however, the veracity of the information is not verified by any federal entity.

Given these vulnerabilities across SBA's loan, grant, and certification programs, it is vital the agency implement robust review procedures when conducting eligibility reviews. For certification programs, these reviews could include checking for indicators that a business still qualifies according to size standards. Such mitigating steps can protect program integrity and support SBA's recent focus to comprehensively review 8(a) Business Development program



Example of Contracting Certification Fraud

A Wisconsin woman who was the owner of a Milwaukee HUBZone-certified construction company pled guilty to one count of false statements. She falsely certified her construction company met HUBZone eligibility requirements and complied with rules and procedures. She also falsely certified that she had no affiliate business. She solicited 15 HUBZone set-aside contracts on behalf of her company and was awarded 7 HUBZone set-aside contracts worth

$4.7 million. She did not comply with the subcontracting rules requiring her construction company to perform at least 15 percent of the cost of HUBZone contract performance. She did not disclose to SBA that employees of another construction company exercised control over the management and decision-making process of her business.

We investigated this case with the assistance of the U.S. Department of Transportation OIG, FBI, General Services Administration OIG, Army Criminal Investigation Division, and Department of Defense OIG.

DOT OIG Investigations

participants and federal contracting officers who awarded contracts to these businesses over the last 15 years.[C]

MITIGATING IMPROPER PAYMENTS

An improper payment is one that should not have been made or was made in an incorrect amount, including overpayment or underpayment, under a statutory, contractual, administrative, or other legally applicable requirement.[D]

Agencies are required to review and assess programs to identify those susceptible to significant improper payments and report estimates, corrective action plans, and reduction targets to Congress. However, SBA did not always have acceptable practices and processes to calculate accurate estimates of improper payment rates for some of its programs during the last fiscal year, raising concerns about whether there were problems and the extent of them.[6]

Prior and ongoing OIG audit work has identified 7(a) and PPP loans given to borrowers who were ineligible, resulting in improper payments. OIG's independent public accounting firm found SBA did not publish improper and unknown payment estimates for the SVOG program or for multiple programs under the debt relief program, according to our report on SBA's FY 2024 compliance with the Payment Integrity Information Act.

In FY 2024, SBA largely employed adequate and appropriate sampling and estimation methodology plans for each of its seven programs that reported an improper payment rate, a notable improvement from FY 2023. However, the independent public accountant noted SBA placed undue reliance on its statisticians executing the plans without the appropriate level of oversight and quality control. Further, SBA had data



Source: OIG figure adapted from Yellowbook-CPE.com, using GAO's Standards for Internal Control in the Federal Government

[C] SBA, News Release 25-56, "Administrator Loeffler Orders Full-Scale Audit of 8(a) Contracting Program" (June 27, 2025).

[D] Office of Management and Budget, M-21-19, "Transmittal of Appendix C to OMB Circular A-123, Requirements for Payment Integrity Improvement" (March 5, 2021).

quality issues that affected the improper payment rates for multiple programs due to an inadequate review process.

The independent public accountant also noted SBA published ineffective corrective action plans for the PPP loan forgiveness and the PPP loan guaranty purchase programs. In addition, they found SBA did not accurately disclose the improper payment reduction targets in the annual financial report for six programs.

Payment integrity actions, such as accurately measuring and reporting an agency's improper payment rate, will help to reduce fraud, waste, and abuse in government programs. These actions enhance program missions, efforts to advance equity, efficiency, and customer experience.

Over the past several years, 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. Although many of SBA's efforts to mitigate improper payments are for pandemic assistance programs, learning from past mistakes will help the agency mitigate improper payments in its traditional programs moving forward.

SBA's implementation of a robust framework and ensuring its effectiveness will help mitigate this challenge. SBA has also adopted several new verification measures within its loan application process that will strengthen protections against fraud to ensure its programs only benefit eligible Americans, including citizenship verification, date of birth verification, and automatic fraud alerts.[E]

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 including loans flagged as potentially fraudulent. Recovery can be time consuming because it can involve coordination with other government entities and law enforcement agencies. This is a challenge given the volume of loans in SBA's portfolio and the applicable statutory timeframes. SBA is working collaboratively with the Department of Justice, Treasury, and OIG officials to mitigate this challenge.

In the FY 2024 financial statements audit, OIG's independent public accountant identified significant issues in the agency's accounting for the PPP, COVID-19 EIDL, RRF, and SVOG programs.[7] 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. Further, the independent accountant found SBA managers did not adequately design and implement controls or develop accounting policies to account for the recovery of funds related to these programs (see Challenge 4 for more discussion on this issue).

Our audits of SBA's oversight of RRF and SVOG recipients also found management did not establish a process to recover funds from these programs.[8] Subsequently, SVOG program officials sent letters requesting a return of funds to recipients who were found to be ineligible for the award or who improperly used award funds.[9] During FY 2025, SBA drafted a policy for recovering RRF funds and plans to implement a process in FY 2026.

SBA's challenge is to enforce its current guidance for returning loan funds and standardize procedures on clawing back funds. Recently, SBA established a process to recover SVOG awards that were either sent to an ineligible recipient or used for improper expenses. SBA has also recently drafted a plan to account for the recovery of improperly paid PPP and COVID-19 EIDLs. For RRF awards, SBA needs to finalize a process to recover funds. The agency is still working through finalizing policies for clawing back PPP loans that were found to be ineligible after forgiveness. We will monitor SBA's progress and actions to close this recommendation. Regarding seized and frozen pandemic-related program funds, SBA developed a procedural notice to provide guidance to borrowers, lenders, and other financial intermediaries on how to return the PPP loan funds to SBA. OIG will continue to evaluate the effectiveness of the processes.

[E] SBA, News Release 25-42, "SBA Highlights Range of New Measures to Stop Fraud" (April 10, 2025).

OIG HIGHLIGHTED WORK

[1] *COVID-19 Pandemic EIDL and PPP Loan Fraud Landscape* (**Report 23-09**)

[2] *SBA's Actions to Address Forgiven PPP Loans Subsequently Flagged as Potentially Ineligible* (**Report 25-12**)

[3] *SBA's Implementation of the SBIR and STTR Extension Act of 2022* (**Report 24-14**)

[4] *SBA's Restaurant Revitalization Fund Program Award Practices* (**Report 24-09**); *SBA's Oversight of Shuttered Venue Operators Grant Recipients* (**Report 25-21**)

[5] *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**)

[6] *Independent Auditors' Report on SBA's FY 2024 Compliance with the Payment Integrity Information Act of 2019* (**Report 25-15**)

[7] *Independent Auditors' Report on SBA's FY 2024 Financial Statements* (**Report 25-05**)

[8] *SBA's Restaurant Revitalization Fund Program Award Practices (Report 24-09); SBA's Oversight of Shuttered Venue Operators Grant Recipients* (**Report 25-21**)

[9] *Improvements Needed in SBA's Shuttered Venue Operators Grant Post-Award Review Process* (**Report 24-21**)

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

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

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 business owners and entrepreneurs with access to credit they cannot obtain elsewhere. This program relies on numerous outside parties (such as loan agents and lenders) to originate loans. By statute, the 7(a) loan guaranty offered through private lending institutions is required to operate at "zero-subsidy," or zero cost to taxpayers, and is funded through the collection of lender fees. SBA has recently restored lender fees and increased underwriting standards for loan guaranties, which were eliminated or lowered in 2023.[A] To protect taxpayer dollars, SBA must maintain adequate oversight of financial institutions participating in its guaranteed loan programs.

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. The agency is tasked with handling the long-term loan servicing of the COVID-19 EIDL program, which is a loan portfolio of about 3.8 million loans — over 14 times what the agency was managing before the pandemic. SBA's challenge is to effectively service this large volume of disaster loans and recover delinquent funds.

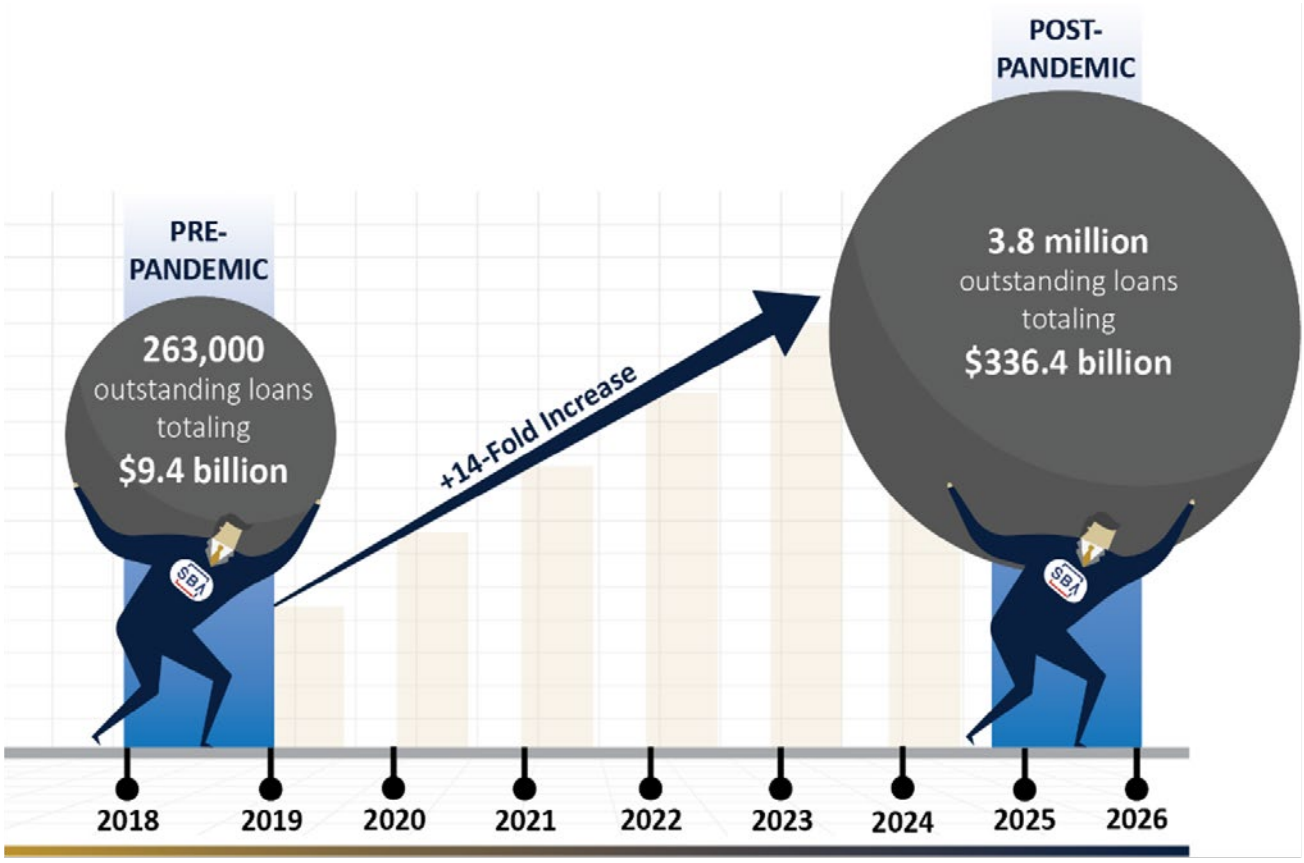
SERVICING DISASTER LOANS

Prior to the pandemic, SBA typically serviced about 263,000 disaster loans totaling approximately $9.4 billion. Five years after the pandemic, SBA has the challenge of servicing approximately 3.8 million outstanding disaster loans totaling approximately $336.4 billion — a fourteenfold increase in the amount of loans the agency was managing previously (see Figure 1). Note that the stated size of the portfolio includes about 1.1 million charged-off loans that normally would have been transferred to Treasury for cross servicing. SBA has been temporarily exempted from that requirement until March 31, 2026. Upon transfer, the servicing portfolio will significantly decrease.

SBA typically services a disaster loan until it is paid in full or, upon default, to 120 days delinquent. Treasury and the agency have agreed that SBA will service even defaulted loans and attempt recovery on these loans for up to 2 years, or until the agency's recovery efforts are exhausted. COVID-19 EIDL servicing is significantly different than traditional loan servicing because it includes a variety of complex action requests that are not common to private sector business loans. This further stresses SBA's ability to fully and completely service current loans and perform full-spectrum

[A] SBA, News Release 25-41, "SBA Initiates Actions to Reverse Biden-Era Mismanagement of Core 7(a) Lending Program" (March 27, 2025).

Figure 1: The Increased Burden of COVID-19 EIDL Servicing on SBA



Source: OIG generated based on SBA data

collection efforts on past-due and defaulted loans.[1] SBA's challenge is to be responsive to recipients of these loans and perform its due diligence to mitigate loss to the taxpayer.

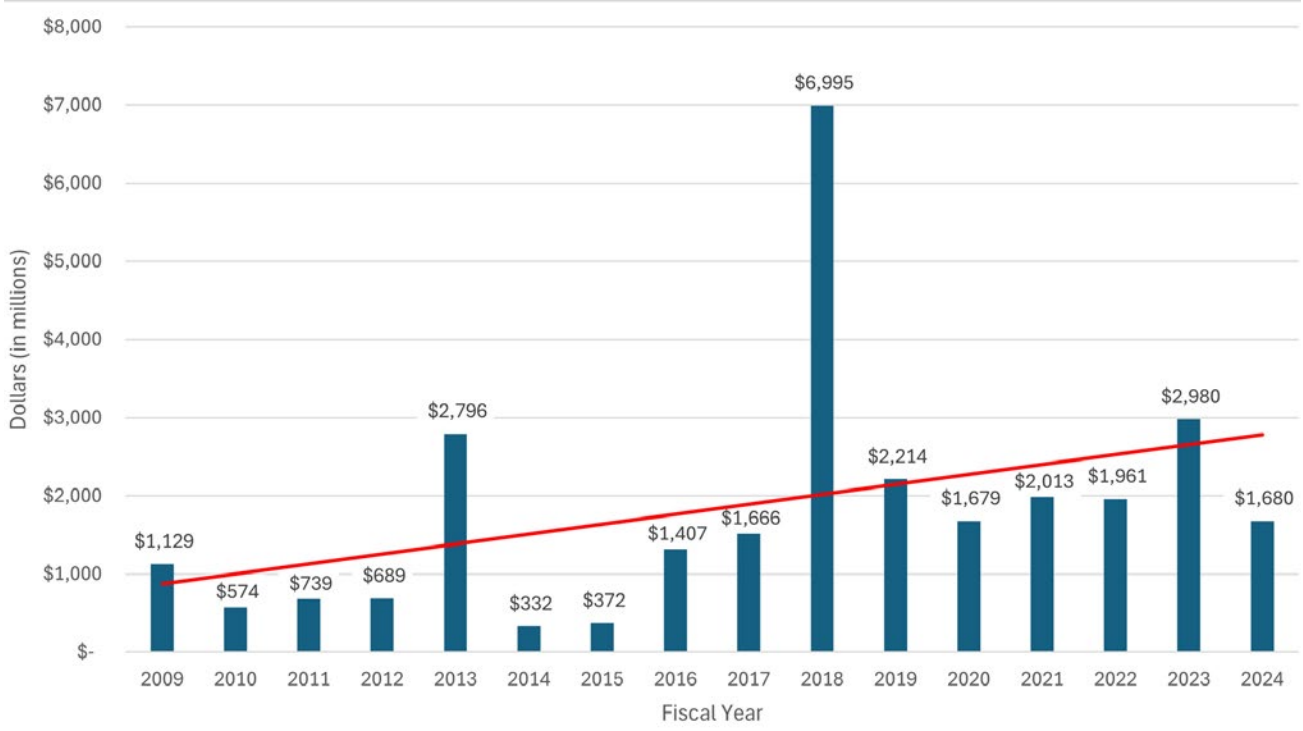
In our May 2025 inspection report, we concluded that SBA would be able to service its COVID-19 loan portfolio with a staff of 1,492 at its Fort Worth, Texas, processing center.[2] As of June 2025, SBA reduced its staff at the center to about 819 employees. Since these staff reductions occurred after our review, OIG has not assessed any potential impact on the agency's servicing of the $336.4 billion COVID-19 EIDL disaster loan portfolio.

PLANNING AND MODELING FOR FUTURE DISASTER RESPONSES

To avoid funding lapses, SBA must improve its processes to forecast and request annual appropriations for future disaster responses. On October 15, 2024, the agency announced funds in its disaster assistance loans program account had been exhausted. This caused a delay in disbursements of loans between October 15 and December 21, 2024, when SBA received supplemental funding. This lapse in funding occurred, in part, because the agency had not adjusted its forecasted lending level or annual budget request for disaster assistance since 2009, even though the number and cost of billion-dollar disasters has generally increased over time (see red trendline on Figure 2).[3] Our report 25-24 shows the correlation between a large number of costly disasters and a larger number of disbursed loans and SBA loan amounts. SBA's challenge is to ensure historical

factors, such as changes in the subsidy rate, frequency of major disasters, and total dollar amount of loan approvals from prior years, are taken into account when developing the annual budget request for the disaster loan program.

Figure 2: Total Dollar Amount of Approved Disaster Loans



Source: National Centers for Environmental Information billion-dollar disaster database

When requesting future funding, we found that SBA's monthly reports to Congress did not include all the required components of 15 U.S. Code § 636k(a) and that the informal messages the agency initiated with Congress were insufficient to communicate the pending funding lapse.[3] SBA's challenge is to 1) ensure its monthly reports comply with the statute and can be clearly interpreted and 2) provide formal notification to Congress and the Office of Management and Budget (OMB) that clearly states whether sufficient funds are available or if there is a need for supplemental funds as soon as the agency anticipates a funding shortfall.

OVERSEEING LENDERS

SBA's Office of Credit Risk Management manages program credit risk on financial assistance portfolios of guaranteed loans that totaled about $163 billion as of June 2025. The office monitors lender performance and enforces lending program requirements.

In 2023 and 2024, SBA made significant policy changes to its flagship 7(a) loan program to help expand access to capital for disadvantaged entrepreneurs. The agency lowered underwriting standards and granted mission-driven financial institutions access to the 7(a) loan program as Community Advantage Small Business Lending Companies. In 2025, SBA reversed many of these

changes.[B] The agency has recently issued a moratorium on the expansion of the program and will require existing lenders to meet prudent financial stability standards as a condition of further participation. SBA's challenge is to serve entrepreneurs while also 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. The agency considered these lenders to be higher risk than those with federal regulators, so they required more oversight by SBA's Office of Credit Risk Management.[4]

OIG has conducted prior audit work related to third-party service providers in the 7(a) loan program. In FY 2025, we assessed the risk associated with non-bank lenders in the PPP, including financial technology companies and service providers.[5] We found opportunities for SBA to enhance its oversight of non-bank lenders to promote program integrity and reduce financial loss. Specifically, non-bank PPP lenders made $14.2 billion in suspected fraudulent loans at a rate more than five times higher than loans made by traditional bank lenders. Over $6.1 billion of the $14.2 billion in suspected fraudulent non-bank PPP loans, or nearly 43 percent, were made by lenders categorized as fintechs and other state-regulated finance companies. Additionally, loans involving service providers had a suspected fraud rate more than three times higher than loans made without a service provider. In addition, we have investigative cases that reflect some of the effects non-bank lenders have had on the PPP.

SBA has taken steps to mitigate this challenge and significantly improved its tracking and monitoring of third-party providers in the traditional loan programs. We will continue



Example of Lender Service Provider Fraud

We helped prosecute a national criminal ring involving 1,300 PPP applications associated with $600 million in fraud, leading to the convictions of the founders of a lender service provider, which facilitated over $6 billion in PPP loans, itself benefitting from over $300 million in lender fees. To date, this is our largest prosecuted pandemic assistance fraud scheme.

The investigation revealed two of the ringleaders co-founded a fintech in April 2020 purportedly to assist applicants in obtaining PPP loans. To obtain larger loans for certain applicants, they and other co-conspirators fabricated documents, including tax documentation. They charged borrowers kickbacks based on a percentage of the funds received. To obtain a greater volume of kickbacks from borrowers and a percentage of lender fees from SBA, they submitted PPP loan applications they knew contained false information.

U.S. Attorney's Office Northern District of Texas, June 23, 2025

August 11, 2025

[B] SBA, News Release 25-51, "SBA Overhauls Reckless Biden-Era Lending Program" (May 19, 2025).

to monitor compliance with SBA policies and procedures as well as corrective actions to address noncompliance. It is vital that the agency continues to:

- Enhance its 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.

Ensuring Retention of Loan and Award Records

SBA guarantees 50 percent or more 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.[6] This means that most loan documents and data reside only with the participating lender, which could be problematic if that lender dissolves or ceases to service the loan.

If future programs were designed to capture and maintain applicant data, and if the data was shared with SBA, it would not be as difficult for the agency to conduct oversight of loans from lenders who ceased operating. In addition, if SBA were to acquire and maintain lender data, investigators would have access to the documentation needed to validate evidence of fraud. 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.[7]

This was most evident in the PPP because of the massive number of loans, the extent of the fraud, and the forgiveness process on the back end. In the PPP, SBA only required that lenders enter general applicant information, such as name, address, email, and telephone number, into the agency's PPP systems. Applicants were not asked to provide their date of birth on the PPP application, which we found to be a critical element for Social Security number verification. In addition, SBA did not require lenders to submit borrower bank account details associated with the disbursement, Internet Protocol addresses, or web log data associated with the electronic signature on the applications. If a lender were to go out of business, SBA could not capitalize on the information it obtained in its PPP systems by using data analytics technology, such as artificial intelligence and machine learning, which help identify noncompliance with program requirements and likely fraud.

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, 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.[C] SBA's challenge is to continuously monitor and communicate with participating lenders to safeguard loan information and to share documents

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

related to lending decisions, which is imperative in cases in which the lender dissolves or ceases to service the loan.

The statute of limitations for the Restaurant Revitalization Fund and Shuttered Venue Operators Grant program is 5 years from application or the reporting date. SBA only requires Restaurant Revitalization Fund recipients to retain their award 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 wrongdoers and recover funds that were incorrectly or fraudulently obtained.

OIG HIGHLIGHTED WORK

[1] *Ending Active Collections on Delinquent COVID-19 Economic Injury Disaster Loans* (**Report 23-16**)

[2] *COVID-19 Economic Injury Disaster Loan Servicing Capability* (**Report 25-16**)

[3] *SBA's Processes to Forecast and Request Appropriation Dollars for its Disaster Loans Program Account* (**Report 25-24**)

[4] *Audit of SBA's Oversight of High-Risk Lenders* (**Report 20-03**)

[5] *SBA's Oversight of Non-Bank Lenders and Third-Party Service Providers Associated With PPP Loans* (**Report 25-04**)

[6] SBA's Guaranty Purchases for Paycheck Protection Program Loans (**Report 22-25**)

[7] 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 grant funds and business counseling. It aids existing and prospective small businesses through a variety of counseling and training services offered by partner organizations. Among these partners are Small Business Development Centers (SBDC), the SCORE mentoring network, Women's Business Centers, and Veterans Business Outreach Centers. SBA's challenge is to improve the measures it uses to assess the effects of its programs and improve grantee oversight, better serving entrepreneurs and ensuring that every dollar spent delivers results.

MEASURING PROGRAM PERFORMANCE

Federal guidance requires SBA managers 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.

Our reviews of SBA's counseling and contracting certification programs have consistently found opportunities for SBA to improve its measures used to assess program goal accomplishments. In a recent review of an SBDC, we found SBA established performance goals and measures to monitor progress toward the goals.[1] However, improvements were needed to better align performance goals with the related funding and to track progress toward achieving those goals.

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 in a timely manner 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.

The agency can improve tracking and monitoring performance goals by coordinating with resource partners. We found this lack of coordination in our recent inspection of one SBDC. We highlighted the need to demonstrate performance goals were met by associating the center's financial data with the program activities conducted. If not properly associated, the SBDC spends additional money toward meeting goals already funded, thereby increasing the operational cost of fulfilling program goals and activities. We plan to take a broader look at these issues in an upcoming audit of SBA's oversight of the SBDC program.

We also found in SBA's oversight of the Small Business Innovation Research (SBIR) and Small Business Technology Transfer (STTR) programs that there was limited assurance that small businesses met minimum performance standards.[2] These programs help entrepreneurs explore their

technological potential and provide an incentive to profit from commercialization. Small businesses must meet minimum performance standards to compete for SBIR and STTR awards. Changes to the Small Business Act are needed to improve SBA's ability to monitor small businesses' compliance with performance standards, reducing risks because they may not have the ability to achieve program goals for commercialization as intended by the Act. SBA's challenge is to monitor grantee performance in the estimated number of new businesses started, tax revenue generated, and entity operational status.

ENSURING FUNDS ARE USED AS INTENDED

We 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 recent review of an SBDC, we found opportunities for the center to improve its financial compliance when accounting for federal expenses, matching funds, and program income. SBA program officials are making changes to how it monitors use of funds to hold SBDCs accountable and ensure objectives are met.

Federal funds can greatly assist struggling small businesses during an economic crisis. For example, the Restaurant Revitalization Fund (RRF) and Shuttered Venue Operators Grant (SVOG) were intended to help businesses in the restaurant and venues industries struggling to stay in business during the pandemic.

In an 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.[3] RRF recipients were required to submit their final use of funds report to SBA by April 30, 2023. As of July 2025, 9.4 percent of all recipients, with awards totaling $1.5 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. We previously 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.[4] SBA's challenge is to prioritize the RRF and SVOG reviews to increase the opportunity to save taxpayer funds. Program managers stated they have increased the number of staff allocated to these reviews and are working to manage resources to complete the reviews within the 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.[5] We also found SBA needed to implement procedures for recipients to return unused or improperly awarded funds to Treasury. SBA management recently implemented a process for the SVOG program and plans to implement a process to recover improper payments for the RRF program in FY 2026.

SBA's challenge is to effectively manage its resources to meet the demands of monitoring awardee compliance with award requirements. Improving awardee oversight will help the agency to

effectively measure and accurately report performance results and assess whether the federal assistance programs were effective and funds were used appropriately.

In our recent audit of SBA's oversight of SVOG recipients, we found SBA could improve its process to close out SVOG awards. The SVOG award close out process consisted of various activities to include determining if 1) recipients were eligible; 2) the award amount was correct, used in accordance with requirements, or recovered if applicable; and 3) the agency completed its review of submitted audit packages.

As of August 2025, SVOG officials closed out 1,515 of the 2,590 awards, with 1,075 awards totaling more than $1.5 billion still open. SBA program officials paused the close-out process to focus on recovery efforts. While finalizing the process to recover funds is important, SBA should consider both the close out and record retention requirements. By not doing so, they could miss the opportunity to collect misused or unused taxpayer funds.

OIG HIGHLIGHTED WORK

[1] *New Jersey Small Business Development Center's Compliance With Cooperative Agreement Requirements* (**Report 25-17**)

[2] *SBA's Implementation of the SBIR and STTR Extension Act of 2022* (**Report 24-14**)

[3] *SBA's Oversight of Restaurant Revitalization Fund Recipients* (**Report 23-15**)

[4] *SBA's Oversight of Shuttered Venue Operators Grant Recipients* (**Report 25-21**); *Improvements Needed in SBA's Shuttered Venue Operators Grant Post-Award Review Process* (**Report 24-21**)

[5] *SBA's Administrative Process to Address Potentially Fraudulent Restaurant Revitalization Fund Awards* (**Report 23-10**)

Challenge 4: Financial Reporting and Managing Data

SBA is tasked with managing the data of small business owners through multiple interfaces and platforms while meeting government mandates for privacy and security. The agency has made it a priority to improve SBA technology, cybersecurity, and response time to customers, affirming that efficient data systems are integral to customer service. [A] Agency leaders also plan to further integrate AI into agency data systems, which may generate new cybersecurity concerns requiring OIG oversight. By implementing best practices in data management, the agency will have a stronger foundation for identifying and preventing fraud schemes. Data reliability is also essential for SBA to manage taxpayer funds and accurately communicate its financial position to Congress, the President, and the American public. The agency has made satisfactorily completing a financial audit a priority, according to an SBA February 2025 news release. By improving data sharing practices, SBA can leverage information from federal partners to make more informed decisions, ultimately benefiting all Americans.

> SBA will be prepared to mitigate fraud risks in future crises by implementing best practices in managing internal and external data.

IMPROVING INTERNAL CONTROLS THROUGH FINANCIAL STATEMENTS AUDIT REMEDIATION

Our 2024 financial statements audit found a continuing challenge related to SBA's internal controls, which are integral for financial data reliability and accuracy.[1] Over the last 5 years, SBA has struggled with addressing long-standing internal control deficiencies due to challenges the agency faced with administering its pandemic relief programs. Starting in FY 2020, the agency received its first of five disclaimers of opinion, which means the auditors were unable to obtain sufficient audit evidence to support balances, so SBA has not obtained a clean audit opinion in 5 years.

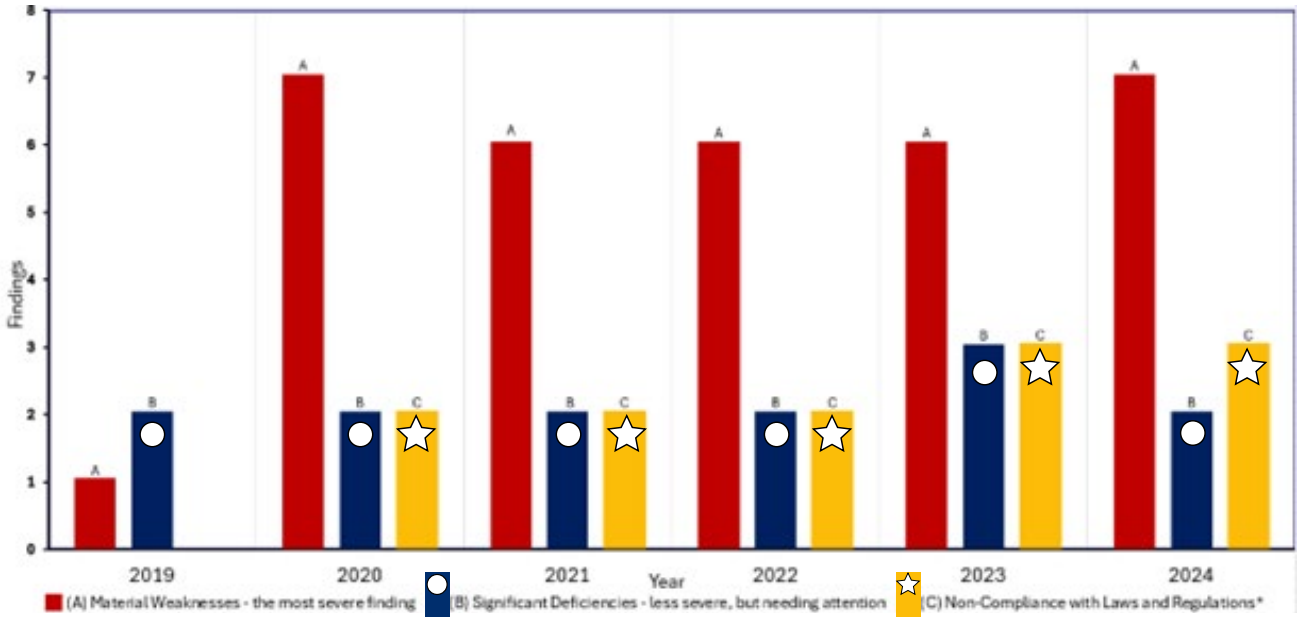
Since its first disclaimer, SBA's financial statements audits have been limited to the balance sheet, one of four principal financial statements. The remaining three statements — net cost, statement of changes in net position, and budgetary resources — have not been audited due to the unresolved issues affecting the balance sheet. This is important because the other statements contain information about agency spending and how much funding was used during the fiscal year.

In each of these 5 years, the auditors have identified as many as seven material weaknesses, three significant deficiencies, and three issues of non-compliance with laws and regulations (see Figure 3).[2] A material weakness is a serious concern that an organization's financial reporting controls are

[A] SBA, News Release 25-32, "SBA Administrator Loeffler Issues Memo on Day One Priorities" (February 24, 2025).

not effective enough to detect major errors or fraud that could cause material misstatements in the financial statements. A significant deficiency is less severe but indicates control issues that could potentially lead to misstatements.

Figure 3: SBA Audit Deficiencies From Pre-Pandemic Through Pandemic Recovery



***Federal Managers' Financial Integrity Act of 1982, Federal Financial Management Improvement Act of 1996, Debt Collection Improvement Act of 1996.**

Source: OIG analysis from SBA financial statements audit reports

OMB guidance states that correcting internal control deficiencies is a fundamental part of management accountability and must be prioritized.[B] In this light, the agency developed a new and centralized Financial Statements Audit Remediation Strategy in January 2025 that set key targets to focus time and resources on, including:

- Enhancing governance for the audit process;
- Developing accounting policies for the pandemic programs, such as COVID-19 EIDLs, the PPP, Restaurant Revitalization Fund, Shuttered Venue Operators Grants; and
- Writing a position paper for the auditors, explaining that SBA has identified loans with potential eligibility concerns through its verification process.[C]

[B] OMB, M-16-17, "OMB Circular No. A-123, Management's Responsibility for Enterprise Risk Management and Internal Control," at 37 (July 15, 2016).

[C] SBA, Office of Performance, Planning, and the Chief Financial Officer Financial Statement Audit Remediation Strategy (January 8, 2025).

Although these are positive steps, SBA has the challenge of remediating the seven material weaknesses and producing a clean audit opinion for all four financial statements. SBA should strive to improve program oversight provided to the taxpayer, Congress, and the President and accurately report how taxpayer money was used during the fiscal year.

Beyond achieving a clean audit opinion, SBA must meet its statutory responsibility with the Federal Managers Financial Integrity Act of 1982, which requires annual assessments and certifications of internal controls to the Congress and President.[D] Although the material weaknesses identified are largely related to pandemic relief programs that have ended, SBA can learn lessons from the crisis to better its internal control environment moving forward.

From FY 2020 to FY 2024, SBA did not substantially comply with the Federal Managers Financial Integrity Act of 1982. Building a more rigorous internal control environment will not only help SBA move toward compliance with the Act but will also help it to identify potential errors or fraud. SBA's challenge will be to effectively design an internal controls assessment plan that meets requirements, while building a team with expertise and capacity to strengthen its internal controls.

AUTHORIZED DATA SHARING

During the pandemic recovery, leaders in the offices of inspector general analytics community demonstrated that government data sharing can lead to successful criminal and administrative investigations into PPP, EIDL, and unemployment insurance program fraud. [E]

A collaboration between SBA OIG and the U.S. Department of Labor OIG identified $1.3 billion in potentially fraudulent unemployment insurance and EIDL payments were paid to the same likely fraudsters in



Example of Multi-Agency Data Sharing

Four Detroit residents pled guilty to conspiracy to commit wire fraud for their roles in a $6 million pandemic relief fraud scheme. Between February 2020 and May 2021, the co-conspirators stole identity information and created fictitious businesses to then file fraudulent claims in various states for PPP loans, EIDLs, and pandemic unemployment assistance. The unemployment benefits were often deposited onto debit cards that were sent to addresses controlled by the co-conspirators.

This joint investigation was successful thanks to SBA OIG, Department of Labor OIG, and FBI data sharing and collaboration.

Office of Inspector General
U.S. Department of Labor

Eastern District of Michigan

[D] Federal Managers Financial Integrity Act of 1982. Pub. L. No. 97-255 (August 1982).

[E] Pandemic Response Accountability Committee, *Blueprint for Enhanced Program Integrity,* Chapter 4: Whole-of-Government Approach, at 11-12 (April 2025).

both programs.[3] We identified this issue through a data use agreement and a subsequent data sharing and matching project. Additionally, SBA OIG identified an additional $1.4 billion in EIDL disbursements from a larger dataset not previously identified by Labor OIG or SBA OIG as potentially fraudulent.

Another example of effective data sharing between agencies would be if SBA pursues a legal framework to establish Social Security number verification data. The Pandemic Response Accountability Committee (PRAC) demonstrated how a memorandum of understanding with the Social Security Administration allowed its data scientists to verify Social Security numbers, names, and dates of birth from a random sampling of 662,000 identity records across the COVID-19 EIDL, PPP, and Labor's pandemic unemployment insurance program.[F] Using those results, PRAC estimated that up to 1.4 million stolen or invalid Social Security numbers were used to obtain benefits from these programs. PRAC estimated that verifying Social Security information could have saved taxpayers up to $79 billion in potentially fraudulent pandemic relief payments.

Given the volume of identity theft associated with SBA pandemic loan programs, Social Security number verification could have helped mitigate 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.

The agency could undertake collaborative efforts to uncover fraud, waste, and abuse by implementing Do Not Pay data in all its programs. The agency could put agreements and systems in place to mitigate fraud, rather than chasing fraudsters after the funds have been disbursed.

PRAC continues to advocate for expanding agency access to information, such as tax data.[G] We agree that expanding access to data using collaborative information sharing agreements will help identify fraud indicators so that federal agencies can better manage resources and protect taxpayer funds. SBA management stated they are currently making progress to secure sufficient and complete data sharing agreements with other federal agencies and ensure expired agreements are reestablished. As with Do Not Pay data sharing agreements with Treasury, the agency is undertaking additional collaborative efforts to uncover fraud, waste, and abuse during the application process for disaster assistance. These agreements can better help federal agencies verify applicant information and detect fraud.

OIG HIGHLIGHTED WORK

[1] *Independent Auditors' Report on SBA's FY 2024 Financial Statements* (**Report 25-05**)

[2] *SBA's Controls to Address Financial Statements Audit Disclaimers and Material Weaknesses* (**Report 25-25**)

[3] *COVID-19: Data Sharing Project Finds Billions Paid to Same Likely Fraudsters Under Both the Unemployment Insurance and Economic Injury Disaster Loan Programs* (**Report 25-06**)

[F] PRAC, *Fraud Prevention Alert: Pre-Award Vetting Using Data Analytics Could Have Prevented Over $79 Billion in Potentially Fraudulent Pandemic Relief Payments* (June 2025).

[G] PRAC, *Blueprint for Enhanced Program Integrity,* Chapter 4: Whole-of-Government Approach, at 11-12 (April 2025).

Challenge 5: Managing Risks in Information Technology Systems

SBA continues to share our concerns about its information technology (IT) and cybersecurity issues, citing these as top priorities in 2025.[A] A strong IT governance framework enables the agency to achieve mission goals and objectives while safeguarding taxpayer funds. A governance framework is an integrated strategy that identifies, measures, and controls risk in IT investments, fraud, and AI (see Figure 4). These processes will help the agency better deliver SBA programs and services, particularly in times of crisis.

Figure 4: Risk Management Best Practices Strategy



Source: OIG generated from National Institute of Standards and Technology data

IMPROVING INFORMATION TECHNOLOGY SYSTEMS MANAGEMENT

In March 2024, OIG determined SBA did not enforce IT management policies and procedures, and a new IT systems framework was not scheduled to be implemented until the second quarter of 2024.[1] The agency has had issues related to IT software investment governance, including:

- 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.

An IT system is essential to mission delivery and enhances organizational performance. IT system management is on the U.S. Government Accountability Office's (GAO) high-risk list because IT purchases are often a large investment of taxpayer funds for mission critical functions.[B] The agency has made updates to its management processes, including updating its process for IT investment management to correspond with the requirements of the Clinger-Cohen Act, the Federal Acquisition Reform Act of 1995, OMB requirements, and OIG recommendations.

[A] SBA, News Release 25-32, "SBA Administrator Loeffler Issues Memo on Day One Priorities" (February 24, 2025).

[B] GAO, GAO-25-107743, High-Risk Series: Heightened Attention Could Save Billions More and Improve Government Efficiency and Effectiveness, at 153 (February 2025).

PREPARING FOR ARTIFICIAL INTELLIGENCE CHALLENGES



A 2025 executive order on AI calls upon agencies to develop and submit to the President an action plan to achieve policy goals of sustaining and improving America's AI use, promoting human advancement, economic competitiveness, and national security.[C] OMB also called upon agencies to develop and publicly release an AI strategy that includes all its current and possible future uses of machine-learning technology. OMB directed agencies to promote the use of AI while also considering security threats and risk, particularly taking care when the AI has a significant effect on decisions related to:

- Civil rights, liberties, or privacy;
- Critical government resources or services; and
- Access to education, housing, insurance, credit, employment, and other programs.[D]

This is relevant for SBA because it could employ AI to decide on loan guaranties, award grants, or detect potentially fraudulent applications, while accessing private financial information and affecting applicants' credit records.

SBA faces several challenges in implementing AI according to the new OMB memo. First, IT leaders must consistently identify and classify any AI uses, particularly if they plan to leverage existing data and AI assets across the agency. SBA management stated they have formed a new AI working group and a board to guide and oversee agency integration of AI to improve business processes. As of November 2025, SBA had no AI use cases reported.

OMB also mandated SBA to:

- Designate a Chief AI Officer to promote AI innovation and governance. (A new officer was assigned as of August 2025);
- Update internal policies on IT infrastructure, data, cybersecurity, and privacy. (SBA published a 2-year Open Data Plan in June 2025 addressing open data security and privacy; however, more internal guidance is needed); and
- Develop a generative AI policy. (Its last posted policy expired early 2025).[E]

[C] Executive Office of the President, Executive Order 14179, "Removing Barriers to American Leadership in Artificial Intelligence" (January 23, 2025).

[D] OMB, M-25-21, "Accelerating Federal Use of AI Through Innovation, Governance, and Public Trust," at 19 (April 3, 2025).

[E] "Artificial Intelligence." SBA Office of the Chief Information Officer. Internal SharePoint site.

The agency must consider the budgetary costs and constraints of keeping AI systems and tools updated and protected from bad actors. Major tech players report skyrocketing costs to generative AI, leading to the cancellation or postponement of AI initiatives because of cost concerns.[F] Cutting-edge tools can be costly to maintain, particularly with ever-evolving cyber threats. Some tech companies have recognized the need to address the cost and security concerns of AI use within government.[G] SBA's risk management and need of transparency, in addition to the large amount of taxpayer resources at stake, is why this is a top management challenge for SBA in 2026.

Both GAO and OIG have drawn attention to a past case of SBA not being fully transparent regarding its use of AI.[H] SBA had used a machine learning model, considered AI according to U.S. Code,[I] that it did not include in its AI inventory. An SBA loan reviewer contractor developed a random forest machine learning model, an ensemble algorithm using multiple decision trees, to determine if loans required further analysis before being approved. The model developed its internal rules for making loan assessments based on risk indicators created by a legal and business research platform, which are numerical measurements or scores to indicate risk level for businesses. The model used other factors deemed relevant by the contractor but not clearly explained to GAO or OIG. The model was trained on a dataset of 20,000 manually reviewed loans, of which 275 had been marked as requiring further analysis before approval. This model was then used by SBA to assess 129,000 loans.

OIG plans to conduct audit oversight on the implementation of SBA's AI plans and strategies in the future. We look forward to working with the agency to ensure AI objectives are met with minimum risk and optimum return on investment.

DEPLOYING AND MONITORING NEW THIRD-PARTY SYSTEMS

The agency relies on 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.

Proper guidance on monitoring third-party systems can be found through System and Organization Controls 1 reviews. Our independent financial statements auditors 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. In FY 2025, SBA revised its standard operating procedure to enhance oversight procedures of service providers.[J]

[F] Brodsky, Sascha. "The Hidden Costs of AI: How Generative Models are Reshaping Corporate Budgets." IBM Think. Accessed July 18, 2025. (October 14, 2024).

[G] Wakeman, Nick. "OpenAI to Give Federal Agencies ChatGPT Access at $1 Per year." NextGov/FCW. Accessed August 6, 2025. (August 6, 2025).

[H] GAO, GAO-25-107267, *COVID-19 Relief Improved Controls Needed for Referring Likely Fraud in SBA's Pandemic Loan Programs* (March 2025).

[I] 15 U.S. Code §9401(3).

SBA's development guidance requires that systems are designed with adequate controls to prevent unauthorized access and data breaches. As new systems are developed, the importance of robust technical support and continuous system monitoring is integral to data quality.

CYBERSECURITY AND MODERNIZATION

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.[2] The agency's overall security program continues to be rated as "not effective" in accordance with federal guidance. Because of SBA's mission and the personally identifiable information it is required to collect to carry out that mission, the agency is susceptible to privacy and data breaches.

It is also critical that SBA plan for cybersecurity risks when modernizing its IT systems. This was an issue for SBA's Unified Certification Platform, which was intended to help streamline the process for small business owners to apply for contracting certification programs. GAO reported that when SBA transitioned to this new "one-stop" certification system, meant to consolidate multiple systems into one, the agency did not implement leading practices for risk management, cybersecurity, and IT governance over the investment.[K]

In addition to not developing a cybersecurity risk management plan, SBA also did not trace design elements of the new system to related cybersecurity requirements, which increases the risk of security vulnerabilities.

This problem continued with personally owned electronic devices allowed to access sensitive SBA systems. In late 2024, we identified a significant security vulnerability.[3] The agency unknowingly allowed personally owned devices, such as smartphones, laptops, or tablet computers, to access, store, and transmit agency data with only a username and password. Devices could also access the network from foreign locations, which is prohibited by SBA IT policy. Personally owned devices can expose the agency to IT security risks, such as unauthorized access and theft of personally identifiable information, which can be exploited by cyber criminals and other bad actors. Cyber threats include, but are not limited to, disclosure of sensitive data, unauthorized changes, or backdoor access to other network resources.

SBA should have multifactor authentication enabled for users to access the agency's secure network. Multifactor authentication is a high security control that requires a username, password, and an identity card, unique security code, or biometrics to access a system. Relying on usernames and passwords alone greatly increases the risk of SBA data being accessed and exploited by cyber criminals.

SBA has taken corrective action by rolling out multifactor authentication for more than 6,000 users. The agency is also designing the Unified Certification Platform to improve processes for

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[J] SBA, SOP 20 33 1, Review and Assessment of System & Organization Controls Report(s) (July 10, 2025).

[K] GAO, GAO-25-106963, It Modernization: SBA Urgently Needs to Address Risks on Newly Deployed System (November 2024).

administering the contract certification programs. The challenge for SBA is to ensure cybersecurity risks are considered and mitigated as the agency continues to modernize and integrate AI technology, which will likely be a collaborative process with entities outside the agency.

OIG HIGHLIGHTED WORK

[1] *SBA's IT Investment Governance Framework* (**Report 24-10**)

[2] *Fiscal Year 2024 Federal Information Security Modernization Act* (**Report 25-13**)

[3] *Undetected Vulnerabilities from Personally Owned Devices* (**Report 25-11**)

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 the Inspector General Act of 1978, codified as amended at 5 USC 407 and 420(b)(2)(B), confidentiality of a complainant's identity is mandatory absent their consent to release such information, or unless the Inspector General determines disclosure is unavoidable during the course of the investigation.

Agency's Response to Top Management and Performance Challenges Facing the Small Business Administration in Fiscal Year 2026

Under the leadership of President Donald J. Trump and Administrator Kelly Loeffler, the U.S. Small Business Administration (SBA or Agency) remains dedicated to advancing the mission of supporting America's small businesses while strengthening operational integrity, program oversight, and strategic management. Throughout Fiscal Year (FY) 2025, the Agency's top priority was reversing Biden-era programs and policies that inflicted material damage – whether through personnel policy that doubled the agency and resulted in 90% of staff working from home, dozens of unneeded real estate leases, hundreds of millions of dollars in wasteful spending, weakened oversight that resulted in billions in defaults and delinquencies, partisan initiatives that discriminated against politically disfavored groups, or a pervasive indifference to addressing billions of dollars of known fraud on behalf of U.S. taxpayers and small businesses. In furtherance of this objective, the Agency immediately reversed this damaging agenda, called for an audit, implemented an aggressive plan to strengthen and modernize its technology infrastructure, reinforced its internal controls, and reasserted rigorous oversight mechanisms to safeguard taxpayer funds.

Although the Office of the Inspector General (OIG) has appeared unwilling to acknowledge the widespread malfeasance and mismanagement of the SBA under the Biden Administration, or the enormous progress that this Administration has made towards restoring the fiscal prudence, program integrity and non-partisan accountability that resulted in years of needless risk and costs, the Agency nonetheless recognizes that this annual review by OIG is statutorily mandated. With a Trump-appointed Inspector General recently confirmed, the Agency is optimistic that it will have a law enforcement team that is recommitted in their mission to eliminate fraud, stop abuse, and leverage the SBA as a powerful force multiplier for economic growth.

Under the current Administration, SBA prioritized enterprise-wide initiatives that strengthen oversight, reduce risk, improve program outcomes, improve agency workforce productivity and quality, enhance efficiency, and address fraud. The result was a historic year in the SBA's 72-year history – delivering a record $45 billion in 7(a) and 504 loans to 85,000 small businesses – with a smaller staff, fewer contractors, less spending, and stricter underwriting standards. In total, the Agency reduced its headcount by 54% and cut annual spending by over $300 million. Meanwhile, the Agency made substantial progress toward prosecuting billions of dollars in pandemic-era fraud that went unaddressed by the Biden Administration and ending abuse within the 8(a) Program for "socially and economically disadvantaged" small businesses. With prudent controls and management practices in place, the Agency successfully led nationwide efforts to eliminate regulations, promote American industry, and level the playing field for rural and veteran entrepreneurs by eliminating Biden-era DEI and Green New Deal programs.

The Trump SBA is committed to transparency with stakeholders, including Congress, federal partners, and program participants, and continues to apply strategic management decisions to deliver results for taxpayers and small businesses owners with accountability, integrity, and efficiency.

PROTECTING THE INTEGRITY OF SBA PROGRAMS: Since Day One, cracking down on known fraud and implementing preventative measures to end abuse was a top priority for the Agency. The Agency bolstered program integrity through a comprehensive fraud risk framework spanning account registration, application processing, and pre-distribution screening, as well as retroactive reviews of pandemic-era disbursals.

After years of inaction, the Agency added guardrails back to its core loan programs, including implementing citizenship and birth date verifications for 7(a) and 504 loan applications, and heightened domestic ownership requirements to ensure only legal, eligible, Americans can access federally backed resources. Additionally, the Agency established a task force led by the Agency's Chief Operating Officer (COO). The task force meets with senior leadership to review emerging trends, coordinate intra- and inter- agency actions, and provide strategic direction to protect the integrity of SBA programs.

In an effort to identify and prevent ineligible borrowers from accessing SBA-backed financing, the Agency expanded data sharing efforts across numerous federal databases, including the U.S. Department of Homeland Security's (DHS) Systematic Alien Verification for Entitlements (SAVE) Program, Social Security Administration's (SSA) Enterprise Data Exchange Network (EDEN), and Department of the Treasury (Treasury)'s Do Not Pay (DNP) database to prevent fraud and improper payments.

Moreover, the Agency halted non-bank lending programs that saw dramatic expansion—and unprecedented levels of default and delinquency—under the Biden Administration, including the Community Advantage Small Business Lending Company (CASBLC) Program designed to grant 7(a) loans to "underserved communities" through "mission-based lenders." Through a new standard operating procedure (SOP), the SBA now requires existing lenders to meet prudent financial stability standards as a condition of further participation. In a similar effort to protect taxpayers from avoidable losses, the Agency eliminated self-certified loan forgiveness for Paycheck Protection Program (PPP) and created additional internal reviews before forgiveness is adjudicated.

The assertion that no front-end fraud detection system exists for SBA loan programs is false. The SBA offers lenders two types of 7(a) and 504 loan application submissions for compliance check screening: a pre-check on in-progress applications undergoing underwriting and checks on full applications following the underwriting process. A Do Not Pay verification check was implemented and is not "in the process" of being completed as asserted in OIG's report. The Agency also implemented a fraud framework to screen and oversee the following stages: (1) Account Registration, (2) Application Post-Submission Routines, and (3) Pre-Distribution Screening, which provide oversight of non-bank lenders and lender service providers.

The increased rates of suspected fraudulent loans by non-bank lenders referenced in OIG's report occurred in 2021 as part of a Biden-era strategy to increase lending through non-bank lenders by reducing program-wide underwriting standards and eliminating lender fees. This policy change, and its role in driving increased defaults and delinquencies within the 7(a) loan program, represented the single-greatest threat to the zero-subsidy status of the program since inception. By the time the Trump Administration assumed office, program losses were approaching $600 million. The Agency now projects an estimated $2.2 billion in taxpayer losses associated with the four underwriting cohort years of the Biden Administration.

Although the Trump SBA took immediate action to restore strong underwriting standards and lender fees to preserve the solvency of the 7(a) program, the OIG fails to acknowledge this swift corrective action. Remarkably, the OIG conveniently declines to acknowledge the lasting damage of Biden-era malfeasance at all, despite sounding the alarm about potential losses to taxpayers in 2024.

Ludicrously, while the OIG attempts to blame the Trump SBA for failed COVID-19 program oversight, the office conspicuously omits the critical fact that the Agency stopped accepting and processing pandemic-era loan applications during the Biden Administration in 2021, well before President Donald J. Trump won in a historic landslide election for the second time. Likewise, OIG's complaints about the Restaurant Revitalization Fund (RRF) and Shuttered Venue Operators Grant (SVOG) pandemic relief programs should be directed toward the Biden Administration, since both programs started and stopped accepting and processing applications in 2021.

Concerning RRF, the assertion that the Agency hasn't established a process to recover funds from improper payments is simply false. While the Biden Administration swept it under the rug, the Trump SBA went back to the data and took action to begin the recovery of those funds. In the second half of FY25, management determined a reasonable legal basis to seek recoupment of improper RRF payments. Management is completing a review of RRF awards, issuing letters to debtors, reviewing those debtor responses, and plans to refer identified improper RRF awards as a debt to Treasury for collection efforts and may, in limited circumstances, require intervention by the Department of Justice (DOJ).

The Agency also continues to recover pandemic-era funds identified as potentially fraudulent in collaboration with OIG, Treasury, and DOJ. In 2025, the SBA announced the suspension of thousands of Paycheck Protection Program (PPP) and Covid Economic Injury Disaster Loans (EIDL) borrowers and issued over 600 demand letters to recoup an estimated $625 million in funding approved through the SVOG Program. So far, the Agency has received about $3.5 million and plans to refer the grantees to Treasury for collections.

Regarding SBA's oversight of federal contracting programs, OIG's report is inaccurate and incomplete as it fails to identify the root cause of fraud. One key failure is to provide sufficient context concerning Biden-era changes to self-certification for certain eligibility requirements while stating it can lead to fraudsters taking advantage of government contracting programs – and that the Trump SBA is the first in the 8(a)'s 45-year history to audit this Carter-era program. As written in the report, the reader could assume that SBA contracting certification programs allow self-certification for multiple eligibility requirements, rather than just the size of a particular business applicant. Additionally, the Agency complies with the federal statute regarding the least possible regulatory burden principle (15 USC 632(x)(2)(B)) when it comes to the efficiency of self-certification. Furthermore, the OIG's report inaccurately states that "unscrupulous business owners can make unsupported claims to attest they are eligible for these certification programs in SAM.gov or SBA's Dynamic Small Business Search Database," but only the Agency can attest to a small businesses' "disadvantaged" status on both of those databases.

Additionally, last year, the Agency commenced a thorough review of the 8(a) program, including revoking the independent contracting authority of the U.S. Agency for International Aid (USAID),

launching a comprehensive audit, and issuing letters to all 4,300 8(a) contractors requiring submission of three years' worth of financial documents for review. The Agency also updated its sprints for the Unified Certification Platform (UCP) system to include additional functionalities and features to support reviews of 8(a) firms, planned for deployment in mid-March 2026. The technology update aims to help mitigate the risks of 8(a) firm owners exceeding income threshold levels.

MANAGING SBA'S LOAN PORTFOLIO AND PARTICIPATING LENDERS: Although the PPP and COVID-19 EIDL programs no longer accept new applications, the experience gained from those programs informed improvements to risk management, loan servicing, technology systems, investigations, and collections across active loan portfolios. As described in the preceding narrative, oversight of SBA's loan programs was expanded through the application of more rigorous controls for both bank and non-bank lenders, including fintech participants. Program monitoring was enhanced to assess underwriting, loan disbursement, and lender compliance with SBA standards, including through the reapplication of prudent lending standards. The Agency also expanded pre-distribution screening and incorporated additional cross-agency verification checks within loan origination infrastructure.

Concerning the Agency's portfolio of pandemic-era loans, the OIG's report speculates that the Agency's workforce reduction in 2025 could negatively impact its ability to service the portfolio. This conjecture is wildly divorced from the reality of the data and results presented here. Last year, the Agency reduced its headcount by over 50% while simultaneously not experiencing any break in service across SBA's financial products – thanks to improved technology, fewer internal personnel issues due to reductions, and improved workflow enabling greater productivity and results for taxpayers and small businesses. Mandating in-office work for federal employees – instead of allowing the work-from-home culture that pervaded the Biden Administration – also contributed to stronger results for taxpayers. As impossible as it may seem to bureaucrats, the federal government can do more with less.

Under Administrator Loeffler, the Agency made enhancements to its origination platform for lenders, and continues to do so, to ensure the integrity of its programs and reduce risk, which is unrelated to lender oversight as the OIG report suggests. During the COVID-19 pandemic, PPP funds were deployed rapidly, which did not allow for oversight activities to occur in the same manner as it does for SBA's continuous programs, such as the 7(a) and 504 Loan Programs. For emergency programs with time critical capital deployment, the oversight (risk mitigation framework) must be integrated into the origination platform. The Agency, OIG and others have documented their perceived deficiencies in the PPP origination platform with the Agency responding with enhancements between rounds of PPP funding as well as continuous improvement since then in support of ensuring the continued viability of the Agency's business loan programs. These efforts provide greater confidence in lender performance, borrower eligibility, and program outcomes, while reducing the occurrence of improper payments.

Although the OIG urges stronger stewardship of disaster resources, the office fails to acknowledge the restructuring implemented by this Agency to ensure the availability of adequate disaster funding after the Biden Administration ran out of money at the height of Hurricane Helene in 2024. The Trump SBA maintained adequate appropriations through prudent forecasting and robust reporting and consultation with Congressional partners. With this renewed governance, the Agency approved over $6 billion in disaster relief for more than 27,000 survivors in 2025.

The Agency disagrees with OIG's revisionist history that a lapse in disaster loan disbursements between October and December of 2024 was because "the Agency had not adjusted its forecasted lending level or annual budget request for disaster assistance since 2009 even though the number and cost of billion-dollar disasters has generally increased over time." The Executive Branch historically does not use the annual budget requests process to mitigate major disaster requirements. In fact, the Biden SBA assured Congress that funding levels were sufficient mere days before disaster struck. While the Agency is adjusting its annual budget request to provide an updated steady state disaster lending estimate based on historical factors, gaps in disaster funding may occur should major disasters strike.

MEASURING PERFORMANCE AND MONITORING SBA PROGRAMS: SBA continues to reform program performance oversight through expanded analytics and modern reporting dashboards. Oversight of resource partners programs, including Small Business Development Companies (SBDCs), has been reinstated after years to support accurate, timely performance reporting that aligns with statutory and congressional requirements. These actions allow leadership to track key indicators, identify emerging risks, and implement corrective measures that advance program performance and participant success.

In contrast to the OIG's report calling for measures to assess goal accomplishments, the Agency identified performance and consistency gaps at the beginning of the Administration's term and is already developing new dashboards to measure, track, and monitor activity and results. The OIG suggested remediation that would establish performance goals and measuring progress, yet these actions are not supported by statute in the Small Business Act, by the Agency's regulations, or by Office of Management and Budget's (OMB) guidance. Furthermore, the OIG's recommendations are not practicable nor are they funded. The Agency repeatedly attempted to explain that differences in loan programs and grant-making require unique approaches. The Agency would like to partner with the OIG in adopting an accountability framework that inverses the effectiveness of for the Agency's statutory grant programs, but the Agency does not believe applying lending metrics to a grant program is useful.

The Agency agrees with the OIG's proposal to coordinate with resource partners to improve the tracking and monitoring of performance goals. In fact, this is exactly what the Agency does. As the Agency revised the goals beginning for the 2024 project year, extensive meetings took place with resource partners, as well as consultations with America's SBDC as required by statute. On an annual basis, SBDCs submit goals for the established metrics through their annual proposal, and these are reviewed by the Agency. If the goals are not in alignment with past performance, the Agency will work collaboratively with the SBDCs to adjust the goals accordingly. The OIGs presumption of additional funding to meet goals are completely unfounded. Because of delays in the appropriation and apportionment process, SBDCs may often carry over funds from the previous year to fill existing resource gaps while awaiting additional funding. This in turn leads to carryover for the next fiscal year but does not amount to additional money used in any given performance period as the OIG falsely claims.

The OIG itself considered its recommendation that "the agency establish formal procedures for obtaining and reviewing appropriate supporting documentation to ensure sales and investments are accurately reported" resolved, as indicated in its published SBA's Implementation of the SBIR and STTR Extension Act of 2022 (Report 24-14). OIG closed the recommendation in August 2024. The formal procedures were followed in performing the FY24 and FY25 performance benchmark assessments, including requiring small businesses to submit documentation that the SBA used to verify

performance claims. The population of documents provided as evidence of covered sales included purchase orders, contracts, sales agreements, receipts, and invoices. Covered sales were assessed and verified as Government Designated Phase III contracts via official federal databases. SBA has tested and continues to actively pursue external independent data sources to enhance its ability to validate commercialization activity provided by small businesses in the SBIR/STTR programs.

FINANCIAL REPORTING AND MANAGING DATA: The Agency made significant progress in modernizing data management and financial reporting systems. SBA established standardized data-sharing agreements with multiple federal partners, including SSA, Treasury, and DHS, to eliminate barriers and improve data accuracy for program administration. The Agency also created the SBA's first Open Data Plan (ODP) to improve transparency and broaden public access to SBA data. Efforts to resolve historical accounting issues associated with COVID-19 era programs continue, with accepted accounting principles applied to closed and charged-off loans. Enterprise reporting dashboards and continued audit remediation activities give leadership greater visibility into operational and financial performance, while supporting statutory and regulatory compliance.

The OIG report provides an accurate depiction of the material weaknesses and significant deficiencies identified by the Agency's external auditors for FY24. That said, the report conspicuously omits any reference to the substantial remediation progress achieved by management during FY25. The auditor's report indicates that, to date, SBA has successfully remediated three of the seven material weaknesses, two previously identified significant deficiencies were fully remediated, and one material weakness was downgraded to a significant deficiency. This meaningful advancement reflects our disciplined, prioritized approach to strengthening the overall control environment. By failing to acknowledge this considerable year-over-year improvement, the report inadvertently presents readers of the Agency Financial Report (AFR) with an outdated and incomplete perspective, one that materially understates the current state of our internal controls. In reality, the control environment today is demonstrably stronger than in the several prior fiscal years, with further enhancements already in progress that position the SBA for even greater resilience and reliability moving forward.

MANAGING RISKS IN INFORMATION TECHNOLOGY SYSTEMS: The SBA has reinforced IT governance and cybersecurity through the appointment of a new Chief Information Officer (CIO) and Chief AI Officer (CAIO) and the consolidation of data centers – which have already been reduced from 11 to four – accompanied by updated oversight from the new AI Governance Council, AI Working Group, and Data Governance Board. These bodies provide structured reviews of emerging technologies to support operational efficiency and sound decision-making. Strengthened IT governance supports security, continuity of operations, and the availability of reliable and timely information across all SBA programs.

The reinstated AI Governance Council, Data Governance Board, and the new AI Working Group will oversee the responsible use of artificial intelligence. Additionally, the Agency has upgraded its network infrastructure, is in process of a complete cloud migration, launched AI pilot programs, and strengthened oversight to ensure compliance, operational excellence, data stewardship, and data security. The Data Governance Board has also drafted a new Data Strategy and Data Sharing Agreement for all systems.

The Trump SBA has begun developing a comprehensive de-risking strategy centered on modernizing both our physical assets, our technology infrastructure, and our human capital. The construction of a new physical Security Operations Center (SOC) infrastructure now serves as the centralized command center for our defense operations. Supporting this physical upgrade, we have reorganized our security division into specialized units, specifically our SOC Analyst, Cyber Threat Intelligence, and Forensics teams. This structural shift ensures that we have dedicated expertise focused on every stage of a threat, from proactive intelligence gathering and real-time monitoring to deep-dive forensic investigations.

At the core of our technological defense is the introduction of an Extended Detection and Response (XDR) solution. This unified security incident platform is designed to enhance our detection and response capabilities by integrating data across various security layers, providing a more holistic view of the threat landscape. To complement this, the SBA has moved toward automated security incident response, which adopts a collaborative approach by integrating security practices directly into IT operations. By streamlining and automating incidents and vulnerability management, we have fostered much closer collaboration between our security and IT teams to ensure a unified approach to security. This synergy significantly reduces the risk of cyber threats while simultaneously increasing operational efficiency across the entire Agency.

In contrast to the Biden SBA, which operated out of a dozen disparately managed data centers, and recognizing the complexity of modern infrastructure, the Trump SBA has also implemented a Cloud Native Application Protection Platform (CNAPP) to secure every layer of our cloud environment, from the initial code to the final runtime. The SBA now employs agentless, API-based scanning to maintain comprehensive visibility across our multi-cloud environments. This capability allows the Agency to protect everything it builds and runs in the cloud, ensuring consistent and robust security standards across all various cloud platforms. Through these combined physical, organizational, and technological advancements, the Agency has established a resilient framework for long-term risk management.

To further mature the Agency's risk management posture, the SBA has proactively engaged with the Cybersecurity and Infrastructure Security Agency (CISA) to enhance our participation in the Continuous Diagnostics and Mitigation (CDM) Program. This program provides a dynamic approach to fortifying government networks by reducing exposure to known vulnerabilities and streamlining Federal Information Security Modernization Act (FISMA) reporting.

By aligning the CDM Program with Zero Trust principles, the Agency is moving toward a model that requires continuous verification of user identities and device security. This evolution has led to an increased focus on improving incident response capabilities and deploying advanced endpoint detection and response tools across the Agency's infrastructure. These combined efforts—integrating advanced cloud protections with federal-level visibility programs—ensure that the Agency maintains a proactive and resilient defense against an increasingly sophisticated threat landscape. OIG's report inaccurately states that the Agency has 21 unassigned and two in-review cases in AI Inventory, which the SBA believes is erroneous data from an invalid source.

With the revitalization of the AI Working Group and the AI Governance Council, the AI Use Case Inventory will be reevaluated. It also inaccurately states that no updated internal policies have been posed on the Agency's website. However, the Agency published the statutorily required ODP on June 18,

2025. This 2-year action plan was approved by the Data Governance Board and establishes an enterprise-wide strategy and framework to expand and improve access to Agency data. The ODP outlines the Agency's intent to comply with the requirements set forth in the OPEN Government Data Act and incorporates guidance from OMB M-25-05. The remainder of the document discusses the SBA data governance framework.

CONCLUSION: The Agency recognizes the OIG's oversight and appreciates the opportunity to provide additional context on the findings presented in the Top Management and Performance Challenges in FY26 report. Several issues identified in the report relate to closed COVID-19 programs that concluded years ago and were never reinforced or investigated during the Biden Administration. The SBA continues to resolve remaining matters associated with these programs, including recovery of improperly disbursed funds. The Agency's current initiatives focus on strengthening internal controls, improving operational efficiency, and advancing effectiveness and oversight across active programs. Actions implemented in 2025 reflect this Administration's structured approach to risk management and program integrity, informed by lessons learned from prior programs and shaped by modern oversight needs. The SBA remains committed to maintaining open communication with the OIG and federal partners, and to supporting small businesses through programs that are well-managed, transparent, and grounded in sound stewardship of public resources.

Sincerely,



Kelly Loeffler
28th 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 (OMB) Circular A-123, Appendix C, Requirements for Payment Integrity Improvement (M-21-19) (hereafter referred to as "Appendix C"), agencies are required to identify, assess, prioritize, and respond to payment integrity risks to prevent improper payments in the most appropriate manner. This report will discuss the SBA's efforts and results related to improper payment assessment and reviews. More detailed information on improper payments and information previously reported in the AFR that is not included in the FY 2025 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 is a priority for the Agency. SBA staff monitor and review for improper payments and implement improvements that will reduce improper payment rates. The SBA also continually seeks opportunities to enhance and implement internal controls to reduce the risk for improper payments.

In FY 2025, the SBA reviewed eight programs and activities that were deemed susceptible to significant improper payments. Of the eight programs reviewed, four programs are major credit programs mandated by OMB, and four programs are programs that were created as a result of the pandemic response. The eight programs are:

- 7(a) Loan Guarantees Approvals;
- 7(a) Loan Guarantees Purchases;
- 504 Certified Development Loans Approvals;
- Disaster Assistance Loans;
- Paycheck Protection Program (PPP) Loan Guaranty Purchases;
- Paycheck Protection Program (PPP) Loan Forgiveness;
- Section 1112 Payments; and the
- Shuttered Venue Operators Grant Program (SVOG).

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 (Dollars in Millions) [1]

Program	FY 2024			FY 2025 Summary							FY 2025 Breakdown								FY 2025 Reduction Target % [7]
	Outlays [2] $	IP %	IP $	Outlays [2] $	Proper Payment %	Improper Payment %	Unknown Payment %	Proper Payment $	Improper Payment $	Unknown Payment $	Over-payments (Outside Agency Control) %	Over-payments (Within Agency Control) %	Under-paments %	Techni-cally Improper Payments %	Overpayments (Outside Agency Control) $	Overpayments (Within Agency Control) $	Under payments $	Techni-cally Improper Payment $	
SBA Programs																			
7(a) Loan Guaranty Approvals	20,294.40	5.44	1,103.35	26,614.89	93.87	6.13	0.00	24,982.37	1,632.51	-	0.00	0.00	0.00	100.00	-	-	-	1,632.51	5.79
7(a) Loan Guaranty Purchases	1,394.74	5.34	74.52	2,115.50	98.49	1.07	0.44	2,083.63	22.55	9.31	0.00	75.97	24.03	0.00	-	17.13	5.42	-	1.07
504 Certified Development Loan Approvals	6,329.16	3.74	236.73	7,392.04	95.42	4.58	0.00	7,053.63	338.42	-	0.00	0.00	0.00	100.00	-	-	-	338.42	4.56
Disaster Assistance Loans	1,175.70	3.62	42.54	3,223.82	95.13	4.87	0.00	3,066.80	157.02	-	0.00	79.66	20.34	0.00	-	125.08	31.94	-	4.25
COVID Programs																			
Paycheck Protection Program (PPP) Loan Forgiveness	1,507.20	21.09	317.83	303.85	80.78	19.04	0.17	245.46	57.86	0.53	0.00	98.62	1.38	0.00	-	57.06	0.80	-	10.00
Paycheck Protection Program (PPP) Loan Guaranty Purchases	6,792.08	24.47	1,662.30	1,398.23	86.72	5.17	8.11	1,212.49	72.30	113.44	0.00	100.00	0.00	0.00	-	72.30	-	-	5.17
Section 1112 Payments [3,4]	N/A	N/A	N/A	10,585.15	99.66	0.34	0.00	10,548.67	36.48	-	100.00	0.00	0.00	0.00	36.48	-	-	-	N/A
Shuttered Venue Operators Grant Program [3,5]	N/A	N/A	N/A	14,604.95	31.06	39.89	29.05	4,535.97	5,826.29	4,242.69	0.00	76.97	0.35	22.67	-	4,484.64	20.62	1,321.03	N/A
Restaurant Revitalization Fund Program [6]	28,599.45	0.00	0.07	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
Total	**37,493.28**		**3,437.27**	**66,238.42**				**53,729.02**	**8,143.43**	**4,365.97**					**36.48**	**4,756.21**	**58.78**	**3,291.96**	

1 Amounts and percentages reported on this table may not reconcile due to rounding differences.

2 Outlays in this report represent the base amount of the program activity related to SBA improper payments; and this amount will differ from the amount reported as outlays in SBA's President's Budget submissions because they include reestimates of subsidy cost, reimbursements to SBA administrative funds and other costs. Outlays for 7(a) loan guaranty purchases are the amount of disbursements for the purchase of defaulted 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.

3 Prior year data for the program is not available as FY 2025 is the first year program is reporting improper payment data.

4 Section 1112 Payments data pertain to outlays from April 1, 2020 through March 31, 2025. Data pertaining to this timeframe are reported in FY 2025.

5 The Shuttered Venue Operators Grant program data pertain to outlays from April 1, 2021 through March 21, 2024. The last disbursement occurred on May 27, 2021. Data pertaining to this timeframe are reported in FY 2025.

6 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 were reported in FY 2024.

7 Tolerable rates have been established for 7(a) Loan Guaranty Approvals, 7(a) Loan 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 2025 improper payment rate is less than the established tolerable rate, the FY 2025 improper payment rate will be the reduction target).

The above table presents a summary of the SBA's improper payment review results and reduction outlook.

To provide more clarity for the reader, this section is organized by the 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 Program

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 2025 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 PPS Sampling with replacement from all loan guaranties approved during the 12-month period ended March 31, 2025. 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 232 loans from the population. The sample included net guaranteed approvals of $309,844,445 and improper payments of $23,034,655 within the sample. Using the Hansen-Hurwitz estimation method, the estimated improper payments rate for the annual period ending March 31, 2025, was calculated as 6.13%.

The improper payment rate in FY 2024 was 5.44 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."

Prior to the FY 2025 improper payment testing cycle, the SBA established a risk tolerance band for the 7(a) Loan Guaranty Approval Program improper payments. The risk tolerance band effective for the FY 2025 review cycle is 2.23 percent to 10.00 percent; while the improper payment rate increased in FY 2025, it is within SBA's tolerable improper payment range. In compliance with SBA's established processes, the Agency conducted the required annual assessment of the established 7(a) Approvals tolerable improper payment range. The assessment concluded the previous tolerable improper payment range was no longer adequate and established a new risk tolerance band of 5.23 percent to 10.00 percent. In addition to the updated risk tolerance band, the SBA has also established a target reduction rate for this program of 5.79 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) Lender and Developing Company Loans Standard Operating Procedure (SOP) in August of 2023 and issued a second revision in November of 2023. To improve payment integrity, the SBA provided training on the revised SOP – the SOP in effect during the FY 2025 improper payment testing cycle - to lenders prior to issuance and continued providing quarterly training while this SOP remained in effect.

The SBA updated its 7(a) Lender and Developing Company Loans SOP in 2025, largely re-implementing requirements that were in place before January 2021, including restoring 7(a) underwriting criteria, reinstituting the SBA Franchise Directory with streamlined procedures, re-affirming that SBA Lenders determine whether the Applicant is eligible for a loan guaranteed by SBA, and eliminating the "do what you do" philosophy from the SOP. This SOP became effective in June 2025 and will apply to 7(a) Loan Guaranty Approvals in the FY 2026 improper payment testing cycle. To improve payment integrity, the SBA provided training on the updated SOP prior to issuance and continues to provide quarterly training. The SBA also provides additional training on specific topics throughout the year.

Root Causes and Corrective Action

Approximately 80 percent of all 7(a) Loan Guaranty Approvals are performed by lenders with delegated authority to evaluate, process, close, and disburse 7(a) loans. Lenders with delegated authority were responsible for all identified improper payments for 7(a) Loan Guaranty Approvals in FY 2025.

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 or project structure issues), 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.

1. Collaboration with the Office of Credit Risk Management (OCRM) through referrals;
2. Collaboration with 7(a) Loan Guaranty Processing Center (LGPC) Management and the Office of Financial Assistance (OFA), informing management of identified deficiencies for incorporation into policy and training, along with feedback to lenders and LGPC; and/or
3. Provide external training to lenders on regulatory and policy requirements governing eligibility, proper loan structure, and documentation.

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 referred to OCRM recommending lender deficiencies raising concern 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 2025 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 processed during the 12-month period ended March 31, 2025. 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 240 loans from the population. The sample included aggregate purchase outlays of $312,426,648 and an absolute value of improper payments of $4,093,797 within the sample. Using the Hansen-Hurwitz estimation method, the estimated improper payment rate for the 7(a) guaranty purchase population is 1.07 percent for the annual period ending March 31, 2025.

The improper payment rate for 7(a) loan guaranty purchases in FY 2025 was 1.07 percent, a significant reduction from the FY 2024 rate of 5.34 percent. 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."

Prior to the FY 2025 improper payment testing cycle, SBA has established a risk tolerance band for FY 2025 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. In compliance with SBA's established processes, the Agency conducted the required annual assessment of the established 7(a) Guaranty Purchases tolerable improper payment range, concluding no revisions were needed to the risk tolerance band for FY 2026. In addition to the risk tolerance band annual evaluation, the SBA also established a target reduction rate for this program of 1.07 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 SBA has honored its guaranty.

Actions to Improve Payment Integrity

The SBA announced revisions to its 7(a) Loan Servicing and Liquidation SOP in September 2024, which became effective December 2024. Revisions to the SOP were largely the result of feedback received from the public, including participating lenders and representatives of various trade associations, addressing technical corrections to clarify the SOP. To improve payment integrity,

the SBA provided training on the revised SOP to lenders prior to issuance and continued providing quarterly training while this SOP remained in effect.

The SBA updated its 7(a) Loan Servicing and Liquidation SOP in September 2025. This SOP became effective in November 2025 and will apply to 7(a) Guaranty Purchases in the FY 2026 improper payment testing cycle. At time of publication, the SBA is in the process of providing training on the updated SOP and will continue to provide quarterly training as part of its continuous efforts to improve payment integrity. The SBA also provides additional training on specific topics throughout the year.

Root Causes and Corrective Action

The root cause categories established by OMB are: (1) Statutory Requirements of Program Were Not Met; (2) Unable to Determine Whether Proper or Improper; (3) Data/Information Needed Does Not Exist; (4) Inability to Access Data/Information; and (5) Failure to Access Data/ Information. The root cause for 7(a) Loan Guaranty Purchases improper payments was identified as Failure to Access Data/ Information. Improper payments 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 root cause for 7(a) Loan Guaranty Purchases improper payments was identified as Statutory Requirements of Program Were Not Met when the source of equity injection funds was not provided.

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 adequately reconcile the purchase from the Secondary Market.

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 2025 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). 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 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 CDC approval reviews, the sample cases were chosen using PPS sampling with replacement from all loan guaranties approved during the 12-month period ended March 31, 2025. The approval population was not stratified. The SBA determined the appropriate total sample size to be 219 loans from the population. The sample included net approval outlays of $501,711,000 and improper payments of $23,253,500 within the sample. Using the Hansen-Hurwitz estimation method, the estimated improper payments rate for the annual period ending March 31, 2025, was calculated as 4.58%.

The improper payment rate for 504 loan approvals in FY 2024 was 3.74 percent, and the unknown payment rate was 0.39 percent. The estimated improper payment rate, including unknown payments for FY 2024, was 4.54 percent, consistent with the estimated improper payment rate for FY 2025, and within the established tolerance band for improper payments. While nominal, the increase in the improper payment rate can be attributed to ineligible project structures, borrower eligibility, and analysis of borrower's repayment ability.

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."

Prior to the FY 2025 improper payment testing cycle, SBA established a risk tolerance band for 504 Certified Development Loan Approval Program FY 2025 improper payments. The risk tolerance band for this program is 3.96 percent to 10.00 percent. In compliance with SBA's established processes, the Agency conducted the required annual assessment of the established tolerable improper payment range, concluding the existing risk tolerance band to be adequate with no recommended revisions for FY 2026. In addition to the risk tolerance band re-evaluation, the SBA has also established a target reduction rate for this program of 4.56 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 Approval PIIA reviews are conducted after the time of loan approval but usually prior to disbursement. 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 revised its 7(a) Lender and Developing Company Loans Standard Operating Procedure (SOP) in August of 2023 and issued a second revision in November of 2023. To improve payment integrity, the SBA provided training on the revised SOP – the SOP in effect during the FY 2025 improper payment testing cycle - to lenders prior to issuance and continued providing quarterly training while this SOP remained in effect.

The SBA updated its 7(a) Lender and Developing Company Loans SOP in 2025, largely re-implementing requirements that were in place before January 2021, including restoring 7(a) underwriting criteria, reinstituting the SBA Franchise Directory with streamlined procedures, re-affirming that SBA Lenders determine whether the Applicant is eligible for a loan guaranteed by SBA, and eliminating the "do what you do" philosophy from the SOP. This SOP became effective in June 2025 and will apply to 504 Loan Approvals in the FY 2026 improper payment testing cycle. To improve payment integrity, the SBA provided training on the updated SOP prior to issuance and continues to provide quarterly training. The SBA also provides additional training on specific topics throughout the year.

Root Cause and Corrective Action

504 Guaranty Approval PIIA reviews are conducted after loan approval but usually prior to disbursement. 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 2025 were (1) CDCs' failure to ensure borrowers adhered to all regulations include confirmation of legal residency status (2) CDC failed to properly exercise its delegated authority; (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 (OCRM) to recommend that specific lender deficiencies be monitored and incorporated into Risk Based Reviews;
- Collaborating with the Office of Financial Assistance (OFA) to inform the office of deficiencies identified for potential incorporation into policy, regulatory, or standard operating procedure rewrite or update; and
- 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 2025 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 determining whether borrowers were eligible for the disaster assistance loan, whether the amount approved was correct, whether the loan was made in accordance with existing regulations, SOPs and other internal guidance.

Statistical Sampling

For Disaster 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, 2025. The disbursement population was divided into three strata based on the loan type: home loans, business physical loans, and economic injury and disaster (EIDL) loans. The SBA determined

the appropriate total sample size to be 241 loans from the population. The sample included net disbursements of $34,630,721 and improper payments of $1,998,232 within the sample. Using the Hansen-Hurwitz estimation method, the estimated improper payments rate for the annual period ending March 31, 2025, was calculated as 4.87%.

The improper payment rate in FY 2024 was 3.62 percent. The increase in the improper payment rate from FY 2024 to FY 2025 were largely the result of improperly assessed closing fees on 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."

Prior to the FY 2025 improper payment testing cycle, SBA established a risk tolerance band for the Disaster Assistance Loan Program for FY 2025 improper payments. The risk tolerance band for this program is 3.96 percent to 10.00 percent. In compliance with SBA's established processes, the Agency conducted the required annual assessment of the established tolerable improper payment range, concluding the existing risk tolerance band to be adequate with no recommended revisions for FY 2026. The SBA will assess the adequacy of this risk tolerance band annually. In addition to the risk tolerance band re-evaluation, the SBA has also established a target reduction rate for this program of 4.25 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 Cause and Corrective Action

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 fees charged for secured loans contrary to the Code of Federal Regulations (CFR), duplication of benefits not adequately addressed, and improper calculation or determination of economic injury eligibility.

During FY 2025, Disaster Lending Operations Division (DLOD) utilized the new Unified Lending

Platform (ULP) to facilitate loan closings for disaster survivors, aiming to streamline the process and reduce burden. It was subsequently identified that the DLOD was not authorized to charge fees under the Code of Federal Regulations (CFR). In response, a corrective action was implemented in February 2025, providing disaster survivors the option to either close the loan themselves or authorize the Agency to do so on their behalf, thereby ensuring compliance with 13 CFR 123.8.

Paycheck Protection Program (PPP)

The CARES Act established the Paycheck Protection Program (PPP) loans to provide economic relief to small businesses and incentivize small businesses to keep their workers on the payroll because of the COVID-19 pandemic. The 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 (PPP) 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, SBA requested supporting documentation from lenders in order to review the 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 Paycheck Protection Program (PPP) Forgiveness reviews, the sample cases were chosen using PPS Sampling with replacement from all forgiveness outlays processed during the 12-month period ended March 31, 2025. 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 412 loans from the population. The sample included aggregate forgiveness outlays of $426,436,779 and an absolute value of improper payments of $14,656,755 within the sample. Using the Hansen-Hurwitz estimation method, the estimated improper payment rate for the PPP Purchase population is 19.04 percent for the annual period ending March 31, 2025.

In FY 2024, the PPP Loan Forgiveness improper payment rate was 21.09 percent, and the unknown payment rate was 4.06 percent.

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 Cause and Corrective Action

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 (PPP) 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 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 Paycheck Protection Program (PPP) Purchase reviews, the sample cases were chosen using PPS Sampling with replacement from all purchases processed during the 12-month period ended March 31, 2025. 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 408 loans from the population. The sample included aggregate purchase outlays of $236,626,898 and an absolute value of improper payments of $16,093,240 within the sample. Using the Hansen-Hurwitz estimation method, the estimated improper payment rate for the PPP Purchase population is 5.17 percent for the annual period ending March 31, 2025.

In FY 2024, the PPP Loan Guaranty Purchase improper payment rate was 24.47 percent and the unknown payment rate was 0.25 percent. Improper payments were largely due to lack of supporting documentation due to time constraints. The FY 2025 estimated improper payment rate for PPP Loan Guaranty Purchases shows a significant reduction in improper payments and improvement in the program's payment integrity. The program both met the previously established reduction target of 10 percent and has brought the program into compliance with PIIA.

Reduction Targets

The SBA has set a reduction target for PPP Loan Guaranty Purchase at 5.17 percent, which anticipates the program remaining in compliance with PIIA.

Root Cause and Corrective Action

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 begins with demanding repayment from the lender.

Section 1112 Payments

Section 1112 of the CARES Act authorized the SBA to provide temporary debt relief to eligible borrowers in the 7(a), 504, and Microloan programs by making principal, interest, and fee payments on their behalf. This authority was time-limited, and all appropriated funding for the Section 1112 program has been fully expended. As a result, SBA no longer administers or disburses payments under this program. Accordingly, this reporting period represents the final year in which SBA is conducting payment integrity review and reporting for Section 1112 payments.

Statistical Sampling

For Section 1112 reviews, sample cases were chosen using Probability Proportional to Size (PPS) with Replacement sampling against the population of all disbursements processed during the period April 1, 2020, through March 31, 2025. This population was divided into three strata based on their program type: 7(a), 504, and Microloan. The SBA determined the appropriate total sample size to be 386 loans from this population. The samples selected from the population totaled $4,673,849. The results of sample review identified improper payments totaling $12,989. Using the Hansen-Hurwitz estimation method, the estimated improper payments rate for the entire Section 1112 population was calculated as 0.34%. The SBA did not identify any unknown payments for Section 1112.

Reduction Targets

Authority under the Section 1112 Payment program was authorized under Section 1112 of the CARES Act and has since expired with all appropriated funds expended. FY 2025 improper payment rate estimates encompassed all disbursements for the program. There was no funding for this program in FY 2025, no disbursements will be made in FY 2026, 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

All funding for this program has been expended. The SBA has not planned any actions to improve program integrity that are specific to this program.

Shuttered Venue Operators Grant Program (SVOG)

The Shuttered Venue Operators Grant program was established by the Economic Aid to Hard-Hit Small Businesses, Nonprofits, and Venues Act (also known as the Economic Aid Act) on December 27, 2020, to offer critical assistance to qualifying venues and performing arts entities impacted by the COVID-19 pandemic. The SVOG program commenced with an appropriation of $15 billion under the Economic Aid Act and an additional allocation of $1.2 billion through the American Rescue Plan Act on March 11, 2021. Collectively, the SVOG program was allocated a total of $16.2 billion.

Administered by the Small Business Administration's (SBA) Office of Disaster Recovery and Resilience (ODR&R), the Shuttered Venue Operators Grant provided emergency assistance to ensure the sustainability of eligible live venues, promoters, theatrical producers, talent agents, live performing arts organizations, museums, and film theaters during economic conditions caused by COVID 19 pandemic.

Statistical Sampling

The first SVOG disbursement occurred on May 27, 2021. The last SVOG disbursement occurred on December 19, 2022. For SVOG reviews, sample cases were chosen using PPS sampling with replacement from all SVOG disbursements within the sampling timeframe of April 1, 2021, through March 31, 2024, to ensure that all disbursements processed were included. This population was divided into six strata based on business type: live performing arts organization operators, live venue operators or promoters, motion picture theater operators, museum operators, talent representatives, and theatrical producers.

The SBA determined the appropriate total sample size to be 547 loans from this population. The sample included net approval outlays of $1,779,696,434 and improper payments of $837,260,308 within the sample. Using the Hansen-Hurwitz estimation method, the estimated improper payments rate for the entire SVOG population was calculated as 39.90 percent. Using the Hansen-Hurwitz estimation method, the estimated unknown payments rate for the entire SVOG population was calculated as 29.05 percent.

Reduction Targets

The last SVOG disbursement occurred on December 15, 2022. FY 2025 improper payment rate estimates encompassed all disbursements for the program; therefore, no improper payment rates will be extrapolated. Further, the SBA has not set a reduction target, as there are no additional disbursements in this specific program.

Actions to Improve Payment Integrity

The last SVOG disbursement occurred on December 15, 2022. Overpayments identified in the improper payments' reviews are subject to recovery efforts. 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.

Root Cause and Corrective Action

The root cause categories established by OMB are: (1) Statutory Requirements of Program Were Not Met (SR); (2) Unable to Determine Whether Proper or Improper (UD); (3) Data/Information Needed Does Not Exist (DI); (4) Inability to Access Data/Information (IA); and, (5) Failure to Access Data/Information (FA).

The predominant root cause identified for the Shuttered Venue Operators Grant (SVOG) program is Statutory Requirements of Program Were Not Met. The disbursements categorized under this root cause pertain to instances where the Principal Business Activity did not align with the established statutory guidelines. Furthermore, the completion of closeout requirements was not executed in accordance with statutory provisions.

The second root cause identified relates to the Failure to Access Data/Information. Disbursements within this category resulted from the SBA's inability to obtain critical documentation when assessing eligibility, as well as accessing essential documents required for calculating revenue and/or grant award amounts.

To mitigate the occurrence of improper future payments and identify overpayments, SBA will implement the following corrective actions:

- Train staff to address procedural inconsistencies.
- Obtain and analyze appropriate eligibility documentation to ensure that policy requirements are met.
- Identify deficiencies for potential incorporation into policy, regulatory, or standard operating procedure rewrites or updates.
- Review improper payments for recoupment.

The FY 2025 Unknown Payment (UP) estimate rate is 29.052 percent. The root causes of the "Unknown Payment" were identified as: (1) A lack or insufficiency of eligibility documentation to determine whether the payment was proper or improper, (2) The Agency did not complete the required cost compliance monitoring, which would have identified if the payment was utilized according to statutory requirements, and (3) The closeout requirement for the grant has not been fulfilled. Unknown payments require further investigation and resolution to ensure the proper allocation of resources and maintain the integrity, efficiency, and compliance of the program with established guidelines and regulations.

SBA's approach to resolving the identified unknown payments is to employ corrective actions that efficiently prioritize resources and maintain the program's integrity. SBA will implement corrective actions to include, but are not limited to:

- Uploading the necessary eligibility documentation such as LexisNexis reports, Audit reports, etc.
- Completing the Cost Compliance Monitoring events.
- Finalizing the closeout process.

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 2025 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 SBA Office of Inspector General (OIG), or pursue other available remedies. Further, if the SBA determines that the loan is not eligible for forgiveness (in whole or in part), the borrower must begin paying principal and interest.

Paycheck Protection Program Loan Guaranty Purchases

If the SBA determines that the guaranty purchase was not in accordance with PPP Loan Program requirements, 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.

Shuttered Venue Operators Grant Program

The last SVOG disbursement occurred on December 15, 2022. Overpayments identified in the improper payments' reviews are subject to recovery efforts. Determination of a course of action is made on a case-by-case basis, depending on the specific details of the reason for the improper payment.

Payment Recapture Audits

The SBA conducts cost-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 OED's 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 (STEP), the Surety Bond Guarantee Program, and the Veterans Business Outreach Program.

In FY 2025, 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 the Agency 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.

Summary of Financial Statement Audit and Management Assurances

As required by OMB Circular A-136, Section II.4.1, the following summarizes the SBA's Financial Statement Audit and Management Assurances:

SUMMARY OF FINANCIAL STATEMENT AUDIT

Audit Opinion	Disclaimer
Restatement	No

Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Controls over PPP Loan Program	1	0	0	0	1
Controls over COVID-19 EIDLs	1	0	0	0	1
Controls over Subsidy Reestimate	1	0	0	0	1
Controls over the Evaluation of Service Organizations	1	0	1	0	0
Entity Level Controls	1	0	0	0	1
Controls over Restaurant Revitalization and Shuttered Venues	1	0	1	0	0
Controls over General Information Technology	1	0	1	0	0
Total Material Weaknesses	7	0	3	0	4

SUMMARY OF MANAGEMENT ASSURANCES

Effectiveness of Internal Control over Financial Reporting (FMFIA § 2)						
Statement of Assurance	**Modified**					
Material Weaknesses	**Beginning Balance**	**New**	**Resolved**	**Consolidated**	**Reassessed**	**Ending Balance**
Controls over PPP Loan Program	1	0	0	0	0	1
Controls over COVID-19 EIDLs	1	0	0	0	0	1
Controls over Subsidy Reestimate	1	0	1	0	0	0
Controls over the Evaluation of Service Organizations	1	0	1	0	0	0
Entity Level Controls	1	0	0	0	0	1
Controls over Restaurant Revitalization and Shuttered Venues	1	0	1	0	0	0
Controls over General Information Technology	1	0	1	0	0	0
Total Material Weaknesses	7	0	4	0	0	3

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	0	0	0	0
Total Material Weaknesses	0	0	0	0	0	0

Conformance with Financial Management System Requirements (FMFIA § 4)						
Statement of Assurance	**Federal Systems do not conform to financial management system requirements.**					
Non-Conformances	**Beginning Balance**	**New**	**Resolved**	**Consolidated**	**Reassessed**	**Ending Balance**
Federal Financial Management System Requirements	1	0	1	0	0	0
Federal Accounting Standards	1	0	1	0	0	0
Total Non-conformances	2	0	2	0	0	0

Compliance with Section 803(a) of the Federal Financial Management Improvement Act (FFMIA)		
	Agency	**Auditor**
1. Federal Financial Management System Requirements	No lack of compliance noted	Lack of compliance noted
2. Applicable Federal Accounting Standards	No lack of compliance noted	Lack of compliance noted
3. USSGL at Transaction Level	No lack of compliance noted	No lack of compliance noted

The auditor identified a material weakness related to Controls over the Subsidy Reestimate. Management acknowledges the conditions but has concluded that one of the conditions is encompassed within SBA's existing material weaknesses related to controls over COVID-19 EIDLs and controls over the PPP loan program. Because the root causes and corrective actions overlap, SBA management does not classify this as a separate material weakness. Management concluded that the remaining condition does not rise to the level of a material weakness.

The auditor identified instances of noncompliance with FFMIA Federal Financial Systems Requirements and Federal Accounting Standards. SBA management's assessment did not identify any FFMIA noncompliance. SBA management believes the deficiencies identified by the auditor were related to factors external to the financial management systems.

SBA remains committed to constructive engagement to resolve these matters and will continue to evaluate auditor identified material weaknesses and implement suggested recommendations where applicable.

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, 2025.

Category	2-3 Years	3-5 Years	More than 5 Years
Number of Grants/Cooperative Agreements with Zero Dollar Balances	172	209	1
Number of Grants/Cooperative Agreements with Undisbursed Balances	95	131	1
Total Amount of Undisbursed Balances	$ 2,212,870.00	$ 10,413,866.00	$ 11

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.

(Dollars in Thousands)

SBA FEDERAL CIVIL PENALTIES

Statutory Authority	Penalty (Name or Description)	Year Enacted	Latest Year of Adjustment (via Statute or Regulation)	Current Penalty Level ($ Amount or Range)	Sub- Agency/ Bureau/ Unit	Location for Penalty Update Details
Small Business Investment Act, 15 USC 687g	Failing to File Report Timely for a Small Business Investment Company (SBIC)	1966	2025	$ 332	Office of Investment and Innovation	90 F.R. 23422-23423 (6/3/25)
Small Business Act, 15 USC 650(j)(1)	Failing to File Report Timely for a Small Business Lending Company (SBLC)	2004	2025	$ 8,267	Office of Capital Access	90 F.R. 23423 (6/3/25)
Small Business Act, 15 U.S.C. 657t(e)(2)(B)	Types of Formal Enforcement Actions	2020	2025	$ 306,652	Office of Credit Risk Management	90 F.R. 23423 (6/3/25)
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	2025	$ 14,308	Multiple offices	90 F.R. 23423 (6/5/25)
Small Business Act, 15 USC 634(b)(6) and Program Fraud Civil Remedies Act 31 USC 1352	Penalty for Violation of Lobbying Restrictions	1990	2025	not less than $ 25,132 and not more than $ 251,322	Multiple offices	90 F.R. 234 (6/3/25)

SECTION 4



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.

CBJ **Congressional Budget 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.

DOW **Department of War**
The federal agency charged with coordinating national security and the armed services (formerly the Department of Defense).

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 (FAST) 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 Management 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 the 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 Guaranty 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.

OCORM **Office of Continuous Operations and Risk Management**
Ensures enterprise-wide disaster planning, readiness, and implementation of ERM best practices for the SBA.

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 Personnel Management**
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 improve 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 existing and 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 Guaranty Revolving Fund**
A fund at the U.S. Department of the Treasury that collects the SBA's contractor and surety fees and is used to pay claims.

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 Reports

OIG audits SBA's programs, systems, and operations and recommends improvements to management based on its findings. 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. SBA management may agree or disagree with the audit's findings or recommendations. When management agrees with recommendations in an audit, it submits a written plan for corrective action and an estimated target completion date to the OIG for concurrence. If OIG and management agree that the proposed corrective action will address the finding, the "management decision" process is concluded for that recommendation. The memo outlining the terms of the management decision between management and OIG is retained for audit follow-up purposes. When the corrective action plan is implemented and the recommendation has been fully addressed, the recommendation is identified as having a "Final Action." An audit remains open until all corrective actions for each recommendation are completed.

The SBA maintains a database to track the recommendations through to the conclusion, or Final Action. During FY 2025 there were 40 Final Actions, resulting from 4 monetary and 36 non-monetary recommendations.

The following tables depict the SBA's Final Action activity for FY 2025 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, 2024 – SEPTEMBER 30, 2025

Recommendations	Number of Recommendations	Disallowed Costs
Total recommendations pending final action during period.	65	$4,500,000,000
1) Recommendations with management decisions on which final action had not been taken at the beginning of the period.	61	$4,500,000,000
2) Recommendations on which management decisions were made during the period.	4	$0
Total recommendations on which final action was taken during the period.	4	$0
1. Recoveries	1	$0
2. Write-Offs	3	$0

TABLE II: FINAL ACTION ON AUDIT RECOMMENDATIONS WITH FUNDS PUT TO BETTER USE

OCTOBER 1, 2024 – SEPTEMBER 30, 2025

Recommendations	Number of Recommendations	Funds to be Put to Better Use
Total recommendations pending final action during period.	0	$0
1) Recommendations with management decisions on which final action had not been taken at the beginning of the period.	0	$0
2) Recommendations on which management decisions were made during the period.	0	$0
Total recommendations on which final action was taken during the period.	0	$0
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

TABLE III: FINAL ACTION ON AUDIT RECOMMENDATIONS NOT COMPLETED WITHIN ONE YEAR

AS OF SEPTEMBER 30, 2025

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 1, 3, 4, 5 and 6 have been closed by OIG.

Recommendation 2: The SBA is in communication with OIG seeking resolution as OIG denied the SBA's request for closure on 9/8/2025.

Report #21-08 SBA's Use of Vendors Without Contracts

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: This recommendation is being reviewed by SBA Leadership through the Audit Resolution Process, and OCA is currently awaiting leadership's final decision.

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.

The SBA is currently working with new administration leadership to evaluate PPP remediation activities to ensure they are aligned with the current Administration's priorities. Once this evaluation is complete, OCA will address this recommendation.

Report #21-14 Audit of SBA's Oversight of Women's Business Centers' Compliance with Cooperative Agreement Financial Requirements

Program: OED

Date Issued: 5/4/2021

Management Decision Date: 5/4/2021

Explanation: 9 Recommendations.

Recommendations 1, 6, 8, 9 have been closed by OIG.

Recommendations 2, 3 and 7: OWBO is working to remediate this recommendation by recovering funds from the WBC for the questioned costs. The SBA will work to remediate these recommendations in FY 2026.

Recommendations 4 and 5: The Standard Operating Procedure (SOP) was finalized and submitted to OIG for closure.

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: Recommended documents were submitted to OIG for closure on 10/22/2025.

Report #22-07 Evaluation of 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 Recommendations.

Recommendations 1, 2, and 4 have been closed by OIG.

Recommendations 3 and 5: OIG provided an impasse memo to the SBA on 12/5/2025. The SBA's remediation timeline for these recommendations depends upon the Agency Audit Follow-up Official to resolve the disagreement on these recommendations.

Report #22-11 Evaluation of 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 have been closed by OIG.

Recommendation 2: An extension was approved by OIG to allow the SBA to adequately plan and prepare for the Continuity of Operations (COOP) exercise.

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 for 1 and 8: The closure packages were submitted to OIG on 12/18/25.

Recommendations 2 and 5: The SBA is recirculating a package that includes a Privacy Program Plan and Cybersecurity and Privacy Policy. These documents will implement enterprise-wide privacy risk mitigation practices that can be assimilated into new and existing system program designs. Once these documents are approved, the SBA will request closure of recommendations 2 and 5 no later than 1/30/26.

Recommendation 7: The SBA will be requesting an extension to implement a Cyber Risk Management Platform. This platform will allow users to manage, access, and visualize their compliance status, and can trigger reauthorization requirements using compliance/pass/fail status, if necessary.

Recommendation 10: The SBA will be requesting closure for this recommendation no later than 1/30/26. OCA is currently utilizing Microsoft Dynamics for changes and will move to the enterprise solution and use of ServiceNow.

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 currently working with new administration leadership to evaluate PPP remediation activities to ensure they are aligned with the current Administration's priorities. Once this evaluation is complete, OCA will address this recommendation.

Report #23-03 FY 2022 Federal Information Security Modernization (FISMA) Act Review

Program: OCIO

Date Issued: 12/13/2022

Management Decision Date: 12/16/2022

Explanation: 6 Recommendations.

Recommendations 1, 4, and 6 have been closed by OIG.

Recommendation 2: The closure package submitted for Recommendation 2 on 11/17/2025.

Recommendations 3 and 5: The SBA released a Cybersecurity Supply Chain Risk Management Plan dated 1/9/2026 and will request closure of this recommendation effective 1/14/26.

Report #23-10 SBA's Administrative Process to Address Potentially Fraudulent Restaurant Revitalization Fund (RRF) Awards

Program: OCA

Date Issued: 7/5/2023

Management Decision Date: 8/15/2023

Explanation: 1 Recommendation.

Recommendations 1: The SBA is currently working with new administration leadership to evaluate RRF remediation activities to ensure they are aligned with the current Administration's priorities. Once this evaluation is complete, OCA will address this recommendation.

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.

Recommendation 4 has been closed by OIG.

Recommendations 1, 2, 3, 5, and 6: SBA has taken recent actions to remediate these findings and will coordinate with OIG to close these recommendations.

Report #24-02 SBA's Internal Controls to Prevent Shuttered Venue Operators (SVOG) Grants to Ineligible Applicants

Program: ODRR

Date Issued: 10/25/2023

Management Decision Date: 8/20/2024

Explanation: 2 Recommendations.

Recommendation 1: The extension was requested on 12/04/2025 for a target due date of FY26 Q2.

Recommendation 2: The closure package was submitted on 12/11/2025.

Report #24-06 Evaluation of Eligibility and Forgiveness of Paycheck Protection Program Loans Made to Borrowers on the Department of Treasury's Do Not Pay List

Program: OCA

Date Issued: 2/22/2024

Management Decision Date: 3/27/2024

Explanation: 7 Recommendations.

Recommendation 5 has been closed by OIG.

Recommendation 4: The requested documents were submitted to OIG for closure on 9/30/25.

Recommendations 1, 2, 3, 6 and 7: SBA is currently working with new administration leadership to evaluate PPP remediation activities to ensure they are aligned with the current Administration's priorities. Once this evaluation is complete, OCA will address this recommendation.

Report #24-07 Fiscal Year 2023 Federal Information Security Modernization Act (FISMA)

Program: OCIO

Date Issued: 3/7/2024

Management Decision Date: 3/27/2024

Explanation: 11 Recommendations.

Recommendations 1, 2, 3, 4, and 8 have been closed by OIG.

Recommendation 5: The development of this strategy is currently in progress. A dedicated team

has been assigned to assess the cybersecurity and supply chain requirements. An initial draft of the strategy has been created and is undergoing internal review.

Recommendation 6: Baseline and configuration weaknesses have been identified, and a timeframe for remediation has been outlined.

Recommendation 7: The SBA is preparing to submit a closure package to OIG no later than 4/30/26.

Recommendation 9: The SBA will submit the closure package date no later than 4/30/26.

Recommendation 10: The SBA submitted closure package on 06/15/2025. The SBA is awaiting OIG final response to the submitted closure package.

Recommendation 11: Training programs for individuals with contingency planning roles and responsibilities have been created. Subsequent sessions will be held biannually to ensure all relevant personnel are trained adequately.

Report #24-09 Fiscal Year 2023 Audit of SBA's Restaurant Revitalization Fund (RRF) Program Award Practices

Program: OCA & OCFO

Date Issued: 3/26/2024

Management Decision Date: 6/14/2024

Explanation: 5 Recommendations.

Recommendation 1: The Chief Operating Officer (COO), Chief Financial Officer (CFO), and Associate Administrator of the Office of Capital Access (OCA) have implemented the framework and continue to execute it. The framework structures processes and tools to combat fraud. The closure package was submitted on 1/7/2026.

Recommendations 2, 3, 4, and 5: SBA is currently working with new administration leadership to evaluate RRF remediation activities to ensure they are aligned with the current Administration's priorities. Once this evaluation is complete, OCA will address this recommendation.

Report #24-10 Evaluation of SBA's IT Investment Governance Framework Practices

Program: OCIO

Date Issued: 3/29/2024

Management Decision Date: 06/14/2024

Explanation: 6 Recommendations.

Recommendations 1, 3, 4, 5, 6 have been closed by OIG.

Recommendation 2: The SBA leverages the bi-monthly Business Technology Investment Council (BTIC), in accordance with SOPs 90 52 and 90 44, to perform EA reviews. A closure package was submitted for this recommendation on 6/17/2025. The SBA is awaiting OIG final response to the submitted closure package.

Report #24-16 SBA's Fiscal Year (FY) 2023 Compliance with Payment Integrity Information Act of 2019

Program: OCA & OCFO

Date Issued: 5/15/2024

Management Decision Date: 6/14/2024

Explanation: 10 Recommendations.

Recommendations 1, 2, 6, and 8 were closed by OIG.

Recommendations 3, 4, 5, 7, 9, and 10: The SBA has designed and developed a comprehensive PIIA tracker system, a systematic quality control system open to program offices to conduct extensive reviews of sampled items and record results, evaluate findings, and support the extrapolation of the sample results over the population. The closure response was submitted on 12/17/2025.

Report #24-17 7(a) Loan Approval for Borrowers with Unresolved COVID-19 Pandemic Loan Compliance Issues

Program: OCA

Date Issued: 5/21/2024

Management Decision Date: 8/8/2024

Explanation: 1 Recommendation.

Recommendation 1: The SBA has completed the reviews and added CHRON notes to the appropriate 7(a) loans. The closure package will be submitted to OIG.

Report #24-20 SBA's Guaranty Purchases for Paycheck Protection Program Loans

Program: OCA

Date Issued: 7/9/2024

Management Decision Date: 9/27/2024

Explanation: 7 Recommendations.

Recommendations 1, 2, 4, and 5: SBA has taken additional remediation steps and will coordinate with OIG to close out these recommendations.

Recommendation 3: The SBA submitted a closure package to OIG on 6/2/2025.

Recommendation 6: The SBA will collaborate with OIG to determine an appropriate remediation path that aligns with the current Administration's priorities.

Recommendation 7: Extension request was approved; final action target date is 12/31/2025.

Report #24-21 Audit of SBA's Oversight of Shuttered Venue Operators Grant Program Recipients

Program: ODRR

Date Issued: 7/10/2024

Management Decision Date: 7/11/2024

Explanation: 3 Recommendations.

Recommendations 2 and 3 have been closed by OIG.

Recommendation 1: ODRR is implementing the recovery process based on guidance developments. The extension was requested 01/06/2026 for a target due date of FY26 Q2.

Report #24-23 Audit of SBA's Oversight of HUBZone Program Participants' Continuing Eligibility

Program: GCBD

Date Issued: 7/10/2024

Management Decision Date: 8/20/2024

Explanation: 4 Recommendations.

Recommendations 2 and 4 have been closed by OIG.

Recommendation 1: Extension request was approved. SBA's planned actions satisfy the intent of this recommendation, and it can be closed when management provides evidence that the program office revised the SOP.

Recommendation 3: Extension request approved. GCBD is currently working to prepare the submission to OIG to demonstrate the functionality established within the new UCP system and support a successful closure.

Report #24-25 Oversight of Community Navigator Pilot Program

Program: OED

Date Issued: 9/24/2024

Management Decision Date: 12/20/2024

Explanation: 5 Recommendations.

Recommendations 3 and 5 have been closed by OIG.

Recommendation 1: SBA management partially agreed with the recommendation. An extension request has been approved by OIG.

Recommendation 2: The SBA submitted a closure package OIG on 11/19/2025.

Recommendation 4: SBA management did not concur with the recommendation. Management stated they do not believe SBA can legally implement the recommended comparison of performance results due to existing statutory language that limits the data SBA resource partners share with SBA.

Acknowledgments

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FINANCIAL ANALYSIS AND REPORTING DIVISION

FINANCIAL SYSTEMS DIVISION

OFFICE OF COMMUNICATIONS AND PUBLIC LIAISON

OFFICE OF STRATEGIC MANAGEMENT AND ENTERPRISE INTEGRITY

PERFORMANCE MANAGEMENT DIVISION

SAVALAN, LLC

SIGNIFICANCE, INC

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U.S. Small Business Administration

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