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Accessible Version

June 2, 2021

Isabella Casillas Guzman
Administrator
U.S. Small Business Administration
409 3rd Street, SW
Washington, D.C. 20416

Priority Open Recommendations: Small Business Administration

Dear Administrator Guzman:

The purpose of this letter is to provide an update on the overall status of the Small Business Administration's (SBA) implementation of GAO's recommendations and to call your personal attention to areas where open recommendations should be given high priority.¹ In November, 2020, we reported that on a government-wide basis, 77 percent of the recommendations we made 4 years ago were implemented.² As of April 2021, SBA's implementation rate for this 4-year period was 100 percent. As of April 2021, SBA had 54 open recommendations. Fully implementing these open recommendations could significantly improve SBA's operations.

Since our April 2020 letter, SBA has implemented one of our eight open priority recommendations. To address our recommendation on cyber threats, the agency developed an organization-wide cybersecurity risk-assessment process. We ask for your attention to the remaining seven open priority recommendations. We also have added eight recommendations related to SBA's implementation of small business assistance programs in response to the COVID-19 pandemic in 2020, bringing the total number of priority recommendations to 15. (See enclosure for the list of recommendations.)

The 15 open priority recommendations fall into the following four areas:

COVID-19 pandemic response.

Fully implementing the following eight recommendations would improve SBA's Paycheck Protection Program (PPP) and its Economic Injury Disaster Loan (EIDL) program.

In June 2020, we recommended that SBA develop and implement plans to identify and respond to risks in PPP. In December 2020, SBA officials said the agency had completed oversight plans for PPP and provided GAO with a copy of a plan for the loan review process. However, the plan and related documents have not been updated to incorporate major changes to the program, such as the additional loans made in 2021. Additionally, as of May 2021, SBA was still

¹Priority recommendations are those that GAO believes warrant priority attention from heads of key departments or agencies. They are highlighted because, upon implementation, they may significantly improve government operations—for example, by realizing large dollar savings; eliminating mismanagement, fraud, and abuse; or making progress toward addressing a high-risk or duplication issue.

²GAO, *Performance and Accountability Report: Fiscal Year 2020*, [GAO-21-4SP](#) (Washington, D.C.: Nov. 16, 2020).

implementing its oversight plan, but had yet to conduct other critical steps to address potential fraud, including a fraud risk assessment. By fully implementing its plans, SBA can better ensure program integrity and reduce the potential for fraud.

In November 2020, we recommended that SBA expeditiously estimate improper payments and report estimates and error rates for PPP. In response to our recommendation, SBA stated it planned to conduct improper payment testing for PPP. In February 2021, SBA officials stated SBA had submitted the sampling plan for the testing to the Office of Management and Budget and would use it to estimate improper payments and error rates for PPP. Given the large amounts appropriated for PPP and the possibility of widespread improper payments, conducting the testing is important to help expedite identification and recovery of such payments.

In January 2021, we recommended that SBA develop and implement portfolio-level data analytics (to help detect potentially ineligible and fraudulent applications) for EIDL loans and advances made in response to the COVID-19 pandemic. SBA neither agreed nor disagreed with this recommendation at the time of the report. As of May 2021, SBA officials stated that the agency was in the process of developing an analysis to apply certain fraud indicators to all application data. We maintain that portfolio-level data analytics could help SBA better prevent and detect fraud.

In March 2021, we made the following five recommendations to SBA: (1) conduct and document a fraud risk assessment for the EIDL program; (2) develop a strategy to continuously address fraud risks in EIDL; (3) implement an oversight plan to identify and respond to risks in EIDL; (4) conduct and document a fraud risk assessment for PPP; and (5) develop a strategy to continuously monitor and manage fraud risks in PPP. SBA agreed with all five recommendations. SBA noted it would determine the appropriate resources and approach to implement the recommendations. According to SBA officials, as of May 2021 SBA had begun conducting a formal fraud risk assessment for PPP. SBA also stated that the agency started work to build a fraud risk framework for the EIDL program. Conducting a comprehensive fraud risk assessment and using it to develop an antifraud strategy would help SBA more strategically manage fraud risks in EIDL and PPP, safeguarding billions of dollars in taxpayer funds.

The seven recommendations remaining from our 2020 letter are as follows.

Disaster response.

Fully implementing two recommendations would improve SBA's ability to respond to disasters. In February 2020, we recommended that SBA (1) identify risks associated with its disaster response and plans to mitigate the risks and include them in its disaster planning documentation; and (2) identify key elements of a disaster action plan and provide guidance to staff on incorporating them in future plans. In March 2021, SBA told us it would document risks and mitigation plans in its Disaster Preparedness and Recovery Plan to be released in 2021. SBA also told us it was on track to develop the key elements of, and templates for, a disaster action plan by the end of fiscal year 2021. By identifying risks and enhancing guidance on action plans, SBA can better design plans for and implementation of disaster response efforts and help ensure staff are adequately prepared for post-disaster operations.

Credit elsewhere requirement.

Fully implementing two recommendations would improve lender compliance with the credit elsewhere requirement—to only make SBA 7(a) loans to creditworthy small businesses that cannot obtain credit through a conventional lender at reasonable terms. In June 2018, we recommended that SBA (1) use its on- and off-site reviews to collect information on lender use

of credit elsewhere criteria, and (2) analyze the information obtained. In June 2019, SBA provided us information on 7(a) lender reviews and a lender training schedule on credit elsewhere. In November 2019, SBA provided more information on reviewer training on and communication of best practices to lenders. In March 2021, SBA provided information on its methods for reviewing lender compliance and stated that it had analyzed fiscal year 2019 compliance data. SBA stated it was completing its analysis of compliance data for fiscal year 2020. Collecting data on criteria used for credit elsewhere justifications for a larger sample of loans and analyzing patterns in lender practices will help SBA to better understand whether 7(a) loans reached intended borrowers. Improving documentation and information on lenders' use of credit elsewhere criteria would help promote compliance with the requirement and help ensure the program reaches its target population.

Export promotion.

Fully implementing three recommendations would improve operations in export promotion programs. We recommended in January 2013 that SBA update its hiring plan to more effectively implement statutory requirements for staffing 30 export finance specialists in Export Assistance Centers across the country. In January 2020, SBA told us the agency had hired 25 of the 30 specialists. SBA also told us it was establishing a strategy for future hires and requesting fiscal year 2021 funding to fill the remaining five positions. In February 2021, SBA told us three of 25 positions had become vacant, and that filling them—and the additional five positions—was still contingent on funding availability. Putting all the specialists in place would ensure compliance with statutory requirements, and help increase exports by small businesses.

We made another two recommendations in March 2019 that SBA establish a process to (1) ensure documentation of states' compliance with total match requirements before grant closeout, and (2) determine states' compliance with a cash match requirement. SBA generally agreed with both recommendations and said it would develop the processes. In December 2020, SBA officials told us the agency was developing a Match Assurance Process to ensure match requirements are monitored and managed each quarter, and met at closeout. In April 2021, SBA provided initial information about its rollout. Further developing and implementing these processes through the end of the current grant cycle are important steps in ensuring compliance with the statutory requirements of the program.

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In March 2021, we issued our biennial update to our [High-Risk List](#), which identifies government operations with greater vulnerabilities to fraud, waste, abuse, and mismanagement or that need transformation to address economy, efficiency, or effectiveness challenges.³ One of our high-risk areas—[emergency loans for small businesses](#)—centers directly on SBA.⁴

Several other government-wide high-risk areas also have direct implications for SBA and its operations. These include (1) [improving the management of IT acquisitions and operations](#), (2) [improving strategic human capital management](#), (3) [managing federal real property](#), (4) [ensuring the cybersecurity of the nation](#), and (5) [the government-wide personnel security clearance process](#). We urge your attention to emergency loans for small businesses and other

³GAO, *High-Risk Series: Dedicated Leadership Needed to Address Limited Progress in Most High-Risk Areas*, [GAO-21-119SP](#) (Washington, D.C.: Mar. 2, 2021).

⁴For a full discussion of the [Emergency Loans for Small Businesses](#) high-risk area, see pages 128–134 of our 2021 high-risk report.

government-wide high-risk issues as they relate to SBA. Progress on high-risk issues has been possible through the concerted actions and efforts of Congress, the Office of Management and Budget, and the leadership and staff in agencies, including within SBA.

We are sending copies of this report to the Director of the Office of Management and Budget and appropriate congressional committees including the Committees on Appropriations, Budget, Homeland Security and Governmental Affairs, and Small Business and Entrepreneurship, United States Senate; and the Committees on Appropriations, Budget, Oversight and Reform, and Small Business, House of Representatives. In addition, the report will be available on the GAO website at <https://www.gao.gov>.

I appreciate SBA's continued commitment to these important issues. If you have any questions or would like to discuss any of the issues outlined in the letter, please do not hesitate to contact me or Daniel Garcia-Diaz, Managing Director, Financial Markets and Community Investment at garciadiazd@gao.gov or 202-512-8678. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. Our teams will continue to coordinate with your staff on all 54 open recommendations, as well as those additional recommendations in the high-risk areas for which SBA has a leading role. Thank you for your attention to these matters.

A handwritten signature in black ink that reads "Gene L. Dodaro". The signature is fluid and cursive, with a long horizontal stroke extending to the right from the end of the name.

Gene L. Dodaro
Comptroller General
of the United States

Enclosure - 1

cc: Antwaun Griffin, Chief of Staff
Erica Gaddy, Deputy Chief Financial Officer, Office of Performance, Planning, and the Chief Financial Officer
Patrick Kelley, Associate Administrator, Office of Capital Access
James Rivera, Associate Administrator, Office of Disaster Assistance
Michele Schimpp, Acting Associate Administrator, Office of International Trade
The Honorable Shalanda Young, Acting Director, Office of Management and Budget

Enclosure - Priority Open Recommendations to the Small Business Administration (SBA)

COVID-19 Pandemic Response

COVID-19: Opportunities to Improve Federal Response and Recovery Efforts. GAO-20-625. Washington, D.C.: June 25, 2020.

Recommendation: The Administrator of the Small Business Administration should develop and implement plans to identify and respond to risks in the Paycheck Protection Program (PPP) to ensure program integrity, achieve program effectiveness, and address potential fraud, including in loans of \$2 million or less.

Action Needed: At the time of our report, SBA neither agreed nor disagreed with this recommendation. Since then, SBA indicated that it plans to review all PPP loans of \$2 million or more and any other loans it deems appropriate and provided GAO with a copy of its plan to review the loans. However, the plan and related documents have not been updated to incorporate major changes to the program, such as the additional loans made in 2021. Additionally, as of May 2021, SBA was still implementing its oversight plan, and had yet to conduct other critical steps to address potential fraud, including a fraud risk assessment. To fully implement this recommendation, SBA would have to finalize and implement its plans to identify and respond to risks in PPP.

High-Risk Area: Emergency Loans for Small Businesses

Director: William B. Shear, Financial Markets and Community Investment

Contact information: shearw@gao.gov or (202) 512-8678

COVID-19: Urgent Actions Needed to Better Ensure an Effective Federal Response. GAO-21-191. Washington, D.C.: November 30, 2020.

Recommendation: The Administrator of the Small Business Administration should expeditiously estimate improper payments and report estimates and error rates for PPP due to concerns about the possibility that improper payments, including those resulting from fraudulent activity, could be widespread.

Action Needed: SBA neither agreed nor disagreed with this recommendation at the time of the report. SBA stated that it was planning to conduct improper payment testing for PPP, but the agency would have to finalize this plan and estimate improper payments and error rates for PPP to fully implement this recommendation.

High-Risk Area: Emergency Loans for Small Businesses

Director: Beryl H. Davis, Financial Management and Assurance

Contact information: davisbh@gao.gov or (202) 512-2623

COVID-19: Critical Vaccine Distribution, Supply Chain, Program Integrity, and Other Challenges Require Focused Federal Attention. GAO-21-265. Washington, D.C.: January 28, 2021.

Recommendation: The Administrator of the Small Business Administration should develop and implement portfolio-level data analytics across Economic Injury Disaster Loan (EIDL) program loans and advances made in response to COVID-19 as a means to detect potentially ineligible and fraudulent applications.

Action Needed: SBA neither agreed nor disagreed with this recommendation at the time of the report. As of May 2021, SBA officials stated that the agency was in the process of developing

an analysis to apply certain fraud indicators to all application data. To fully implement this recommendation, SBA would have to develop and implement portfolio-level data analytics as a means to detect applications from potentially ineligible businesses, such as those in the insurance and real estate development industries, as well as to detect potentially fraudulent applications.

High-Risk Area: Emergency Loans for Small Businesses

Director: William B. Shear, Financial Markets and Community Investment

Contact information: shearw@gao.gov or (202) 512-8678

COVID-19: Sustained Federal Action Is Crucial as Pandemic Enters Its Second Year.
GAO-21-387. Washington, D.C.: March 31, 2021.

Recommendation: The Administrator of the Small Business Administration should conduct and document a fraud risk assessment for the EIDL program.

Action Needed: SBA agreed with this recommendation. As of May 2021, SBA stated that the agency had started the work to build a fraud risk framework. To fully implement this recommendation, SBA would have to conduct and document the fraud risk assessment for the EIDL program.

Recommendation: The Administrator of the Small Business Administration should develop a strategy that outlines specific actions to address assessed fraud risks in the EIDL program on a continuous basis.

Action Needed: SBA agreed with this recommendation. SBA noted that it would work to determine the appropriate resources and approach to monitor fraud risk on an ongoing basis. To fully implement this recommendation, SBA would have to develop a strategy that outlines specific actions to assess fraud risks on a continuous basis.

Recommendation: The Administrator of the Small Business Administration should implement a comprehensive oversight plan to identify and respond to risks in the EIDL program to help ensure program integrity, achieve program effectiveness, and address potential fraud.

Action Needed: SBA agreed with this recommendation. To fully implement this recommendation, SBA would have to implement a comprehensive oversight plan to identify and respond to risks in the EIDL program.

Recommendation: The Administrator of the Small Business Administration should conduct and document a fraud risk assessment for PPP.

Action Needed: SBA agreed with this recommendation. According to SBA officials, as of May 2021 SBA had begun conducting a formal fraud risk assessment for PPP. To fully implement this recommendation, SBA would have to complete a comprehensive fraud assessment.

Recommendation: The Administrator of the Small Business Administration should develop a strategy that outlines specific actions to monitor and manage fraud risks in PPP on a continuous basis.

Action Needed: SBA agreed with this recommendation. SBA noted that it would work to determine the appropriate resources and approach to ensure that fraud risk for PPP is monitored on a continuous basis. To fully implement this recommendation, SBA would have to develop a strategy for continuous monitoring and managing of fraud risks in PPP.

High-Risk Area: Emergency Loans for Small Businesses

Director: William B. Shear, Financial Markets and Community Investment

Contact information: shearw@gao.gov or (202) 512-8678

Disaster Response

Small Business Administration: Disaster Loan Processing Was Timelier, but Planning Improvements and Pilot Program Evaluation Needed. [GAO-20-168](#). Washington, D.C.: February 7, 2020.

Recommendation: The Associate Administrator for the Office of Disaster Assistance should identify and document risks associated with its disaster response and plans to mitigate these risks in its disaster planning documentation.

Action Needed: SBA agreed with the recommendation. SBA noted that relevant agency offices would collaborate to identify and document known risks associated with SBA's disaster response and implement a risk-informed approach to its direct response and recovery operations. To fully implement this recommendation, SBA should identify potential risks that could impede its ability to provide disaster assistance and ways to mitigate these risks. Once identified, SBA should incorporate these risks and their mitigation into its disaster planning documentation.

Recommendation: The Associate Administrator for the Office of Disaster Assistance should identify the key elements of a disaster action plan and provide additional guidance to staff on how to incorporate these elements into future action plans.

Action Needed: SBA agreed with the recommendation. SBA noted that the agency would develop the key elements of and templates for a disaster action plan and provide guidance to field operations centers. To fully implement this recommendation, SBA should develop a standard template for field operations centers to use when developing action plans to guide their initial disaster response.

Director: William B. Shear, Financial Markets and Community Investment

Contact information: shearw@gao.gov or (202) 512-8678

Credit Elsewhere Requirement

Small Business Loans: Additional Actions Needed to Improve Compliance with the Credit Elsewhere Requirement. [GAO-18-421](#). Washington, D.C.: June 5, 2018.

Recommendation: The Administrator of SBA should use its on-site and off-site reviews to routinely collect information on lenders' use of credit elsewhere criteria as part of its monitoring of lender practices related to the credit elsewhere requirement.

Action Needed: SBA generally agreed with the recommendation. To fully implement this recommendation, SBA should put into operation its plan to collect information on lenders' use of the credit elsewhere criteria when conducting reviews that include loan file reviews, whether performed at the lender's location (on-site reviews) or virtually (off-site reviews).

Recommendation: The Administrator of SBA should analyze information on lenders' use of credit elsewhere criteria obtained from its reviews to identify lenders that may be at greater risk of noncompliance and to inform its selection of lenders for further review for credit elsewhere compliance.

Action Needed: SBA generally agreed with the recommendation. To fully implement this recommendation, SBA should implement its plan to analyze credit elsewhere compliance data obtained from reviews conducted virtually and at the lender's location to identify lender-level portfolio trends or elevated lender risk to inform its selection of lenders for further review for credit elsewhere compliance.

Director: William B. Shear, Financial Markets and Community Investment

Contact information: shearw@gao.gov or (202) 512-8678

Export Promotion

Export Promotion: Small Business Administration Needs to Improve Collaboration to Implement Its Expanded Role. [GAO-13-217](#). Washington, D.C.: January 30, 2013.

Recommendation: To more effectively implement SBA's expansion of Office of International Trade field staff as required by the Small Business Jobs Act of 2010, the Administrator of SBA should update SBA's plan for additional Office of International Trade staff to include funding sources and time frames, as well as possible efficiencies from clearly defining roles and responsibilities and leveraging other entities' export assistance resources.

Action Needed: SBA agreed with this recommendation but noted resource constraints. SBA told us the agency was establishing a strategy for future hires and requesting funding to hire individuals to fill the remaining five positions, but SBA had not filled all the required positions as of February 2021. Moreover, SBA told us that three of the 25 positions had become vacant, and that filling these three positions—as well as hiring to fill the additional five positions—was contingent on the availability of funding. To fully implement this recommendation, SBA needs to hire 30 export finance specialists in accordance with legal requirements.

Director: Kimberly Gianopoulos, International Affairs and Trade

Contact information: gianopoulosk@gao.gov or (202) 512-8612

Small Business Administration: Export Promotion Grant Program Should Better Ensure Compliance with Law and Help States Make Full Use of Funds. [GAO-19-276](#). Washington, D.C.: March 12, 2019.

Recommendation: The Administrator of SBA should establish a process that ensures documentation of states' compliance with the total match requirement before grant closeout.

Action Needed: SBA generally agreed with the recommendation. SBA stated that it would establish a process that ensures documentation of state recipients' compliance with the total match requirement before grant closeout. To fully implement this recommendation, SBA should create and maintain documentation of the agency's annual analysis and determination that grant recipients have or have not met the total match requirement.

Recommendation: The SBA Administrator should develop a process to determine states' compliance with the cash match requirement.

Action Needed: SBA generally agreed with our recommendation. SBA stated that it would develop a process to determine states' compliance with the cash match requirement before grant closeout. To fully implement this recommendation, SBA should create and document an annual agency process to determine whether grant recipients have or have not met the cash match requirement.

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