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Comptroller General  
of the United States

## Accessible Version

June 3, 2022

The Honorable Isabella Casillas Guzman  
Administrator  
U.S. Small Business Administration  
409 3<sup>rd</sup> 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 continued attention to areas where open recommendations should be given high priority.<sup>1</sup> In November 2021, we reported that, on a government-wide basis, 76 percent of our recommendations made 4 years ago were implemented.<sup>2</sup> SBA's recommendation implementation rate was 100 percent. SBA had 44 open recommendations as of May 2022. Fully implementing these open recommendations could significantly improve agency operations.

Since our June 2021 letter, SBA implemented three of our 15 priority recommendations. Specifically, SBA took measures related to reviewing and analyzing loan information to improve lender compliance with the requirement that 7(a) program loans only be provided to creditworthy small businesses that cannot obtain credit elsewhere through conventional lenders on reasonable terms, addressing two recommendations.<sup>3</sup> It also developed and implemented an oversight plan for Paycheck Protection Program (PPP) loans, which included screening loans for noncompliance with eligibility requirements and for fraud and abuse—thereby addressing one recommendation.<sup>4</sup>

We ask that you direct your attention to the remaining priority recommendations. We are also adding three new recommendations related to federal disaster recovery and

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

<sup>2</sup>GAO, *Performance and Accountability Report: Fiscal Year 2021*, [GAO-22-4SP](#) (Washington, D.C.: Nov. 15, 2021).

<sup>3</sup>GAO, *Small Business Loans: Additional Actions Needed to Improve Compliance with the Credit Elsewhere Requirement*, [GAO-18-421](#) (Washington, D.C.: June 5, 2018).

<sup>4</sup>GAO, *COVID-19: Opportunities to Improve Federal Response and Recovery Efforts*, [GAO-20-625](#) (Washington, D.C.: June 25, 2020).

pandemic response efforts, bringing the total to 15. (See the enclosure for the list of recommendations and the actions needed to implement them.)

SBA's 15 priority recommendations fall into the following three areas:

### **1. Improving oversight and communication for COVID-19 pandemic response.**

Since March 2020, SBA has provided over \$350 billion in loans and grants for the Economic Injury Disaster Loan (EIDL) program and guaranteed close to \$800 billion in loans under PPP to assist businesses harmed by the COVID-19 pandemic. But, SBA implemented the programs with fewer initial safeguards and without fully assessing fraud, improper payments, and other risks. SBA also did not communicate key information to potential and actual applicants.

Fully implementing eight priority recommendations, such as by conducting fraud risk assessments for PPP and EIDL and developing a comprehensive strategy for communicating with those seeking disaster assistance, would improve SBA's ability to safeguard billions of taxpayer dollars, and provide assistance more effectively. Taking these actions also would help the agency better prepare to implement future emergency lending or grant programs.

### **2. Enhancing disaster recovery efforts.**

Disasters affect numerous American communities and cause billions of dollars of damage. Some communities, such as low-income communities, also may face barriers in accessing the recovery assistance that SBA and other federal agencies provide. Four priority recommendations in this area include addressing risks related to SBA's disaster response in planning documentation and identifying access barriers for disaster assistance. Such actions would improve SBA's ability to implement its disaster recovery efforts, including in coordination with other key federal partners.

### **3. Improving export promotion operations.**

Small businesses and exports are important in supporting U.S. economic growth. The federal government provides various types of assistance to U.S. exporters, especially small businesses, to help them overcome challenges to selling their goods and services abroad. Three priority recommendations include addressing staffing requirements for SBA offices that provide export finance assistance and ensuring states' compliance with export grant matching fund requirements. This would help SBA more effectively assist small business exporters.

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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.<sup>5</sup> One of our high-risk areas—[emergency loans for small businesses](#)—centers directly on SBA.

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) [strategic human capital management](#), (3) [managing federal real property](#), (4) [ensuring the](#)

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<sup>5</sup>GAO, *High-Risk Series: Dedicated Leadership Needed to Address Limited Progress in Most High-Risk Areas*, [GAO-21-119SP](#) (Washington, D.C.: Mar. 2, 2021).

cybersecurity of the nation,<sup>6</sup> and (5) the government-wide personnel security clearance process. We urge your attention to emergency loans for small businesses and other 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 (OMB), and the leadership and staff in agencies, including within SBA. In March 2022, we issued a report on key practices to successfully address high-risk areas, which can be a helpful resource as your agency continues to make progress to address high-risk issues.<sup>7</sup>

We are sending copies of this report to the Director of OMB 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 [garcia Diaz@gao.gov](mailto:garcia Diaz@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 44 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.

Sincerely yours,

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

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<sup>6</sup>With regard to cybersecurity, we also urge you to use foundational information and communications technology supply chain risk management practices set forth in our December 2020 report: GAO, *Information Technology: Federal Agencies Need to Take Urgent Action to Manage Supply Chain Risks*, [GAO-21-171](#) (Washington, D.C.: Dec. 15, 2020).

<sup>7</sup>GAO, *High-Risk Series: Key Practices to Successfully Address High-Risk Areas and Remove Them from the List*, [GAO-22-105184](#) (Washington, D.C.: Mar. 3, 2022).

Enclosure – 1

cc:

Arthur Plews, Chief of Staff

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

Erica Gaddy, Deputy Chief Financial Officer, Office of Performance, Planning, and the Chief Financial Officer

Peggy Delinois Hamilton, Special Counsel for Enterprise Risk

Patrick Kelley, Associate Administrator, Office of Capital Access

Francisco Sanchez Jr., Associate Administrator, Office of Disaster Assistance

Gabriel Esparza, Associate Administrator, Office of International Trade

The Honorable Shalanda Young, Director, Office of Management and Budget

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

Improving oversight and communication for COVID-19 pandemic response.

**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 the Paycheck Protection Program (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. Since then, SBA developed a sampling plan for improper payments (dated July 2021) and provided us a copy in February 2022. In March 2022, agency officials also noted that the agency would officially report the improper payment rate in its Agency Financial Report for fiscal year 2022. To fully implement this recommendation, SBA would have to complete and report its improper payment estimate. Doing so would help the agency identify improper payments and manage future payment integrity risks for PPP and future emergency lending programs.

**High-Risk Area:** [Emergency Loans for Small Businesses](#)

**Director:** M. Hannah Padilla, Financial Management and Assurance

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**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. In December 2021, SBA stated that the agency had implemented fraud indicators for EIDL application data. SBA also stated that the agency shared these indicators with the Pandemic Response Accountability Committee for review. In March 2022, SBA stated that it was working with a vendor to develop portfolio-level analytics. SBA would have to complete the development of these analytics and implement them to fully implement the recommendation. Such analytics could help SBA better detect potential fraud.

**High-Risk Area:** [Emergency Loans for Small Businesses](#)

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

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**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, stating that it would work to ensure that a fraud risk assessment for the EIDL program was completed. In December 2021, SBA provided a fraud risk assessment that had been prepared by its contractor. Based on our initial review of the assessment, it adhered to many, but not all, leading practices for fraud risk management. For example, SBA did not determine its fraud risk tolerance as called for by

leading practices. In February 2022, SBA designated an antifraud entity that, according to SBA officials, would be responsible for determining a risk tolerance and implementing the fraud risk assessment's recommendations. To fully implement the recommendation, SBA's antifraud entity would have to more fully incorporate leading practices into its fraud risk assessment, including an assessment of its risk tolerance. Doing so would help the agency identify and better manage fraud risks for EIDL and inform future emergency lending and grant programs.

**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, stating that it would work to ensure that fraud risks are monitored on a continuous basis. In December 2021, SBA provided a fraud risk assessment, which would inform an antifraud strategy. In February 2022, SBA designated an antifraud entity to oversee and coordinate the agency's fraud risk prevention, detection, and response activities. SBA officials previously told us that once designated, the entity would work to develop an agency-wide comprehensive antifraud action plan. To fully implement this recommendation, the entity would have to develop the antifraud strategy for the EIDL program as part of its agency-wide efforts. Doing so would help the agency better identify and manage fraud risks for EIDL and inform future emergency lending and grant programs.

**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, stating that it would implement a comprehensive oversight plan. In February 2022, SBA designated an antifraud entity to oversee and coordinate the agency's fraud risk prevention, detection, and response activities. To fully implement this recommendation, the entity would have to develop and implement a plan for the EIDL program as part of its agency-wide efforts. Taking these actions would help ensure SBA program integrity, achieve program effectiveness, and address potential fraud.

**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. In December 2021, SBA provided a fraud risk assessment that had been prepared by its contractor. Based on our initial review of the assessment, it adhered to many, but not all, leading practices for fraud risk management. For example, SBA did not determine its fraud risk tolerance. In February 2022, SBA designated an antifraud entity that, according to SBA officials, would be responsible for determining a risk tolerance and implementing the fraud risk assessment's recommendations. To fully implement the recommendation, SBA's antifraud entity would have to more fully incorporate leading practices into its fraud risk assessment, including an assessment of its risk tolerance. Doing so would help the agency identify and better manage fraud risks for PPP and inform future emergency lending programs.

**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, stating that it would work to ensure that fraud risks were monitored on a continuous basis. In December 2021, SBA provided a fraud risk assessment, which would inform an antifraud strategy. In February 2022, SBA designated an antifraud entity to oversee and coordinate the agency's fraud risk prevention, detection, and response activities. Agency officials had told us previously that once designated, the entity would work to develop an agency-wide comprehensive antifraud action plan. To fully implement this recommendation, the entity would have to develop and implement the plan for PPP as part

of its agency-wide efforts. Doing so would help the agency identify and better manage fraud risks for PPP and inform future emergency lending programs.

**High-Risk Area:** [Emergency Loans for Small Businesses](#)

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

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**Economic Injury Disaster Loan Program: Additional Actions Needed to Improve Communication with Applicants and Address Fraud Risks, [GAO-21-589](#). Washington, D.C.: July 30, 2021.**

**Recommendation:** The Associate Administrator of SBA's Office of Disaster Assistance should develop a comprehensive strategy for communicating with potential and actual program applicants in the event of a disaster. Such a strategy should provide guidelines for the types of information and timing of information to be provided to program participants throughout a disaster. The types of information to be addressed in the strategy could include processing steps and time frames applicants might experience through different stages of the loan process.

**Action Needed:** SBA agreed with the recommendation and stated the agency planned to develop a comprehensive strategy for communicating with potential and actual disaster loan applicants, including information about loan processing steps and time frames. In December 2021, SBA stated the agency was evaluating plans for a major change to its disaster loan processing platform that had to be resolved before further action could be taken on this recommendation. In March 2022, SBA stated that the Office of Preparedness, Communication, and Coordination within the Office of Disaster Assistance would serve as the lead for developing the communication strategy, with a draft expected by September 30, 2022. To fully implement this recommendation, SBA would have to complete the development of this strategy and resolve issues with its disaster loan processing platform. Such a strategy would help reduce applicant confusion and lessen the burden on SBA's resources to address this confusion.

**High-Risk Area:** [Emergency Loans for Small Businesses](#)

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

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Enhancing disaster recovery efforts.

**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. According to SBA, the agency intended to conduct economic hazard planning sessions to discuss regionally specific risks associated with natural disasters in late calendar year 2021 and incorporate these findings and other lessons learned in its 2023 Disaster Preparedness and Recovery Plan. This effort was still in process as of March 2022. SBA noted that it still expects to incorporate regional risks into the 2023 plan and that the relevant offices have been meeting on this topic. To fully implement this recommendation, SBA would have to complete its efforts to identify and incorporate risks into its Disaster Preparedness and Recovery Plan and other relevant planning documentation. Identifying and documenting risks and mitigation strategies would help SBA better respond to challenges that arise during its disaster response efforts.



**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. According to SBA, the agency planned to create a template of key elements to be included in large-scale disaster action plans by the end of fiscal year 2021. As of March 2022, SBA was still working on its template, which would have to be completed to implement this recommendation. Taking these actions would offer SBA opportunities to better tailor its response to individual disasters and help increase the effectiveness of those responses.

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***Disaster Recovery: Additional Actions Needed to Identify and Address Potential Recovery Barriers. GAO-22-104039. Washington, D.C.: December 15, 2021.***

**Recommendation:** The SBA Associate Administrator of the Office of Disaster Assistance should, in coordination with the FEMA Administrator and the HUD Assistant Secretary for Community Planning and Development, develop, with input from key recovery partners, and implement an interagency plan to help ensure the availability and use of quality information that includes (1) information requirements, (2) data sources and methods, and (3) strategies for overcoming information challenges—to support federal agencies involved in disaster recovery in identifying access barriers or disparate outcomes.

**Action Needed:** SBA agreed with this recommendation. In its comment letter on the report, SBA described its current and planned efforts to collect data and develop metrics for disaster programs. To fully implement this recommendation, SBA would have to coordinate with FEMA and HUD on plans to identify and use information on access barriers and disparate outcomes. Concerted interagency efforts in these areas could help agencies more equitably serve disaster survivors.

**Recommendation:** The SBA Associate Administrator of the Office of Disaster Assistance should coordinate with the FEMA Administrator and the HUD Assistant Secretary for Community Planning and Development to design and establish routine processes to be used within and across federal recovery programs to address identified access barriers and disparate outcomes on an ongoing basis.

**Action Needed:** SBA agreed with this recommendation. In its comment letter on the report, SBA stated that the agency plans to explore potential processes to address access barriers and disparate outcomes. However, to fulfill the intent of the recommendation, SBA would have to work with the other two agencies to design and institutionalize such processes. Concerted interagency efforts in these areas could help agencies more equitably serve disaster survivors.

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Improving export promotion operations.

**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. As of March 2022, SBA had 22 export finance specialists and the Office of International Trade was actively recruiting two more, but the agency was still six positions short of the law's requirement. SBA officials reported that they continue to evaluate options to comply with this requirement and that the Office of International Trade has been developing a procurement package to contractually staff these positions (pending funds availability). To fully implement this recommendation, SBA would need to effectively expand the Office's field staff to 30 specialists. Doing so would expand operations in export finance programs and allow the agency to meet statutory requirements.

**Director:** Kimberly Gianopoulos, International Affairs and Trade

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**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. In December 2020, SBA officials told us they were developing a Match Assurance Process that will track all match requirements. SBA told us the process will ensure total match requirements are monitored and managed each quarter, and met at closeout. In January 2022, SBA provided us initial documentation related to tracking the match requirement for three recent grant cycles, and in March 2022, SBA reported that the agency hoped to soon complete its grant close-outs. To fully implement this recommendation, SBA would have to effectively complete the implementation of the assurance process. Doing so would help the agency ensure that states are fully contributing to this export promotion assistance program.

**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. SBA told us the Match Assurance Process will ensure cash match requirements are monitored and managed each quarter, and met at closeout. In April 2021, SBA officials provided information about the process rollout. In January 2022, SBA provided us initial documentation related to tracking the match requirement for three recent grant cycles. In March 2022, SBA reported that it hoped to soon complete grant close-outs. To fully implement this recommendation, SBA would have to effectively complete the implementation of the assurance process. Doing so would help the agency ensure states are properly contributing to this export promotion assistance program.

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