

GAO@100 Highlights

Highlights of [GAO-21-472T](#), a testimony before the Committee on Small Business and Entrepreneurship, U.S. Senate

Why GAO Did This Study

SBA has made or guaranteed more than 17 million loans and grants through PPP and the EIDL program, providing about \$910 billion to help small businesses adversely affected by COVID-19. PPP provides potentially forgivable loans to small businesses, and EIDL provides low-interest loans of up to \$2 million for operating and other expenses as well as advances (grants). However, the speed with which SBA implemented the programs left them susceptible to fraud. Given these concerns, GAO added these emergency loan programs to its High-Risk List in March 2021.

This testimony discusses fraud risks associated with PPP and the EIDL program. It is based largely on GAO's June 2020 - January 2021 reports on the federal response, including by SBA, to the economic downturn caused by COVID-19 ([GAO-20-625](#), [GAO-20-701](#), [GAO-21-191](#), [GAO-21-265](#)). For those reports, GAO reviewed SBA documentation and OIG reports; analyzed SBA data; and interviewed officials from SBA and the Department of the Treasury.

What GAO Recommends

In addition to GAO's previous recommendations, GAO anticipates making four recommendations on fraud risks in PPP and EIDL and one on EIDL oversight in its March 2021 report on the federal COVID-19 response. SBA agreed with the recommendations, stating it would implement fraud risk assessments for both programs and an oversight plan for EIDL.

View [GAO-21-472T](#). For more information, contact William B. Shear at (202) 512-8678 or shearw@gao.gov.

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SMALL BUSINESS ADMINISTRATION

Actions Needed to Improve COVID-19 Loans' Internal Controls and Reduce Their Susceptibility to Fraud

What GAO Found

In April 2020, the Small Business Administration (SBA) quickly implemented the Paycheck Protection Program (PPP) and expedited the processing of Economic Injury Disaster Loans (EIDL) and a new EIDL advance program. These important programs have helped businesses survive during the very challenging COVID-19 pandemic. In an effort to move quickly on these initiatives, SBA put limited internal controls in place, leaving both programs susceptible to fraud. GAO found the following:

- **PPP oversight.** Given the immediate need for PPP loans, SBA implemented limited safeguards for approving PPP loans. Because ongoing oversight is crucial, GAO recommended in June 2020 that SBA develop plans to assess PPP risks. SBA has since developed plans to review PPP loans and has recently provided us detailed information about its oversight process.
- **Analysis of EIDL data.** GAO reported in January 2021 that SBA had provided about 5,000 advances totaling about \$26 million and approved at least 3,000 loans totaling about \$156 million to potentially ineligible businesses. Therefore, GAO recommended that SBA conduct portfolio-level analysis to detect potentially ineligible applications.
- **Assessment of fraud risks.** Although SBA has taken some steps to mitigate fraud risks to PPP and EIDL, such as conducting PPP loan reviews and implementing new EIDL controls, the agency has not yet conducted a formal fraud risk assessment for either program.
- **Suspicious activity reports.** From April through October 2020, financial institutions filed more than 21,000 suspicious activity reports related to PPP. From May through October 2020, financial institutions filed more than 20,000 such reports related to EIDL. These reports identified suspicious activity, such as indicators of identity theft and the rapid movement of funds.
- **Department of Justice charges.** From May 2020 through February 2021, the Department of Justice publicly announced charges in over 100 fraud-related cases associated with PPP loans and 30 fraud-related cases associated with EIDL loans. The charges include bank and wire fraud, making false statements, identity theft, and money laundering.
- **SBA Office of Inspector General.** The SBA Office of Inspector General (OIG) received over 70,000 hotline complaints related to CARES Act programs, including PPP and EIDL, compared to the 700 to 800 it typically receives in a year. In October 2020, the OIG reported that its initial review revealed strong indicators of widespread potential fraud in the EIDL program. The OIG and other law enforcement agencies had seized over \$450 million from over 15,000 fraudulent EIDL loans, according to the report.
- **Financial statement audit.** In December 2020, SBA's independent financial statement auditor issued a disclaimer of opinion on SBA's fiscal year 2020 consolidated financial statements because SBA could not provide adequate documentation to support a significant number of transactions and account balances related to PPP and EIDL.