United States Government Accountability Office

Report to Congressional Committees

July 2022

RESTAURANT REVITALIZATION FUND

Opportunities Exist to Improve Oversight

GAO-22-105442

GAO Highlights

Highlights of GAO-22-105442, a report to congressional committees

July 2022

RESTAURANT REVITALIZATION FUND

Opportunities Exist to Improve Oversight

Why GAO Did This Study

In 2020 and 2021, restaurants, bars, and other food service businesses experienced substantial revenue loss and unemployment resulting from the COVID-19 pandemic. In March 2021, Congress appropriated $28.6 billion to SBA for a Restaurant Revitalization Fund to assist the industry.

The CARES Act includes a provision for GAO to monitor federal efforts to respond to the COVID-19 pandemic. Among its objectives, this report examines recipient characteristics, SBA's internal controls and fraud risk management practices, and SBA's efforts to monitor recipients.

GAO reviewed SBA documentation, analyzed SBA data on the program's applicants and recipients, and interviewed SBA officials and representatives of industry associations.

What GAO Recommends

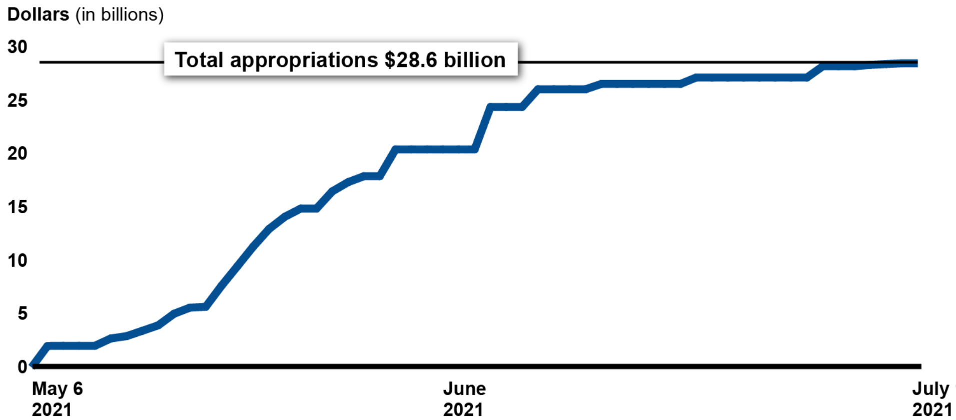
GAO makes seven recommendations to SBA, including to assess pre-award controls and address deficiencies, strengthen post-award reporting, take additional steps to identify fraudulent or ineligible awards, and develop and implement a plan to address potentially fraudulent award recipients in a timely manner. SBA agreed or partially agreed with two recommendations. SBA disagreed with five recommendations, including to assess pre-award controls and implement a plan to address fraudulent or ineligible awards. GAO maintains that all of the recommendations are valid, as discussed in this report.

View GAO-22-105442. For more information, contact William B. Shear at (202) 512-8678 or ShearW@gao.gov

What GAO Found

The Restaurant Revitalization Fund was established in March 2021 to support eligible entities suffering revenue losses from the COVID-19 pandemic. The Small Business Administration (SBA) began accepting applications and awarding funds in May 2021. SBA stopped accepting applications in July 2021 with the program oversubscribed and almost all its funds disbursed.

Restaurant Revitalization Fund Award Disbursements, May 3–July 1, 2021



Source: GAO analysis of Small Business Administration data. | GAO-22-105442

Just over 100,000 businesses received funding (40 percent of eligible applicants). The median award was about $126,000. Most recipients (72 percent) reported they were owned by women, veterans, or members of socially and economically disadvantaged groups. About 43 percent had 2019 revenue of $500,000 or less.

SBA emphasized pre-award controls to detect fraudulent or ineligible applications but has not assessed their effectiveness. While SBA prevented over 30,000 suspicious applications from receiving awards, GAO identified systemic control weaknesses. For example, SBA considered applications made through external vendors to be low-risk, but over 4,000 recipients who applied through such a channel have been flagged for suspected fraud or ineligibility, including an alleged fraudster who received $8 million. Assessing controls and addressing deficiencies would help SBA better ensure program integrity.

SBA requires recipients to report annually on fund use, but has taken limited steps to enforce reporting requirements and identify fraudulent or ineligible awards. The first reports were due in December 2021, but 32 percent were overdue as of June 2022. And SBA has not proactively used data analytics or information from enforcement entities to identify potentially fraudulent award recipients. SBA does not immediately investigate all potentially fraudulent awards, and instead waits for recipients to submit final reports (which might not be until April 30, 2023). Taking additional steps to identify and address potentially fraudulent awards in a timely manner could help SBA recover funds.

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Abbreviations

ARPA	American Rescue Plan Act
DOJ	Department of Justice
EIDL	Economic Injury Disaster Loan
IRS	Internal Revenue Service
OCA	Office of Capital Access
OIG	Office of Inspector General
POS	point of sale
PPP	Paycheck Protection Program
RRF	Restaurant Revitalization Fund
SBA	Small Business Administration
SVOG	Shuttered Venue Operators Grant

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July 14, 2022

Congressional Committees

During the COVID-19 pandemic, restaurants, bars, and other food service businesses experienced declining revenue, unemployment, and closures. For example, their monthly sales dropped by more than half from February 2020 to April 2020, according to Census Bureau data.[1] In response, Congress appropriated $28.6 billion to the Small Business Administration (SBA) for the Restaurant Revitalization Fund (RRF) to assist eligible restaurants and other food service businesses through the American Rescue Plan Act (ARPA) of 2021.[2] RRF awards could be used for eligible expenses, such as payroll, business debt, maintenance, or construction of outdoor seating.

The CARES Act includes a provision for us to monitor and oversee the federal government's efforts to prepare for, respond to, and recover from the COVID-19 pandemic. In October 2021, we reported on the extent to which RRF funds had been awarded, the geographic location of award recipients, and award amounts.[3] This report examines (1) how SBA implemented RRF, (2) the characteristics of RRF recipients, (3) SBA's steps to manage risks for RRF and the extent to which these steps align with leading practices, and (4) SBA's efforts to monitor recipients, including identifying fraudulent or ineligible award recipients.

For the first objective, we reviewed SBA documentation, such as the RRF implementation plan and program guide, and interviewed agency officials. We analyzed SBA data on RRF applicants and recipients to determine application volume and processing times. Additionally, we interviewed representatives from seven industry associations representing restaurants, other eligible businesses, and relevant stakeholders to obtain their perspectives on SBA's implementation of the program and members'

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[1]The Census Bureau conducts monthly surveys to provide current estimates of sales at retail and food services stores and inventories held by retail stores. See Census Bureau, *Monthly Retail Trade and Food Services Report, 722: Food Services and Drinking Places*; accessed January 21, 2022, at https://www.census.gov/retail/index.html.

[2]Pub. L. No. 117-2, § 5003(b)(2), 135 Stat. 4, 87 (codified at 15 U.S.C. § 9009c(b)(2)).

[3]GAO, *COVID-19: Additional Actions Needed to Improve Accountability and Program Effectiveness of Federal Response*, GAO-22-105051 (Washington, D.C.: Oct. 27, 2021).

experiences with the application process.[4] We selected associations that met at least two of the following criteria: (1) represented different sectors of eligible businesses, (2) had testified about RRF or issued statements or information about it, or (3) were consulted by SBA when implementing RRF. Their views are not generalizable to other associations or all funding recipients but offer important perspectives. Finally, we reviewed SBA's goals and measures for RRF and interviewed SBA officials about performance measurement efforts.

For the second objective, we analyzed SBA's data on RRF applicants and recipients. From the application data, we analyzed funding requested, demographic information, business location, business type, 2019 gross receipts, and whether the applicant participated in other SBA pandemic relief programs. From the recipient data, we analyzed funding requested, demographic information, business location, and business type. We assessed the reliability of the RRF data by reviewing related documentation, conducting data testing to check for outliers and errors, and interviewing agency officials. We determined these data were sufficiently reliable to describe applicant and recipient characteristics such as location, ownership, and revenue. We also used state-level Census Bureau data as a proxy for businesses eligible for RRF.[5] We used these data to estimate the percentage of eligible businesses per state that applied for RRF. We assessed the reliability of the census data by reviewing documentation and determined the data were sufficiently reliable to estimate the number of eligible businesses per state.

For the third objective, we analyzed SBA documentation, including application review plans (such as which applications received manual review), and materials provided to application reviewers. We reviewed SBA's fiscal year 2021 independent financial statement audit and a report

[4]We interviewed or obtained written responses from representatives of the American Craft Spirits Association, Distilled Spirits Council of America, Independent Restaurant Coalition, National Federation of Independent Businesses, National Food Truck Association, National Restaurant Association, and United States Hispanic Chambers of Commerce.

[5]Specifically, we used Statistics of U.S. Businesses 2019 data on the number of firms in the food services and drinking place industry with less than 500 employees.

from the Pandemic Response Accountability Committee.[6] We analyzed SBA's applicant and recipient data to identify duplicate business locations and tax identification numbers, and potentially ineligible businesses. We interviewed SBA officials and the contractor that developed the RRF application portal about controls designed to verify eligibility and address fraud risk. Finally, we compared SBA's policies and procedures for managing risks against federal internal control standards for monitoring and SBA's goals for the RRF program.[7]

For the fourth objective, we reviewed SBA documentation on its recipient reporting requirements, improper payment testing, and procedures to identify fraudulent or ineligible awards. We interviewed SBA officials about these efforts. We also interviewed SBA Office of Inspector General (OIG) officials about their coordination with SBA and referrals for potential fraud in the RRF program. We compared SBA's post-award monitoring plans to federal internal control standards for control activities, GAO's framework for managing fraud risk, SBA standard operating procedures, and relevant provisions in ARPA.[8] See appendix I for additional information on our scope and methodology.

We conducted this performance audit from September 2021 to July 2022 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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[6]Small Business Administration, Office of Inspector General, *Independent Auditors' Report on SBA's FY 2021 Financial Statements,* 22-05 (Washington, D.C.: Nov. 15, 2021); and Pandemic Response Accountability Committee, *Small Business Administration Paycheck Protection Program Phase III Fraud Controls* (Washington, D.C.: Jan. 21, 2022). The CARES Act created the Pandemic Response Accountability Committee as a committee of the Council of the Inspectors General on Integrity and Efficiency to promote transparency and support oversight of the federal government's pandemic response. It comprises 21 Inspectors General.

[7]GAO, *Standards for Internal Control in the Federal Government*, GAO-14-704G (Washington. D.C.: Sept. 10, 2014).

[8]GAO, *A Framework for Managing Fraud Risk in Federal Programs*, GAO-15-593SP (Washington, D.C.: July 28, 2015); GAO-14-704G, and Pub. L. No. 117-2, § 5003 (codified at 15 U.S.C. § 9009c).

Background

COVID-19's Effect on the U.S. Restaurant Industry

Restaurants, bars, caterers, food trucks, and similar businesses experienced closures, decreased revenue, and unemployment throughout the first year of the COVID-19 pandemic.

- **Closures.** About one-sixth of restaurants in the United States temporarily or permanently closed during the pandemic. The Census Bureau estimated that 672,602 food services and drinking place establishments were operating in 2019.[9] The National Restaurant Association estimated that as of December 2020, 110,000 restaurants had temporarily or permanently closed.[10]
- **Decreased revenue.** According to the Census Bureau, monthly sales in the category of "food services and drinking places" dropped from $66 billion in February 2020 to $30 billion in April 2020, and did not return to February 2020 levels until April 2021.[11] The National Restaurant Association also reported that such establishments experienced a 24 percent decrease in sales in calendar year 2020 compared to 2019.[12]
- **Unemployment.** According to the Bureau of Labor Statistics, food services and drinking places employed 12.4 million people in February 2020. By April 2020—a month into the pandemic—that number dropped to 6.4 million people.[13] As of March 2021, industry employment was still below pre-pandemic levels, with 10.2 million people employed (see fig. 1).

[9]The Census Bureau's Statistics of U.S. Businesses annual data include number of firms, number of establishments, employment, and annual payroll for most U.S. business establishments. See Census Bureau, *2019 SUSB Annual Data Tables by Establishment Industry*; accessed March 24, 2022, at https://www.census.gov/data/tables/2019/econ/susb/2019-susb-annual.html.

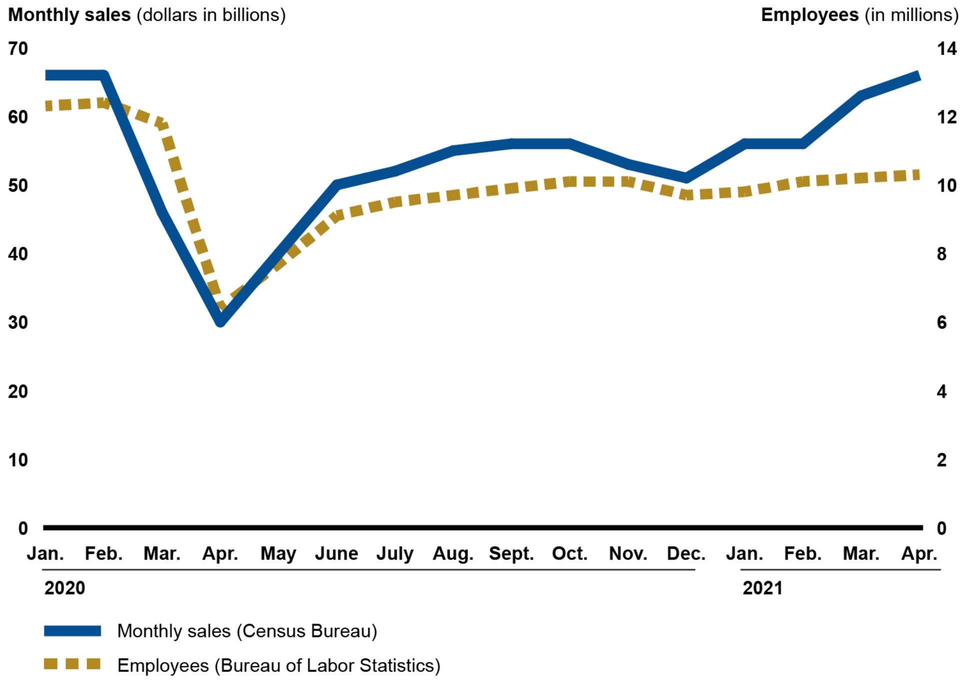
[10]National Restaurant Association, *State of the Restaurant Industry Report: 2021* (Washington, D.C.: Jan. 26, 2021).

[11]*Monthly Retail Trade and Food Services Report, 722: Food Services and Drinking Places*.

[12]*State of the Restaurant Industry Report: 2021*.

[13]The Current Employment Statistics program produces detailed industry estimates of nonfarm employment, hours, and earnings of workers on payrolls. Each month, the program surveys approximately 131,000 businesses and government agencies, representing approximately 670,000 individual worksites. See *All employees, thousands, food services and drinking places, seasonally adjusted*, accessed March 24, 2022, at https://beta.bls.gov/dataViewer/view/timeseries/CES7072200001.

Figure 1: Monthly Sales and Persons Employed in the Food Services and Drinking Places Industry, from January 2020 to April 2021



Source: Census Bureau and Bureau of Labor Statistics. | GAO-22-105442

Restaurant Revitalization Fund Program

In March 2021, ARPA established the RRF program to provide support to businesses that suffered revenue losses related to the COVID-19 pandemic. Eligible businesses were those in which patrons primarily assembled to be served food or drink. RRF awards could be used for expenses such as payroll, rent, utilities, and supplies.[14] For more information, see table 1.

[14] 15 U.S.C. § 9009c(c)(5).

Table 1: Characteristics of Restaurant Revitalization Fund (RRF) Program

Characteristic	Description
Total funding	$28.6 billion
Eligible entities	Businesses such as restaurants, food stands, food trucks, caterers, bars, and similar places of business that serve food or drink. Businesses must have no more than 20 locations. Businesses' operating status could be open, temporarily closed, or opening soon, with expenses incurred as of March 11, 2021.
Award size calculation	In general, 2019 gross receipts (or, if the business began operations in 2019, the average monthly gross receipts multiplied by 12) minus 2020 gross receipts. Applicants whose businesses were not open in 2019 had to provide documentation of eligible expenses and subtract 2020 revenue. Applicants had to subtract any Paycheck Protection Program loans from their requested RRF amount.[a] Funding could not exceed $10 million for an applicant and affiliated businesses. Maximum funding of $5 million per location; minimum funding amount of $1,000.
Eligible expenses	Payroll (including paid sick leave); rent or mortgage payments; utilities; debt service; construction of outdoor seating; maintenance; supplies; food and beverage (including raw materials); covered supplier costs; and operating expenses.
Other provisions in legislation	Businesses that had outstanding applications to the Shuttered Venue Operators Grant program were ineligible.[b] Businesses that receive awards and subsequently close before expending their entire award must return unused funds.
Deadline for recipients to expend funds	March 11, 2023

Source: GAO analysis of American Rescue Plan Act and Small Business Administration documentation. | GAO-22-105442

[a]The program provided forgivable loans to small businesses and nonprofit organizations adversely affected by the pandemic.

[b]The program provided grants to businesses and nonprofit organizations in the performing arts and entertainment industries adversely affected by the pandemic.

ARPA required that during the first 21 days of the program, businesses owned and controlled by women, veterans, or socially and economically disadvantaged small businesses as defined in the Small Business Act receive priority in award assistance.[15] After SBA launched RRF, three federal lawsuits were filed challenging the 21-day priority period on the grounds that SBA's use of race-based and sex-based preferences was

[15]15 U.S.C. § 9009c(c)(3). SBA defines socially disadvantaged individuals as those who have been subjected to racial or ethnic prejudice or cultural bias because of their identity as a member of a group without regard to their individual qualities, and economically disadvantaged individuals as those socially disadvantaged individuals whose ability to compete in the free enterprise system has been impaired due to diminished capital and credit opportunities as compared to others in the same business area who are not socially disadvantaged. 13 CFR §§ 124.103, 124.104.

unconstitutional. These suits led to three court rulings against SBA.[16] The rulings did not affect the priority of veteran-owned businesses.

SBA Implemented RRF and Disbursed Most Funds Expeditiously

Starting in March 2021, SBA designed and implemented the RRF program. SBA accepted applications using online portals and awarded funds beginning in May 2021. By July 2021, SBA had awarded almost all funds and stopped accepting applications with the program being oversubscribed. SBA plans to use program and census data to assess RRF's outcomes.

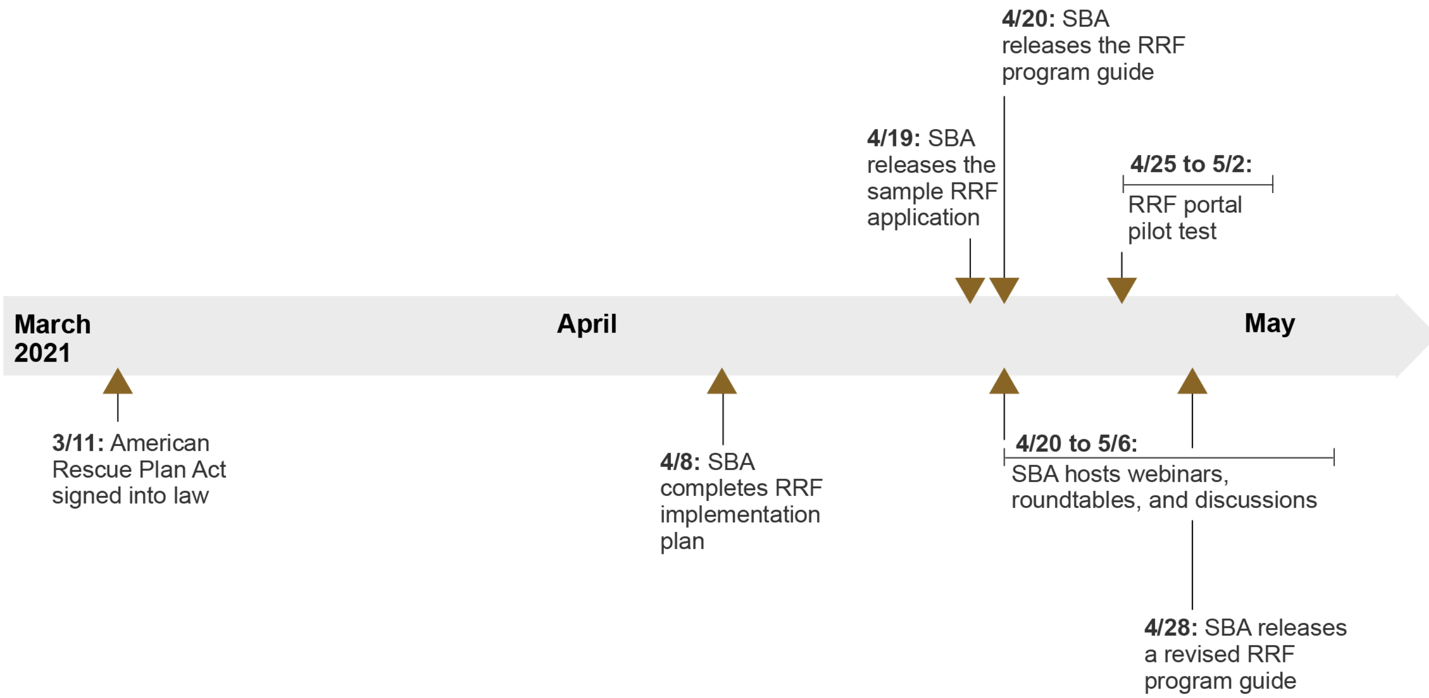
SBA Conducted Implementation Planning, Collaborated with Stakeholders, Developed Guidance, and Held Outreach Events

SBA's RRF implementation—which took place from March to May 2021—included planning, collaboration with a range of stakeholders, development of guidance, and outreach (see fig. 2). SBA delegated implementation and execution of the program to the Office of Capital Access (OCA). Agency officials said they also considered assigning the RRF program to the Office Disaster Assistance, but selected OCA because the Office of Disaster Assistance was implementing the Shuttered Venue Operators Grant (SVOG) program.[17]

[16] *Vitolo v. Guzman*, 999 F.3d 353 (6th Cir. 2021); *Greer's Ranch Café v. Guzman*, 540 F.Supp.3d 638 (N.D. Tex. 2021); *Blessed Cajuns v. Guzman*, No.4:2021cv00677 (N.D. Tex. May 28, 2021). As a result of the litigation, SBA did not fund 2,964 priority-period applicants approved for awards and funding went to businesses that submitted applications before these 2,964 did. The RRF program's funding was exhausted before these 2,964 applications became eligible based on a first-come, first-served basis.

[17] Congress established SVOG in December 2020 to provide $16.25 billion in grants to businesses and nonprofit organizations in the performing arts and entertainment industries that were adversely affected by the pandemic.

Figure 2: Timeline for the Implementation of the Restaurant Revitalization Fund (RRF) Program



Source: GAO analysis of Small Business Administration (SBA) documentation and data. | GAO-22-105442

Implementation plan and collaboration. SBA completed an implementation plan for RRF on April 8, 2021. SBA officials said the implementation plan was created through an interagency process to obtain feedback from internal and external stakeholders, such as staff from other SBA offices, congressional committees, and the Office of Management and Budget, as well as recommendations from industry associations. The plan describes the program's design considerations, internal controls, reporting requirements, and contracted services.

While designing the program, SBA consulted with industry associations and potential applicants. For example, SBA consulted with the National Restaurant Association to discuss the restaurant industry's experience with other pandemic relief programs to inform RRF implementation. In addition, SBA consulted with the Independent Restaurant Coalition on how restaurants categorize expenses and structure ownerships. SBA officials also said they conducted 12 focus groups to collect feedback on the application, program guide, and other materials.

Guidance and outreach. SBA started providing guidance about RRF to potential applicants in April 2021. Specifically, on April 19, 2021, SBA released a sample application with details on the required information and documentation. SBA released the RRF program guide on April 20, 2021, which described eligibility, award amount calculations, and other program information.[18] SBA officials said their approach to communicating policy changes incorporated lessons learned from the Paycheck Protection Program (PPP).[19] We previously reported that SBA did not provide timely and complete information about PPP to applicants.[20] SBA officials said they tried to prevent this issue with RRF by using a searchable Frequently Asked Questions database and updating it in real time.

SBA officials also said they designed guidance and other materials to make the program accessible to all types of restaurant owners. In addition to English, SBA provided its RRF program guide in 17 other languages.[21] It staffed the RRF call center with English- and Spanish-speaking contractors. SBA officials said the application guidance and materials were designed to be easy to understand because the restaurants most affected by pandemic-related revenue loss generally were the smallest and sometimes owned by individuals with limited English proficiency.

To inform potential applicants about the RRF program, SBA held over 40 outreach events—such as webinars, discussions, and roundtables—with restaurant industry associations and trade associations from April 20, 2021, to May 6, 2021, in multiple languages. Independent Restaurant Coalition representatives we interviewed said their webinars with SBA reached over 80,000 restaurants. Representatives from six of the seven industry associations told us their members generally found the RRF

[18]SBA released an updated version of the program guide in late April 2021. Small Business Administration, *Restaurant Revitalization Funding Program: Program Guide as of April 28, 2021* (Washington, D.C.: Apr. 28, 2021).

[19]The CARES Act established PPP to provide forgivable loans to small businesses and nonprofit organizations. Qualifying businesses (in general, businesses with 500 or fewer employees or that meet SBA's industry-based size standard) could obtain loans equal to 2.5 months of average total monthly payments for payroll costs up to $10 million. In total, Congress provided commitment authority of about $814 billion for PPP. It is also administered by OCA.

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

[21]*Restaurant Revitalization Funding Program: Program Guide*; accessed May 3, 2022, at https://www.sba.gov/document/support-restaurant-revitalization-funding-program-guide.

program guidance and webinars helpful (one did not comment on the issue).

SBA Used Online Portals and Third-Party Information for Applications and Used a Risk-Based Review Process

SBA established online application portals, worked with industry partners to process RRF applications, and used a risk-based approach to determine the level of review that applications would receive. SBA worked with a contractor to develop and operate an online application portal that included automated internal controls for application review.[22] The portal included a two-way message capability that enabled SBA reviewers to communicate with applicants and request additional information. SBA piloted the portal to ensure its functionality and, according to SBA officials, to optimize the user experience and RRF control framework. The agency selected 2,600 potential applicants (randomly selected from existing PPP participants in the restaurant industry) to test the portal from April 25, 2021, to May 2, 2021, and provide feedback. Based on the pilot feedback, SBA officials said they made changes to improve user experience, revise guidance language, and update portal programming.

SBA developed partnerships with five point-of-sale (POS) vendors to submit RRF applications or verify applicant information. POS vendors provide inventory, sales, and payment-processing services to many businesses in the restaurant industry. In planning documents, SBA said that the POS vendor relationships would help them reach additional potential applicants and reduce the burden on applicants by allowing them to automatically complete an application with information from their POS accounts. Two vendors allowed applicants to submit RRF applications directly through the vendors' platforms, using the applicants' existing financial information, including annual revenue, to complete the applications.[23] Three other vendors provided applicants with verified financial reports for the SBA online portal.

SBA developed a risk-based approach to review applications. Through this process, SBA assigned applications to a risk tier based on the dollar amount sought, application method, and other characteristics. SBA assembled a team of approximately 400 staff to review higher-risk applications, while lower-risk applications were processed automatically.

[22]Specifically, SBA contracted with Goldschmitt-CRI, LLC, which subsequently subcontracted with Summit Technologies, Inc. for application portal development. The contract also included operating a call center through which applicants could receive information about the program and application process.

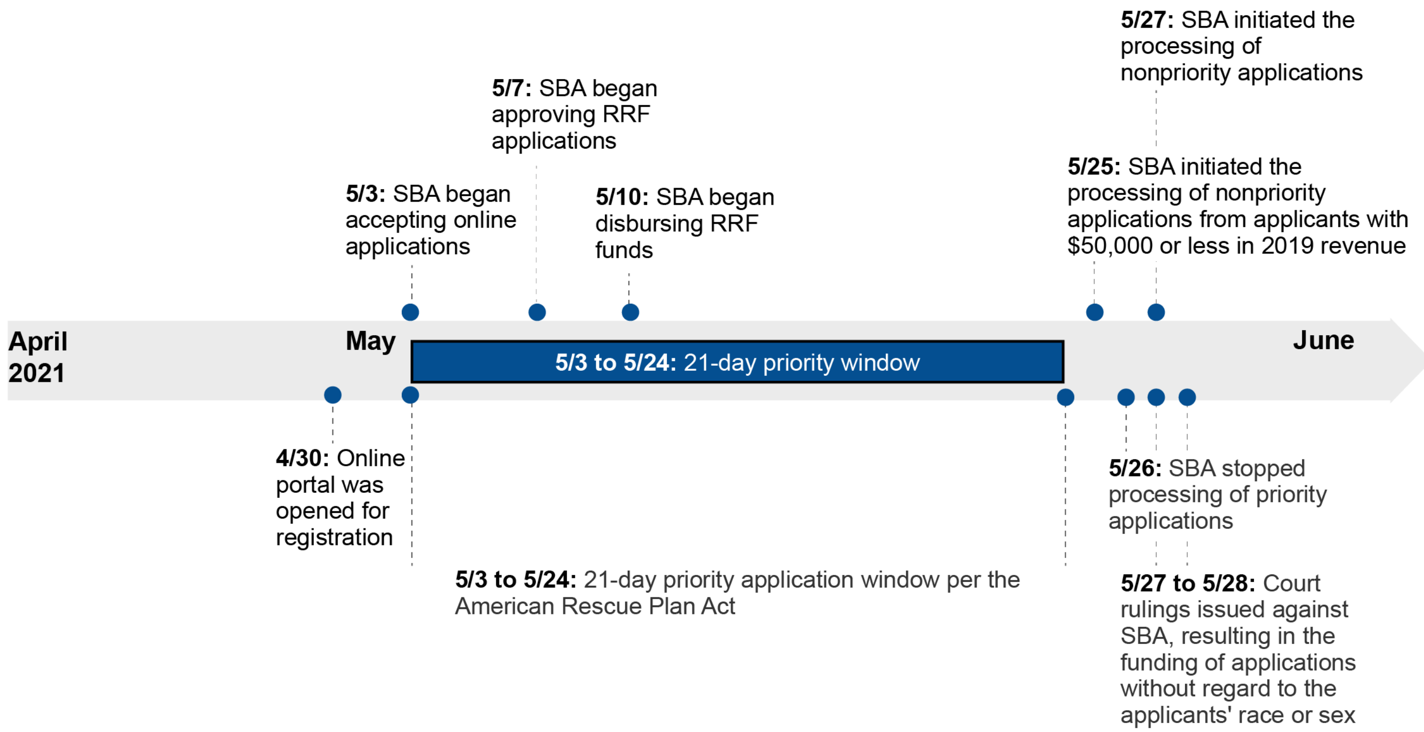
[23]In addition to the online portal and POS vendors, applicants could apply by telephone (through a call center).

We discuss this review process in more detail later in this report. Agency officials said the risk-based system was based on similar risk assessments used in the private sector and on agency experience with PPP.

Most RRF Awards Were Processed within a Month and Industry Associations Generally Viewed the Application Process Favorably

In late April 2021, SBA launched the RRF application portal, allowing eligible business to register. SBA started accepting applications on May 3, 2021 (see fig. 3).

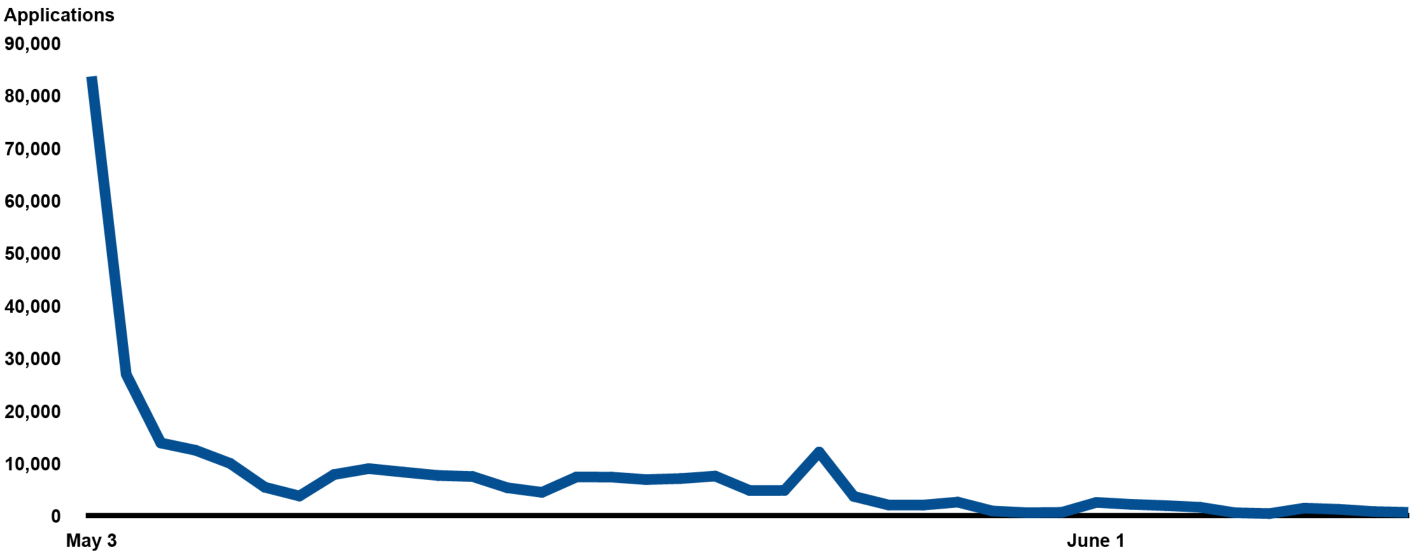
Figure 3: Timeline for the Restaurant Revitalization Fund (RRF) Application Process and Funding Disbursement



Source: GAO analysis of Small Business Administration (SBA) documentation. | GAO-22-105442

On the first day SBA began accepting applications, the agency received more than 80,000 RRF applications requesting almost $34 billion (see fig. 4). SBA's RRF portal had no reported technical issues.

Figure 4: Restaurant Revitalization Fund Applications Received per Day (May 3–June 10, 2021)



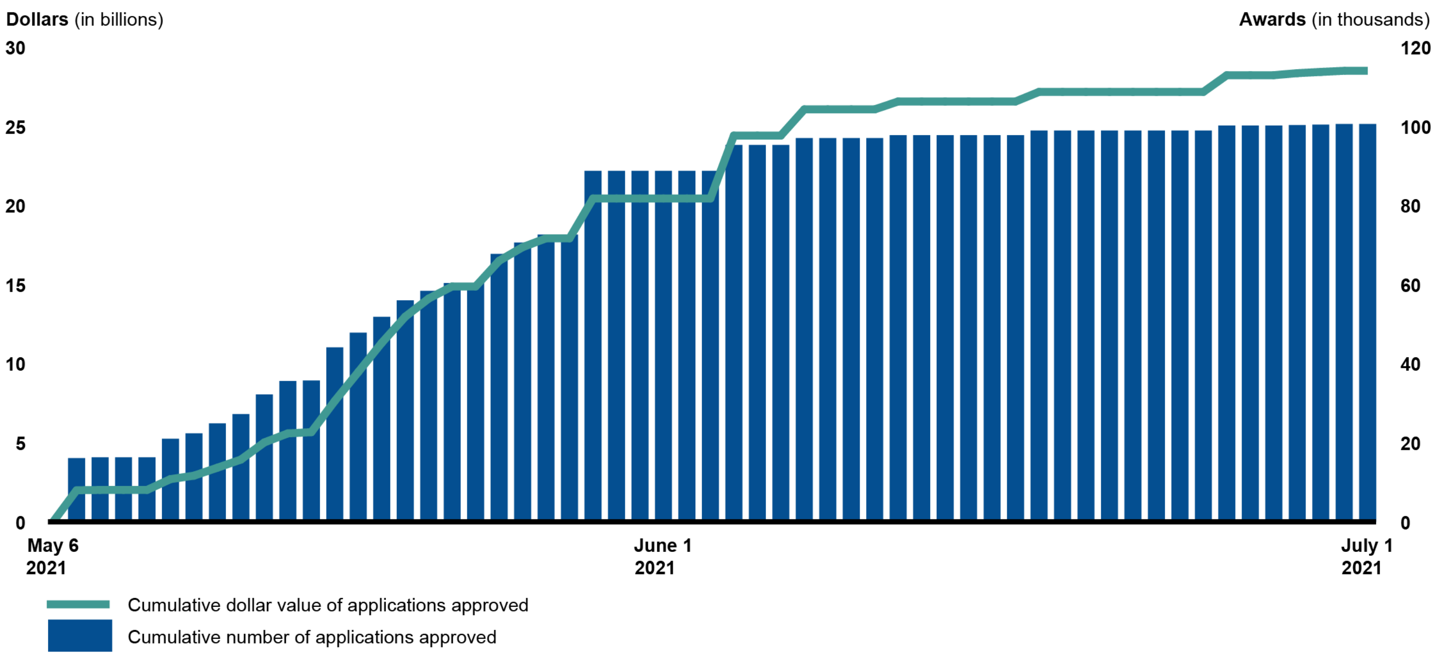
Source: GAO analysis of Small Business Administration data. | GAO-22-105442

Note: Eight hundred forty-three applications were submitted during the pilot period (April 25–May 2, 2021) to test the application portal. From June 11, 2021, to July 15, 2021, 2,562 applications were submitted.

Most applicants used SBA's online portal to apply for RRF, instead of POS vendors. SBA expected 70 percent of applications to be submitted through POS vendors, according to planning documents. SBA officials said this estimate was based on consultation with industry groups. We found that about 6 percent of applications were submitted through POS vendors. Agency officials said the lower number of applications submitted through the POS vendors was the result of technical issues with the POS portals in the first days of the application window, as well as the ease of use of SBA's platform. In addition, representatives from two industry associations told us their members generally preferred completing the application themselves through SBA's portal rather than relying on the automated submissions through the POS vendors.

SBA began approving applications on May 7, 2021, and disbursing funds on May 10, 2021 (see fig. 3). By May 31, 2021, SBA had approved 88,722 applications totaling $20.4 billion—71 percent of the program's funding. By June 30, 2021, SBA approved $28.5 billion. The agency processed more than 60 percent of awards within 30 days of submission (see fig. 5). SBA officials said applications were reviewed in the order in which they were received as determined by the date and time an application was signed and validated by an electronic signature service. However, as previously noted, ARPA included a 21-day priority period for eligible entities owned and controlled by women, veterans, or socially and economically disadvantaged small businesses as defined in the Small Business Act.[24] SBA stopped accepting RRF applications on July 14, 2021, with the program oversubscribed. SBA officials stated they have maintained the submitted, unapproved applications and their submission order in the event the program receives additional funding.

Figure 5: Restaurant Revitalization Fund Application and Funding Approvals



Source: GAO analysis of Small Business Administration (SBA) data. | GAO-22-105442

Note: In October 2021, SBA also made five awards totaling $5.6 million. SBA officials said these awards were made to resolve litigation.

Representatives from industry associations we interviewed generally viewed the program favorably. Specifically, representatives from six of the seven industry groups said their members had positive experiences with SBA's online portal. Representatives from four associations noted that the RRF application was easier to complete than applications for other COVID-19 relief programs. Representatives from four industry

[24]As noted previously, after RRF launched, three federal lawsuits were filed challenging the 21-day priority period, which led to three court rulings against SBA. The rulings did not affect the priority of veteran-owned businesses.

associations also said their members did not have issues receiving funds once awards had been approved (three associations did not comment on the issue).

As of June 2022, $180 million of RRF funding was unobligated, according to USASpending.gov.[25] According to SBA officials, the unobligated funding includes $24 million set aside for litigation, and the remainder results from realized or anticipated recoveries. SBA data also indicate that about $56 million came from returned awards (officials said that awards were returned by the recipients or their financial institutions). SBA officials said some of the recovered funds also came from awards the Department of the Treasury administratively offset and returned to SBA.[26]

SBA officials said they plan to award the remaining funds, but were taking additional time to confirm that any new awards would comply with the terms of legal decisions regarding the priority groups. SBA officials said that there were specific requirements for funds returned to the agency. Depending on the source, some funds had to be sent back to the Department of the Treasury and could not be redistributed. In June 2022, officials said they were working with attorneys from the Department of Justice (DOJ) to resolve remaining litigation involving RRF and formulating a plan on how to distribute any remaining funds.

SBA Plans to Use Census Data to Collect Information on a Few RRF Performance Outcomes

SBA is planning to assess RRF performance outcomes. SBA's April 2021 implementation plan included a logic model describing desired outputs and short-, intermediate-, and long-term desired outcomes (see table 2).[27] SBA officials told us their main goal for the program was to disburse funding quickly while meeting legislative mandates. These goals are reflected in the logic model, which includes speed of disbursement and equitable distribution in its short-term outcomes.

[25]*Restaurant Revitalization Fund, Small Business Administration*. USASpending.gov. Accessed on June 6, 2022, at http://www.usaspending.gov/federal_account/073-0800.

[26]SBA officials noted that RRF awards were not supposed to be subject to administrative offset and they were working with the Department of the Treasury and the Department of Justice to remedy the issue. The Department of the Treasury Offset Program collects past-due debts (for example, child support payments) that individuals owe to state and federal agencies.

[27]Outputs refer to the direct products and services delivered by a program, and outcomes refer to the results of those products and services. GAO, *Performance Measurement and Evaluation: Definitions and Relationships*, GAO-11-646SP (Washington, D.C.: May 2, 2011).

Table 2: SBA's Logic Model for Restaurant Revitalization Fund

Activities	Outputs	Short-term outcomes	Intermediate outcome	Long-term outcome
• Establish system to collect applications and process awards • Develop and issue communication on the program for potential recipients • Review applications and make awards • Conduct audits of recipients and monitor program risk	• Number of small businesses assisted (funds approved and disbursed) • Average amount of award received by each eligible person or entity • Number of completed reviews and audits of funds, including a description of any findings of fraud or other material noncompliance	• Percent of eligible funds expended for restaurants • Equitable distribution[a] • Speed of disbursement of relief (2-week review time)	Increase in number of restaurants still in operation at least one year after funds received (business survival)[a]	Increase in revenue (dollars) earned by restaurants[a]

Source: Small Business Administration (SBA). | GAO-22-105442

[a]SBA indicated it would use census data to assess these outcomes.

To monitor RRF funds, SBA requires recipients to annually report on how they have used their awards. In December 2021, SBA officials stated they would begin to assess the program's progress toward desired outcomes after the first round of required recipient reporting was complete. SBA officials said 68 percent of RRF recipients had submitted their reports as of June 2022 (we discuss the reporting process and compliance later in this report). For those recipients, SBA's preliminary results showed that about 30 percent of RRF funds had been used for payroll, 25 percent for food and beverage purchases, and 13 percent for rent and mortgage payments, with the remaining 32 percent split among the rest of the categories. SBA officials said that about half of the recipients who submitted reports said they already spent their entire award.

SBA plans to use census data to assess one of its short-term outcomes (equitable distribution) and its intermediate- and long-term outcomes. In April 2022, officials said they were working on an agreement with the Census Bureau to access datasets to assess the intermediate- and long-term outcomes. However, officials noted that as of April 2022, the datasets of interest were only available through 2019 or 2020. Once 2021 data are available, officials said they would use taxpayer identification numbers to match records in SBA's RRF data with census data, which will help SBA assess programmatic outcomes over time. SBA officials also said they may conduct an evaluation of the RRF program at some point in the future.

The National Restaurant Association reported that RRF awards have been helpful to recipients. In January 2022, the association reported that 96 percent of RRF recipients responding to the association's survey said the award made them more likely to stay in business. Ninety-two percent of recipient respondents said the award helped them pay expenses or debt that had accumulated since the beginning of the pandemic.[28]

Smaller Disadvantaged Businesses Received Large Share of RRF Awards

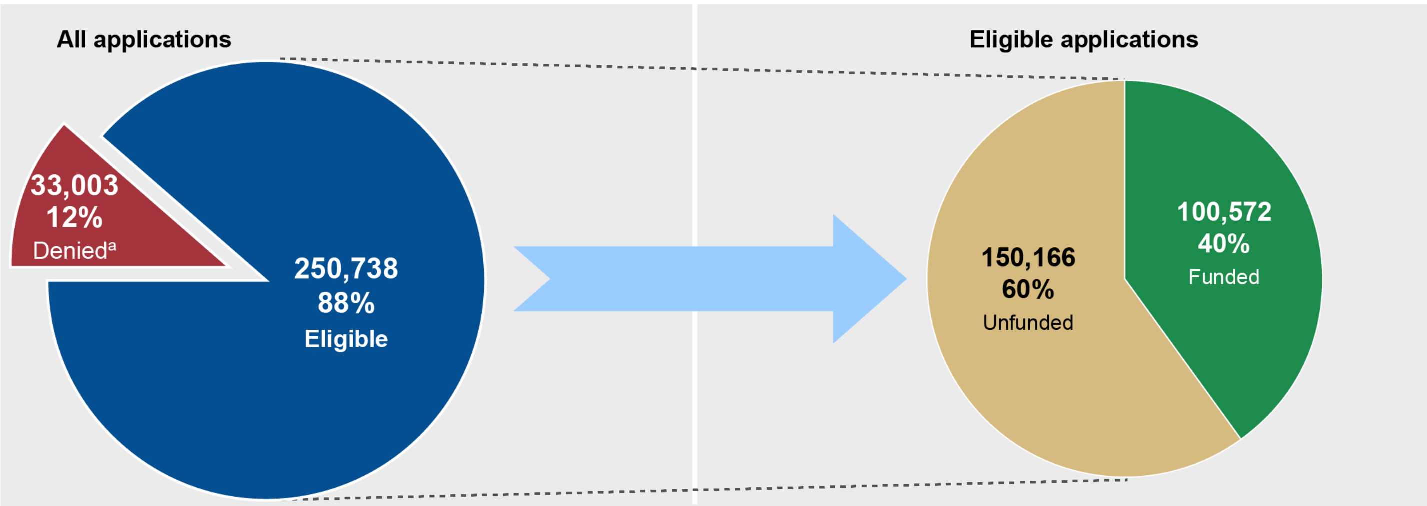
About 40 percent of RRF applicants received awards, mostly of $200,000 or less. Forty-three percent of awards went to smaller-sized businesses (based on 2019 gross receipts) and about three-quarters went to restaurants and bars. Most recipients were businesses that reported being owned by women, veterans, or socially and economically disadvantaged individuals. The percentage of applicants that received RRF awards varied widely by state. Applicants that did not receive funding generally sought smaller amounts and submitted their applications later than those that received funding.

[28]National Restaurant Association, *COVID-19 Restaurant Impact Survey 1: Key Findings – January 2022* (Washington, D.C.: January 2022). The National Restaurant Association Research Group surveyed 4,200 restaurant operators in January 6–18, 2022. Results only represent the views of the restaurant operators who responded to the survey.

About 40 Percent of Eligible RRF Applicants Received Awards

SBA received a total of 283,741 applications, but flagged about 33,000 as likely ineligible or potentially fraudulent (see fig. 6).[29] Among the remaining eligible RRF applications, 100,572 received funding as of November 2021.

Figure 6: Number of Restaurant Revitalization Fund Applications by Eligibility and Funding Status



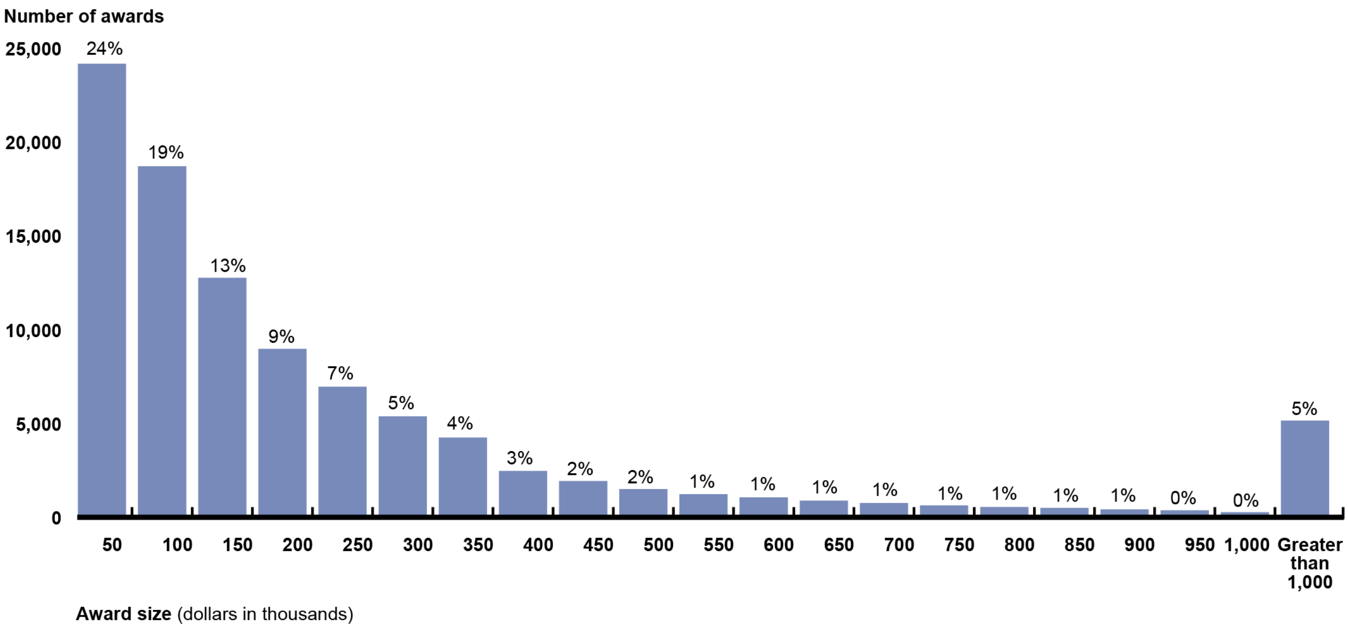
Source: GAO analysis of Small Business Administration data. | GAO-22-105442

[a]The denied applications included 31,303 flagged as potentially fraudulent and 1,700 that SBA determined were ineligible.

[29]SBA flagged 31,303 applications as potentially fraudulent (based on SBA's controls during the application review process) and determined that 1,700 applications were ineligible. All references to "applicants" are to "eligible applicants" and exclude those SBA flagged for potential fraud or deemed ineligible (33,003 in total). We discuss how SBA identified potentially fraudulent or ineligible applications later in this report.

Overall, the median RRF award was $125,891. About two-thirds of all awards were for $200,000 or less, and about 5 percent were greater than $1 million (see fig. 7).[30] About 72 percent of awards went to applicants who applied during the first 2 days the online application was open (May 3–4, 2021).

Figure 7: Distribution of Restaurant Revitalization Fund Awards by Award Amount



Source: GAO analysis of Small Business Administration data. | GAO-22-105442

[30] In general, award size was calculated based on the difference between 2019 and 2020 gross receipts.

Almost Half of RRF Awards Went to Businesses That Made $500,000 or Less in 2019

Set-Asides in the Restaurant Revitalization Fund (RRF) Program

The RRF program had three set-asides to prioritize funding to smaller businesses (based on their pre-pandemic revenue).

One set-aside was included in the American Rescue Plan Act:

(1) $5 billion for eligible businesses with $500,000 or less in 2019 gross receipts.

Small Business Administration (SBA) officials said one of their goals for RRF was to make it accessible to the smallest businesses. To do this, SBA established two more set-asides:

(2) $500 million for eligible businesses with $50,000 or less in 2019 gross receipts; and

(3) $4 billion for eligible businesses with 2019 gross receipts between $500,001 and $1.5 million.

SBA based these targets on Census Bureau data analysis and industry outreach, according to the RRF implementation plan.

Source: GAO. | GAO-22-105442

Almost half of RRF awards went to smaller-sized business (as defined by 2019 gross receipts). More specifically, about 43 percent of RRF awards went to businesses with receipts of $500,000 or less in 2019, a group with set aside funding (see table 3). SBA officials said the agency met the set-aside of $5 billion for businesses with 2019 gross receipts of $500,000 or less, although they included businesses that were not open in 2019.[31] We found that SBA awarded $4.1 billion to businesses with 2019 gross receipts of $500,000 or less, and an additional $1.1 billion to unopened businesses. SBA awarded $125 million of the $500 million set aside for applicants with 2019 gross receipts of $50,000 or less (this excludes unopened businesses). SBA exceeded its goal to award $4 billion to businesses with $500,000–$1.5 million in 2019 gross receipts. Overall, the median 2019 gross receipts for an RRF recipient was $523,326.

[31]Businesses that were unopened as of March 11, 2021 but that had incurred eligible expenses were eligible for RRF. In the RRF application data, these businesses report $0 in gross receipts for 2019.

Table 3: Restaurant Revitalization Fund Applicants, Recipients, and Funding, by Businesses' 2019 Gross Receipts and Set-Aside Goals

2019 gross receipts	Number of applicants	Number of recipients	Percent of all awards[a]	Total funding ($ in billions)	Set-aside goal ($ in billions)
None (unopened business)[b]	35,444	5,811	6%	$1.1	n/a
$500,000 or less	113,537	42,899	43%	$4.1	$5
$50,000 or less	12,383	3,472	3%	$0.125	$0.5
From $500,001 to $1.5 million	63,497	34,255	34%	$7.9	$4
Greater than $1.5 million	38,260	17,607	18%	$15.4	n/a

Source: GAO analysis of Small Business Administration data. | GAO-22-105442

[a]Percentages do not total to 100 percent due to rounding.

[b]Businesses that had not yet opened but had incurred eligible expenses as of March 11, 2021, were eligible for funding. SBA officials said they included these businesses in their counts toward the set-asides for businesses with gross receipts of $500,000 or less.

About 62 percent of RRF awards went to restaurants, followed by bars, and businesses that were both restaurants and bars (see table 4).[32] Median award size ranged from $40,650 for food trucks to $168,259 for restaurants and bars.

[32]During the RRF application, SBA asked applicants to select which business type best applied to them. Applicants could select more than one type (such as "restaurant and bar" or "restaurant, bar, and caterer").

Table 4: Restaurant Revitalization Fund Applicants and Recipients, by Business Type

Type	Number of applications	Number of recipients	Percent of all awards[a]	Median award amount ($)
Restaurant	130,441	62,037	62%	$137,516
Restaurant and bar	15,285	6,490	6%	$168,259
Bar	10,869	4,717	5%	$141,612
Food stand, food truck, or food cart	11,043	3,488	3%	$40,650
Caterer	10,356	3,517	3%	$125,320
Other, more than one type[b]	55,963	15,071	15%	$111,588
Other[c]	16,781	5,252	5%	$73,289

Source: GAO analysis of Small Business Administration data. | GAO-22-105442

[a]Percentages do not total 100 percent due to rounding.

[b]Includes all other recipients who reported more than one type of business (excluding "restaurants and bars").

[c]Includes all other recipients who reported a single type of business: bakeries, breweries and/or microbreweries, brewpubs, distilleries, inns, licensed alcohol producers, snack and nonalcoholic beverage bars, taprooms, tasting rooms, wineries, and other similar places in which the primary purpose is to assemble for food and drink.

Franchisees comprised about 8 percent of RRF applicants and 10 percent of recipients. Franchisees had a median award size of about $115,000 (compared to $125,891 for all recipients). We previously reported that Subway franchisees were the largest group of RRF franchisee recipients, followed by Dunkin' and IHOP.[33]

Majority of RRF Awards Went to Traditionally Disadvantaged Businesses

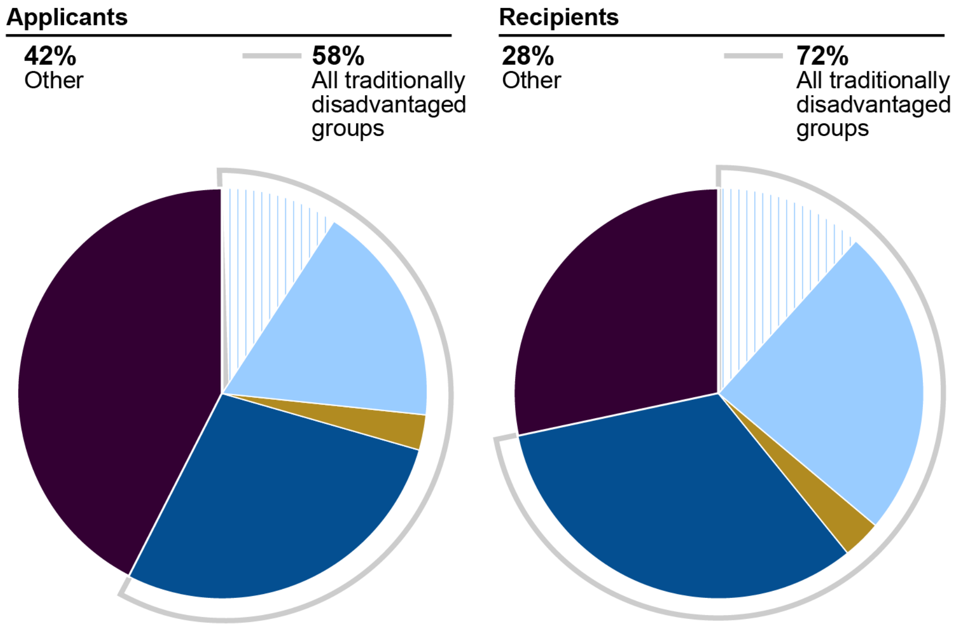
About 72 percent of RRF awards went to traditionally disadvantaged businesses—those that reported they were majority owned and controlled by individuals who were women, veterans, or socially and economically disadvantaged (see fig. 8).[34] Such businesses constituted about 58 percent of applications. Overall, more RRF awards went to women-owned

[33]GAO-22-105051.

[34]SBA considered an applicant to be in one of these categories if the applicant was a small business concern at least 51 percent owned by one or more individuals who were women, veterans, or socially and economically disadvantaged and if the management and daily business operations were controlled by one or more women, veterans, or socially and economically disadvantaged individuals. See *Restaurant Revitalization Funding Program: Program Guide as of April 28, 2021*. Applicants self-reported during application whether their businesses met one or more of these characteristics. SBA did not verify these self-reported classifications. We use "traditionally disadvantaged" to refer to any business owned by women, veterans, or socially and economically disadvantaged individuals.

businesses than to any other group, with such businesses receiving about one-third of awards.

Figure 8: Number of Restaurant Revitalization Fund Applicants and Recipients, by Owner Characteristics



	Applicants		Recipients	
More than one type of disadvantaged group[a]	23,503	9%	11,790	12%
Socially and economically disadvantaged	43,921	18%	24,648	25%
Veteran-owned	6,478	3%	3,138	3%
Women-owned	70,375	28%	32,579	32%
Other[b]	106,461	42%	28,417	28%

Source: GAO analysis of Small Business Administration data. | GAO-22-105442

Notes: Applicants self-reported whether they qualified as these business types. SBA did not verify these self-reported characterizations.

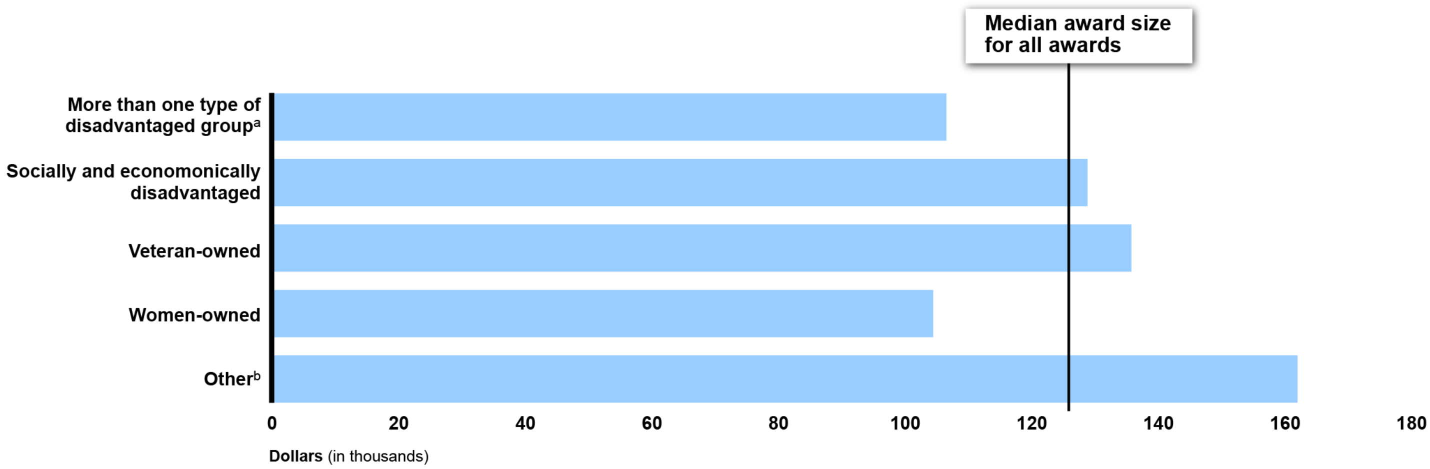
[a]Refers to businesses that reported belonging to more than one category (for example, owned and controlled by women and veterans).

[b]Refers to businesses that did not report being owned and controlled by women, veterans, or members of socially and economically disadvantaged.

Overall, recipients from traditionally disadvantaged groups received smaller awards than those not in such groups (see fig. 9). The median award size among traditionally disadvantaged businesses ranged from

$104,387 for women-owned businesses to $135,687 for veteran-owned businesses. The median award size for other businesses was $161,933. In addition, while traditionally disadvantaged businesses received 72 percent of RRF awards, they received 63 percent of total award dollars (or $17.9 billion).

Figure 9: Median Restaurant Revitalization Fund Award Size, by Owner Characteristics



Source: GAO analysis of Small Business Administration data. | GAO-22-105442

Notes: Applicants self-reported whether they qualified as these business types. SBA did not verify these self-reported characterizations.

[a]Refers to businesses that reported belonging to more than one category (for example, owned and controlled by women and veterans).

[b]Refers to businesses that did not report being owned and controlled by women, veterans, or members of socially and economically disadvantaged.

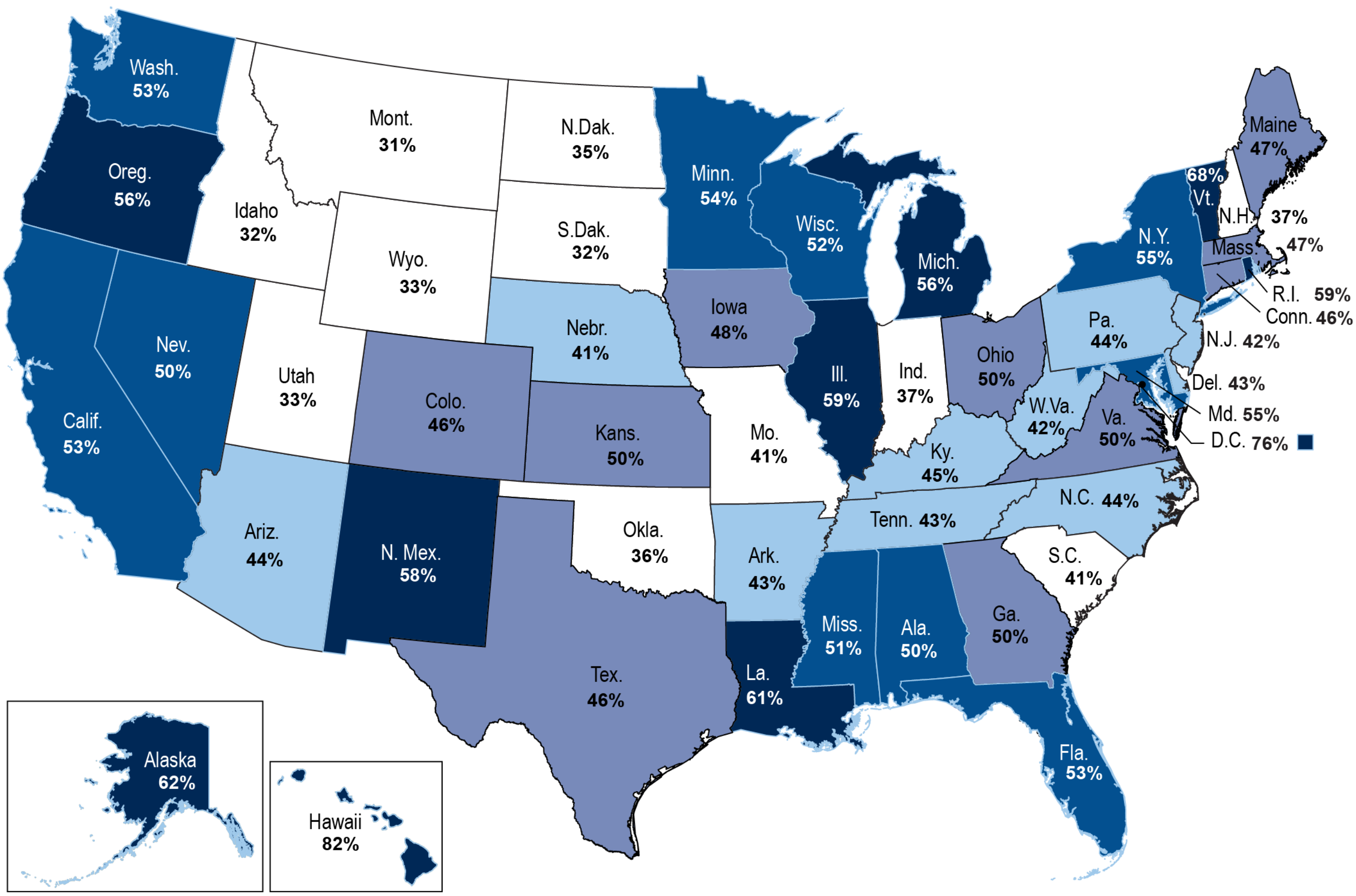
Businesses owned by individuals in traditionally disadvantaged groups might have had lower median awards because such applicants had lower gross receipts overall: median 2019 receipts ranged from $194,671 for business whose owners identified with at least two disadvantaged groups to $356,513 for socially and economically disadvantaged businesses. In contrast, businesses not owned by individuals in any traditionally disadvantaged group had median 2019 gross receipts of $521,588. The lower revenue also meant businesses owned by individuals in traditionally disadvantaged groups were more likely to qualify for RRF set-asides.

Proportion of Applicants Receiving Funding Varied by State

Percentages of applications and awards varied widely by state. Based on census data, we estimated that about half of all potentially eligible businesses in the United States applied for an RRF award.[35] The percentage of potentially eligible businesses that applied for funding varied by state. For example, the percentage ranged from 31 percent in Montana to 82 percent in Hawaii, as shown in figure 10.

[35]We used the Census Bureau's 2019 Statistics of U.S. Businesses data to estimate the number of restaurants per state potentially eligible for RRF. Specifically, we designated "total" restaurants in each state as firms with 500 or fewer employees and a North American Industry Classification System code definition of "Food Services and Drinking Places" (NAICS 722) from the most recent County Business Patterns data from the Census Bureau. While these data do not align with all eligibility criteria for RRF recipients—such as not having more than 20 locations and receiving at least 33 percent of their revenue from food or drink—they provide reasonable estimates for comparing eligible business populations at the state level. The census data did not include data on U.S. territories.

Figure 10: Estimated Percentage of Eligible Businesses That Applied to the Restaurant Revitalization Fund, by State



Applications per restaurants with 500 or fewer employees by quintiles

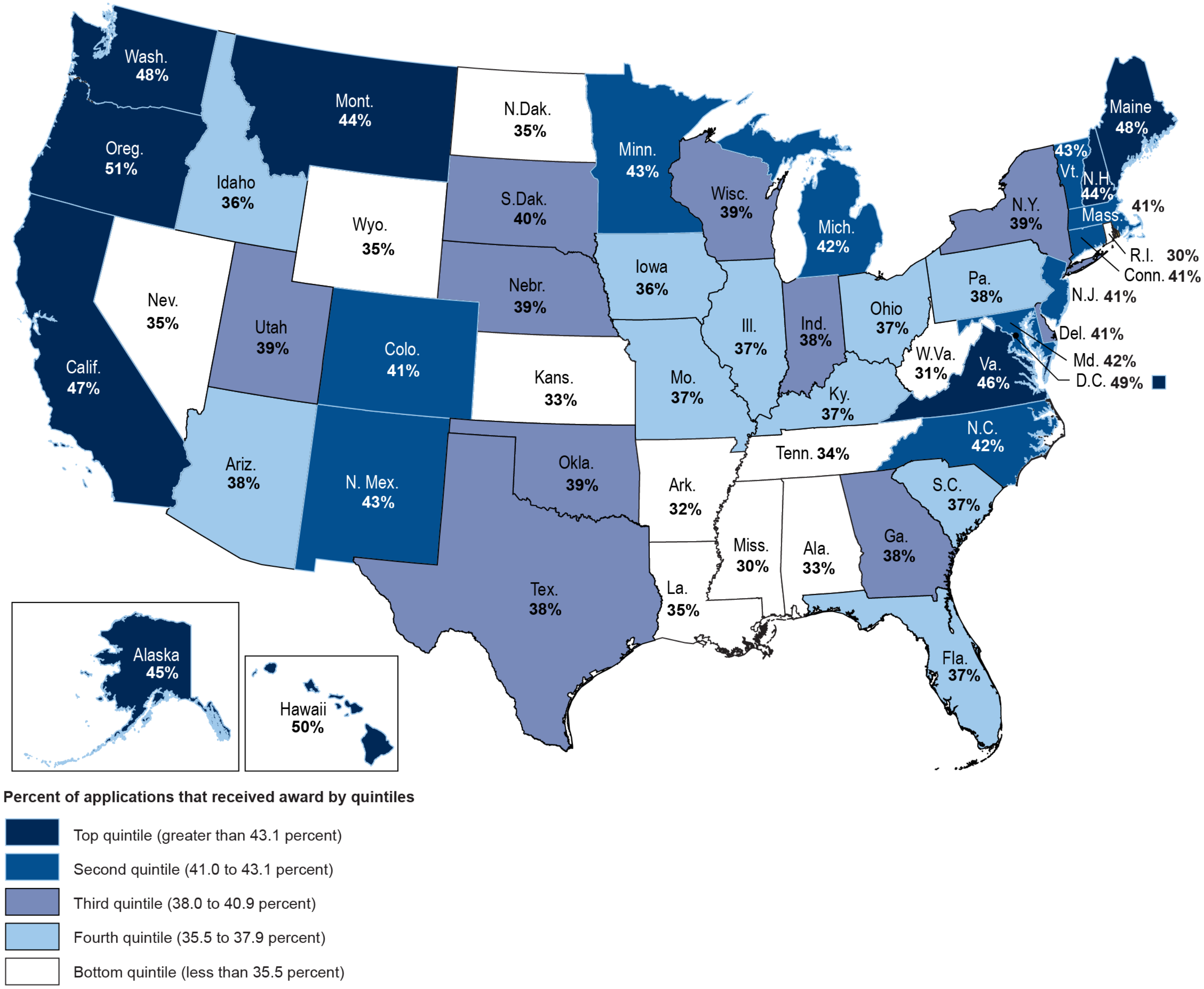
- Top quintile (greater than 55.2 percent)
- Second quintile (50.2 to 55.2 percent)
- Third quintile (45.2 to 50.1 percent)
- Fourth quintile (40.9 to 45.1 percent)
- Bottom quintile (Less than 40.9 percent)

Source: GAO analysis of Small Business Administration and Census Bureau data; MapInfo (map). | GAO-22-105442

Note: We used the Census Bureau's 2019 Statistics of U.S. Businesses data to estimate the number of restaurants per state that were potentially eligible for the Restaurant Revitalization Fund, defined as those with 500 or fewer employees and that had a North American Industry Classification System code definition of "Food Services and Drinking Places" (NAICS 722) in the most recent census data. While this definition does not fully align with the eligibility criteria for the Restaurant Revitalization Fund, these data provide reasonable estimates for comparing eligible business populations at the state level.

The percentage of applicants who received an RRF award ranged from 30 percent in Rhode Island to 51 percent in Oregon (see fig. 11). Applicants generally applied earlier in states with higher award rates. For example, the median application date in Rhode Island was May 11, 2021, while in Oregon it was May 4, 2021. SBA officials noted additional factors that could affect the percentage of applications approved by state, such as variations among states in restaurants' revenue, awareness of the program, and promotion by local support organizations.

Figure 11: Percentage of Restaurant Revitalization Fund Applications That Received Funding, by State



Source: GAO analysis of Small Business Administration (SBA) data; MapInfo (map). | GAO-22-105442

Applicants from U.S. territories received a lower share of RRF awards than program applicants overall (see table 5). For example, 15 percent of applicants from Puerto Rico and 19 percent of applicants from the U.S. Virgin Islands received awards, in contrast to 40 percent of all applicants. SBA officials attributed the disparity to the agency's controls for verifying applicants' bank accounts and tax information (we discuss these controls in more detail later in this report). In addition, applicants from U.S. territories generally submitted their applications about a week after the portal opened, with a median submission date of May 12, 2021, for Puerto Rico and May 8, 2021, for the U.S. Virgin Islands.

Table 5: Restaurant Revitalization Fund Applications and Recipients, by U.S. Territory

Territory	Number of applications	Number of recipients	Percent of applications receiving funding
American Samoa	6	1	17%
Commonwealth of the Northern Mariana Islands	118	12	10%
Guam	290	79	27%
Puerto Rico	2,324	339	15%
U.S. Virgin Islands	145	28	19%
Entire program	**250,738[a]**	**100,572**	**40%**

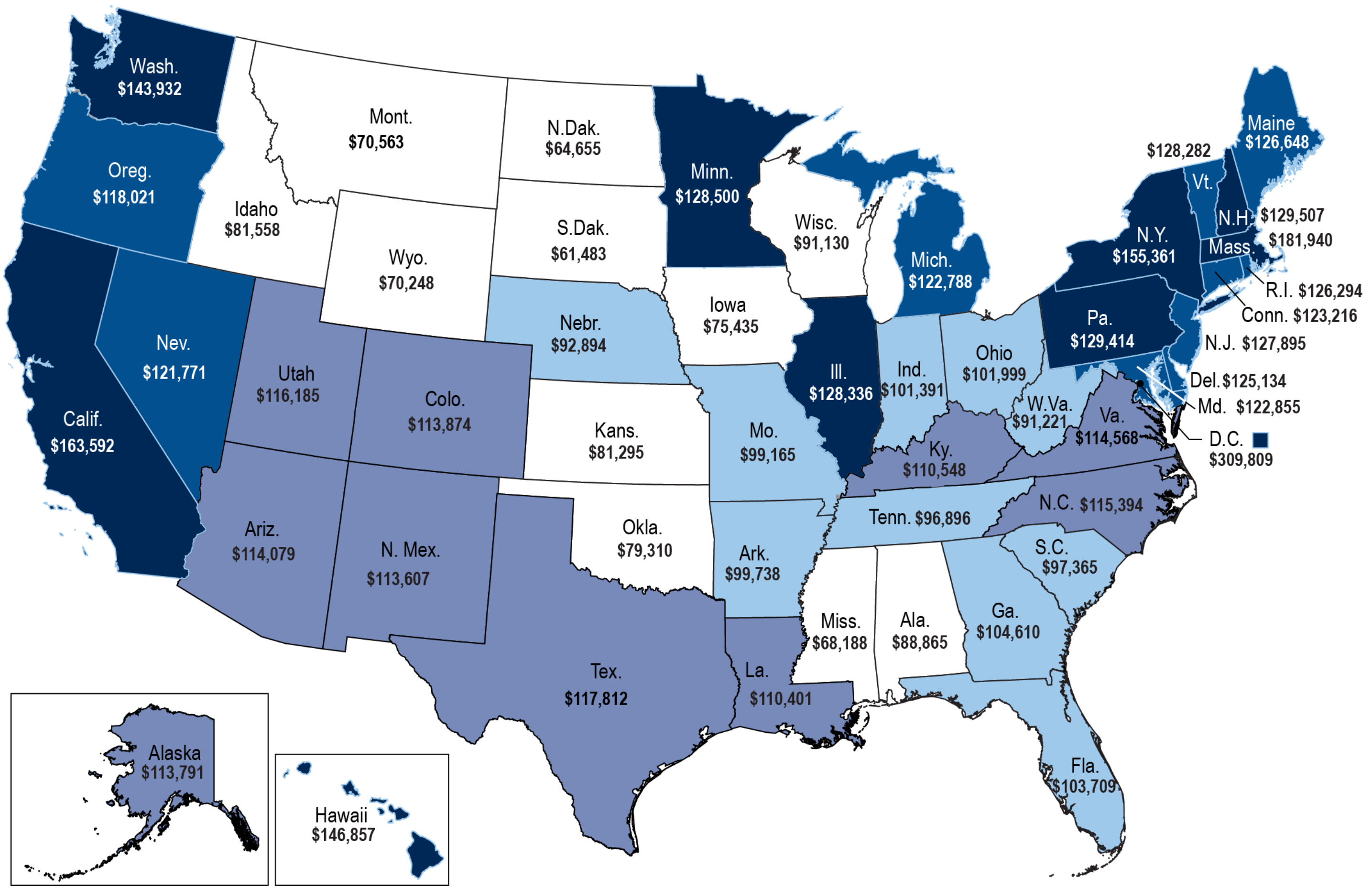
Source: GAO analysis of Small Business Administration data. | GAO-22-105442

[a]Does not include applicants denied for suspected fraud or ineligibility.

Median award size by state ranged from $61,483 in South Dakota to $181,940 in Massachusetts (see fig. 12). As previously noted, the median award for all recipients was $125,891. In general, the median award for a state would reflect median gross receipts reported by applicants for 2019 and 2020. Washington, D.C. had a median award size of $309,809. SBA officials said the higher award size is likely because Washington, D.C. is a dense area whose restaurants generally have higher revenues. Washington, D.C.'s median award size was comparable to other large U.S. cities, such as New York, New York ($372,926) or San Francisco, California ($272,618).[36]

[36]For the purposes of this analysis, a city" is defined as a "postal city" using the U.S. Postal Service's preferred name.

Figure 12: Median Restaurant Revitalization Fund Award Size, by State



Median Restaurant Revitalization Fund award by quintiles

- Top quintile (greater than $128,282)
- Second quintile ($117,813–$128,282)
- Third quintile ($104,611–$117,812)
- Fourth quintile ($91,131–$104,610)
- Bottom quintile (less than $91,131)

Source: GAO analysis of Small Business Administration (SBA) data; MapInfo (map). | GAO-22-105442

Unfunded Applicants Generally Sought Smaller Awards and Applied Later

About 60 percent of RRF applicants (150,166) did not receive funding because the program was oversubscribed.[37] These applicants generally sought smaller award amounts than funded applicants, were less likely to have received PPP loans than funded applicants, and largely did not apply on the first day of the program (see table 6). For example, the median award request for unfunded applicants was $89,167 compared to $125,891 for funded applicants. Also, a relatively small percentage (14 percent) of unfunded applicants applied on the first day the portal opened compared to 58 percent of applications that were funded. To fund these remaining applications would have required an additional $41.2 billion.

Table 6: Characteristics of Restaurant Revitalization Fund Applicants (Unfunded and Funded)

Characteristic	Unfunded	Funded
Number	150,166[a]	100,572
Total funding requested	$41.2 billion	$28.5 billion
Median requested award size	$89,167	$125,891
Percent with no 2019 gross receipts (unopened business)	20%	6%
Percent with a Paycheck Protection Program loan	55%	89%
Percent in a traditionally disadvantaged group[b]	48%	72%
Percent who applied on first day (May 3, 2021)	14%	58%

Source: GAO analysis of Small Business Administration data. | GAO-22-105442

[a]Does not include applicants denied for suspected fraud or ineligibility.

[b]Refers to businesses that are majority owned and controlled by individuals who are women, veterans, or socially and economically disadvantaged.

Unfunded applicants also were more likely to meet SBA's criteria for manual review, such as not having a PPP loan or being an unopened business.[38] In its internal guidance to reviewers, SBA estimated a manual review could take 10 business days from submission, while automated reviews were expected to take 48 hours. Since the program was oversubscribed, applications with longer review times were less likely to be approved before the funding was exhausted.

[37]This figure—150,166—does not include applicants denied for fraud or ineligibility.

[38]SBA required that two program staff manually review applicants who did not receive PPP loans and those whose businesses opened after 2019 (to verify they had incurred eligible expenses). Businesses that had not yet opened but had incurred eligible expenses as of March 11, 2021, were eligible for RRF. In contrast, unopened businesses were ineligible for PPP.

SBA Emphasized Pre-Award Controls to Manage Risk but Has Not Assessed Their Effectiveness

SBA designed the RRF application process with automated and manual controls to screen applicants. These pre-award controls are consistent with some leading practices, including a focus on fraud prevention. However, we found weaknesses in the design and operation of pre-award controls, and SBA officials said they did not plan to assess whether the controls operated as expected.

RRF Reviews Designed to Verify Applicants' Identity and Eligibility Aligned with Some Leading Practices

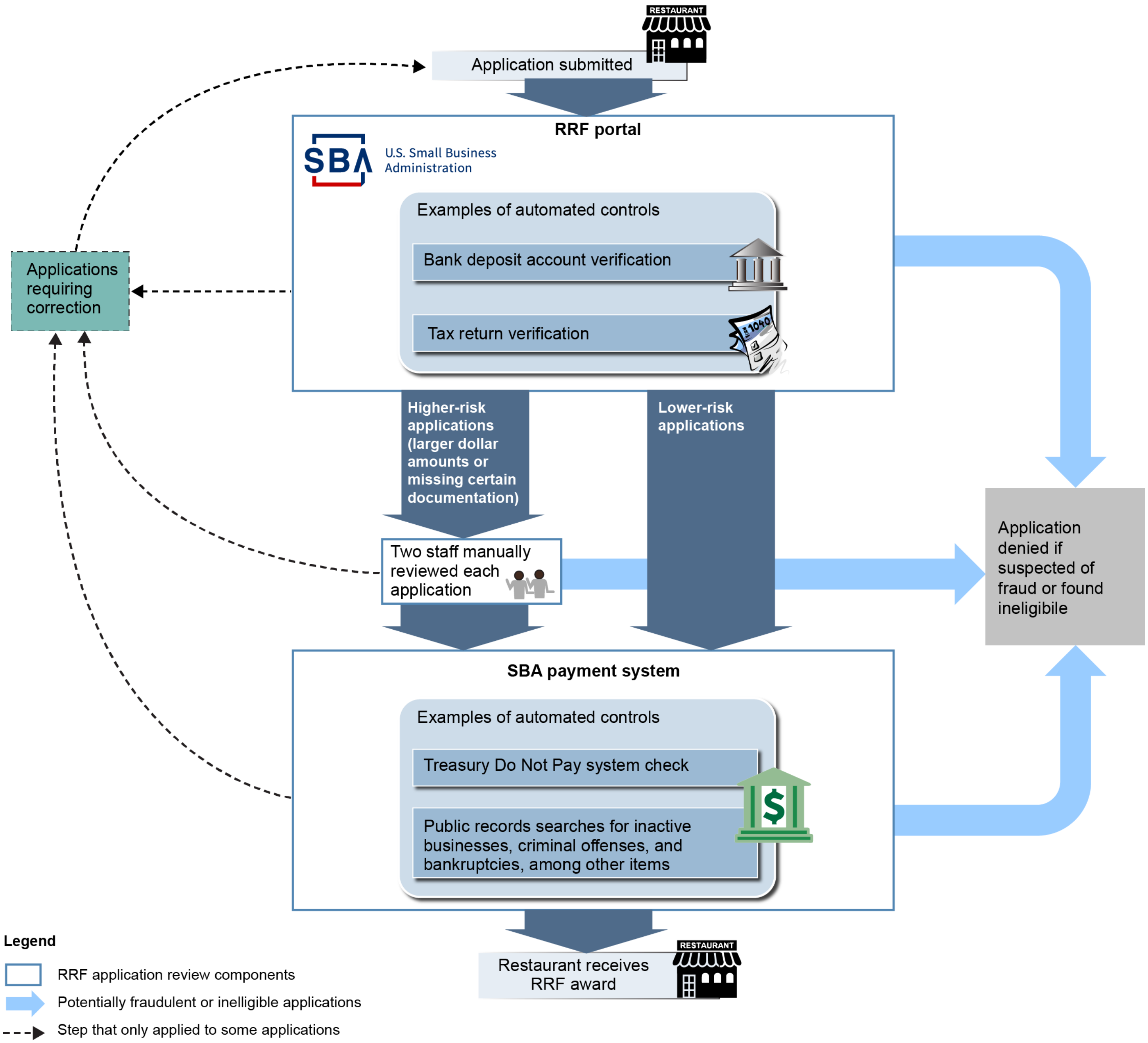
SBA's pre-award controls, or reviews intended to verify an applicant's identity or eligibility, flagged about 12 percent of RRF applications as potentially fraudulent (31,303 applications totaling $3 billion) or ineligible (1,700 applications totaling $830 million) from a total of 283,741. We discuss SBA's application process and pre-award controls in more detail in the following sections.

Application Review Process Had a Series of Controls

SBA designed the RRF application process to include a series of automated and manual reviews to verify applicants' identity and eligibility (see fig. 13).[39] SBA also developed a risk management framework for RRF that defined if an application was high- or low-risk based on its characteristics (such as dollar amount sought, application method, and other characteristics). Applications deemed potentially fraudulent or ineligible were not considered for funding. See appendix II for more detailed information on SBA's procedures for verifying individual eligibility requirements.

[39]SBA worked with a contractor to design, build, and operate an application platform for RRF with built in controls.

Figure 13: Restaurant Revitalization Fund (RRF) Pre-Award Controls Process Flow



Source: GAO analysis of Small Business Administration (SBA) data and documentation. | GAO-22-105442

Note: Applications flagged by the RRF portal or SBA payment system were reviewed by SBA staff prior to referring the application for correction or denying it due to suspected fraud or ineligibility.

- **RRF application portal.** The RRF application portal included a variety of automated controls, or steps to verify applicants' self-reported information against third-party information. For example, automated controls in this system verified applicants' bank account information, taxpayer identification numbers and tax returns (against IRS information), and addresses (against U.S. Postal Service address data). Applications flagged during this process were to be manually reviewed by SBA staff. For example, SBA officials said staff reviewed bank account documentation when an applicant's account could not be verified by automated controls.
- **Manual review.** Two SBA staff—a reviewer and approver—were to manually review each higher-risk application (such as those requesting larger amounts or without PPP history). SBA assigned approximately 400 staff from OCA and field offices to conduct these reviews. Staff reviewed supporting documents to ensure information was correct.[40] If staff identified incorrect information, they asked applicants to submit a corrected application. Resubmitted applications were subject to the same screening as initial applications. Guidance for conducting manual reviews stated that reviewers were to focus on confirming award amount calculations. Although the guidance stated that the primary purpose of the reviews was not to identify potentially fraudulent applications (because the applications were subject to automated fraud controls prior to manual review), reviewers could flag applications if fraud was suspected.
- **SBA payment system.** Prior to payment, applications were routed through SBA's payment system, which included additional checks. The system compared RRF applicants with the Department of the Treasury's sanctions or Do Not Pay lists.[41] The system also performed public records searches for inactive businesses, criminal offenses, and bankruptcies. Applications flagged during this process were to be manually reviewed.

Controls Were Consistent with Some Leading Practices

SBA's emphasis on automated, pre-award controls to prevent fraud reflects some leading practices described in our Fraud Risk Framework and our work on antifraud controls in an emergency environment (see

[40]Applicants had to provide an IRS Form 4506-T (a tax transcript request form) and documentation of gross receipts and eligible expenses.

[41]The Department of the Treasury's Do Not Pay service is an analytics tool that helps federal agencies detect and prevent improper payments made to vendors, grantees, loan recipients, and beneficiaries. Agencies can use the service to check multiple data sources to make payment eligibility decisions.

table 7).[42] For example, SBA validated applicants' information with third-party data sources and limited applicants' ability to modify their information after submission.

Table 7: RRF Controls That Reflect Leading Practices to Manage Fraud Risks and Antifraud Controls in an Emergency Environment

RRF pre-award activities	Description	Key leading practices for fraud risk management and antifraud controls
RRF design and planning	RRF application processing emphasized automated pre-award controls to prevent fraud. SBA staff focused on reviewing higher-risk applications (determined by application characteristics).	Focus on fraud prevention over detection and response to avoid a "pay and chase" model, to the extent possible.
Automated controls	Automated controls leveraged techniques such as data matching to verify applicant identity, eligibility, and award amounts. For example: • Applicant identity was verified with POS vendor, IRS, and SBA data. • Self-reported eligibility requirements were verified with IRS, SBA, and public records data. • Award amounts and gross receipts were verified with POS vendor data, IRS records, and PPP data.	Program and antifraud controls should work together to prevent fraud risk where possible.
		Minimize self-reporting or verify key self-reported information.
		Authenticate identity by testing credentials against existing information.
	Applications were reviewed against the Department of the Treasury's Do Not Pay list.	Conduct data matching to verify key information.
	After submission, applicant edits were limited. If an applicant needed to make edits, the application was resubmitted and then subjected to automated controls.	Protect data from manipulation and misuse.
Manual controls	Staff roles and responsibilities related to identifying and reporting fraud were shared in training and communications.	Convey fraud-specific information that is tailored to the program and its fraud risk profile, including information on fraud risks, employees' responsibilities, and the effect of fraud.
	Two SBA staff—a reviewer and approver—conducted manual reviews. Applications requiring manual review and documentation of such reviews was tracked through RRF portal.	Ensure payments are processed by a limited number of staff with appropriate oversight.
		Segregate duties for provision of key benefits, enforced by systems.

Legend: IRS = Internal Revenue Service; POS = point of sale; PPP = Paycheck Protection Program; RRF = Restaurant Revitalization Fund; SBA = Small Business Administration

Source: GAO assessment of SBA documentation and interview statements. | GAO-22-105442

Note: We compared SBA's activities against leading practices identified in our Fraud Risk Framework (GAO-15-593SP) and in our work on internal controls and fraud risk management in emergency response (GAO-20-625).

[42]GAO, *A Framework for Managing Fraud Risk in Federal Programs*, GAO-15-593SP (Washington, D.C.: July 28, 2015) and GAO-20-625.

SBA officials said the emphasis on preventing fraud was based on SBA's experiences with PPP. We previously found that SBA had limited initial safeguards for PPP, which increased the risk of improper payments or misuse of funds.[43] Preventing fraud is more efficient and is less resource-intensive than attempting to retrieve disbursed funds, which is often referred to as the "pay and chase" model.[44] For RRF, SBA incorporated preventative controls not initially used for PPP, such as crosschecks with the Department of the Treasury's Do Not Pay system.[45] We previously reported that automated controls tend to be more reliable than manual controls (such as document reviews) because they are less susceptible to human error.[46]

According to SBA officials, pre-award controls were revised as new information became available during the review process. For example, officials said they updated the controls to automatically identify applicants using deposit accounts associated with prepaid debit cards as potentially fraudulent (because of the lack of customer due diligence controls associated with this banking product).

Pre-award Controls Have Numerous Weaknesses

Systemic Control Weaknesses

SBA categorized RRF applications based on certain risk factors, which it used to determine the amount of scrutiny each application received. But we found SBA relied on third-party controls in assigning risk tiers for some applications, did not fully leverage data from its other COVID-19 relief programs, did not always apply risk ratings as intended, underestimated the need for manual reviews, and did not manually review all awards that met the criteria.

- **Risk assignments for applications through POS vendors.** One of the POS vendors with which SBA worked made a technical error, resulting in a number of potentially fraudulent awards. In its risk management framework, SBA deemed most applications from POS vendors to be lower-risk because the POS vendors were to employ

[43] GAO-20-625.

[44] GAO-15-593SP.

[45] GAO-20-625; and GAO, *COVID-19: Sustained Federal Action Is Crucial as Pandemic Enters Its Second Year,* GAO-21-387 (Washington, D.C.: Mar. 31, 2021).

[46] GAO-15-593SP.

customer due diligence controls and verify applicants' 2019 and 2020 sales records.[47] Because of the low-risk designation, these applications generally did not require manual review, regardless of amount requested.[48] However, as of November 2021, SBA data showed that about half of the 8,129 awards that stemmed from such applications were flagged for potential fraud or eligibility issues. According to SBA officials, POS vendors were required to use their revenue data to verify applicants' 2019 and 2020 sales. However, because of a technical error, one POS vendor did not verify these data, increasing potential fraud risk among these applicants. SBA officials said that when they learned of the issue, they immediately stopped accepting applications from the vendor. SBA's RRF data indicates that no awards went to applications from this vendor after May 20, 2021, but applications from this vendor were accepted until July 2021. In addition, SBA has flagged all awards that were subject to this technical error for its manual post-award reviews (described later in this report).

- **Use of data from other COVID-19 relief programs.** SBA used applicant and recipient data from its PPP and SVOG program to screen RRF applicants but did not use data from its Economic Injury Disaster Loan (EIDL) program.[49] We compared RRF and SVOG applicant and recipient data and found that while 323 businesses applied to both programs, no businesses received funding from both.[50] SBA did not use the EIDL program data in its review process because, according to SBA officials, EIDL did not require a review of

[47]SBA said it pursued partnerships with POS vendors because they have independent customer due diligence processes in place and active business establishment monitoring to provide an extra layer of protection. Each POS vendor with which SBA worked committed to maintaining an enhanced customer due diligence program, according to the RRF implementation plan.

[48]SBA officials said that applications submitted through POS vendors also went through the same automated controls as all other applications. However, officials also noted that if the automated controls flagged a POS application, it was referred for manual review. In addition, according to the RRF risk management framework, applications submitted by POS vendors without certain documentation were to be referred for manual review.

[49]The EIDL program provided low-interest loans to help borrowers meet obligations or pay ordinary and necessary operating expenses. Between March 2020 and May 2021, Congress appropriated $230 billion to the program for loans and grants (known as advances) to assist small business affected by the pandemic.

[50]In general, the same business was not eligible to apply to both programs or receive funds from both. We have ongoing work examining the SVOG program, including its internal controls.

applicants' tax returns and the EIDL risk-mitigation program was being developed at the time RRF was launched. Furthermore, SBA officials noted that they were not statutorily required to cross-check RRF applicants with EIDL. However, our Fraud Risk Framework notes that data matching to verify key information and eligibility is a leading practice for managing fraud risk in federal programs.[51]

- **Awards with unassigned or misassigned risk tiers.** In SBA's November 2021 RRF data, almost 40 percent of applications were missing a risk tier assignment, including more than 16,600 that resulted in awards.[52] According to SBA officials, applications with missing risk tiers had not gone through IRS verification (officials said IRS's automated verification system could not handle the volume of RRF applications and not all applications were verified). Officials said that to compensate for the lack of IRS verification, these applications should have been manually reviewed. SBA's RRF documentation did not describe what missing risk tiers indicate.

  We also identified issues with risk tier assignments. For example, SBA's RRF risk-management framework deemed applications without 2019 tax returns or PPP history to be higher-risk. Thus, these applications were supposed to be assigned to a tier that would require manual review. However, we identified almost 2,000 awards without PPP history assigned to a lower-risk tier. Thus, these misassigned awards had not been manually reviewed (all had applied through POS vendors). SBA's data also contain a risk tier designation not described in the risk-management framework or other documents. SBA officials said this tier was for applications flagged by the payment system. As of June 2022, SBA's data and documentation did not describe these risk tier assignment issues or the tier for payment system issues, although it has been almost a year since most RRF awards were disbursed.

- **Greater-than-expected need for manual reviews.** According to planning documents, SBA estimated about 10 percent of applications would require manual review. But the planning documents did not take into account situations in which reviewers would need to review applications flagged by automated controls. In contrast to its estimate, SBA data indicate 71 percent of applications should have been manually reviewed, including about 25 percent that were higher-risk. According to SBA officials, the agency had adequate staff to respond

[51]GAO-15-593SP.

[52]According to SBA officials, original risk tier assignments can be found in additional RRF data records that were not provided to GAO.

to the additional need for manual reviews (as previously noted, SBA assigned around 400 staff to work on manual reviews). Furthermore, since most applications were submitted in the first days of the program, officials said they were able to assess the need for manual reviews and allocate staff to meet review requirements.

- **Missing manual reviews.** We found SBA did not document a manual review of all applications that met the criteria.[53] For example, none of the unassigned applications (discussed above) have an indication of manual review, including more than 16,600 that resulted in awards. As noted above, SBA officials said that these applications were missing a risk tier assignment because they had not gone through IRS verification. Manual reviews would have helped to mitigate this missing control. Overall, SBA's data have no evidence of manual review for about 17,000 awards that met the criteria (or 17 percent of all awards). However, all awards assigned to a higher-risk tier were manually reviewed.

DOJ has been prosecuting a recipient who allegedly received $8 million in RRF awards by applying with stolen identities and false business information.[54] The details of the case illustrate some of the systemic weaknesses discussed above. The recipient submitted three applications in May 2021 via a POS vendor and SBA did not manually review these applications. Had the applications been reviewed, reviewers should have identified an Oregon address for catering businesses supposedly operating in Florida. Furthermore, per SBA's risk-management framework and guidance to RRF reviewers, the three applications should have been considered higher-risk because they did not include 2019 tax documents, and two applications did not include PPP history. Finally, the applicant previously used false business information to apply for multiple EIDL loans (using the same mailing address provided for the RRF applications) in March 2021 and was rejected.

[53]According to SBA's risk framework and officials' statements, SBA staff were to manually review RRF applications if they requested higher dollar amounts, were flagged by automated controls, were missing a risk tier assignment, had no PPP history, or were missing certain documentation.

[54]Department of Justice, *Oregon Dentist Faces Federal Charges for Stealing Nearly $8 Million in COVID-Relief Program Funds* (Portland, Oreg.: Dec. 15, 2021). Accessed April 5, 2022, at https://www.justice.gov/usao-or/pr/oregon-dentist-faces-federal-charges-stealing-nearly-8-million-covid-relief-program-funds.

Weaknesses in Execution of Individual Controls

SBA did not fully apply additional pre-award controls to mitigate third-party records limitations for applicants with some business types. In addition, we found SBA did not fully review all available information, allowing some applications with ineligible business types to receive funding.

- **Business types with fewer public records.** SBA did not fully apply mitigating controls to offset weaknesses in verifying eligibility for certain businesses. SBA used a variety of methods to verify applicant identity, such as matching business owner and restaurant names, addresses, and taxpayer identification numbers with data from bank accounts, IRS, and public records. But according to RRF internal guidance, sole proprietorships, self-employed individuals, and independent contractors applying for RRF may not have sufficient public records for automated public records checks to verify eligibility. About 79 percent of RRF applications identified as potentially fraudulent from the automated controls self-identified as sole proprietorships. Self-employed and independent contractor businesses also were more likely to be so identified than other types. According to SBA officials, these applications were manually reviewed to mitigate this automated control weakness. SBA's RRF data indicate that 7,735 sole proprietorships, self-employed individuals, and independent contractors received RRF awards, but only about a quarter of these recipients were manually reviewed. The higher rates of fraud flags and missing manual reviews or other mitigating controls indicate potential concerns about awards to such businesses.
- **Nonprofits.** SBA's data indicate that 42 RRF awards went to nonprofits, which were ineligible for the program. We researched these organizations and confirmed 21 actually were nonprofits.[55] In particular, 13 of the nonprofits were veterans' organizations, including one that appeared to be permanently closed.[56] SBA officials stated that the RRF application portal did not allow applicants to select "nonprofit" as a business type; rather, this designation may have been based on previously existing information in SBA's payment system (which is separate from the application system). Thus, SBA may not

[55]We reviewed publicly available information such as tax records, business registrations, and affiliation with national organizations. The other reported nonprofits were confirmed as for-profit or tribal businesses or the business type could not be confirmed with publicly available information.

[56]Permanently closed businesses were ineligible for RRF. Per ARPA, RRF recipients whose businesses permanently close before expending their entire award must return unused funds.

have fully leveraged its existing data to verify this aspect of recipient eligibility.

- **Verification of affiliate requirements.** We found SBA did not fully verify the information that applicants reported about their affiliations. SBA asked applicants to report any affiliates. As previously noted, affiliated businesses were not to receive more than $10 million. According to SBA's RRF contractor, it was challenging to verify the number of locations owned by an applicant because of the complex nature of ownership structures and affiliations. SBA officials said they generally relied on applicants' assertions and certifications for eligibility, as well as the additional information applicants provided. However, we identified a group of nine affiliates that all reported the same affiliate information and collectively received over $15 million. These restaurants applied using the same email address. Two other recipients also applied with this email address and received an additional $5 million. SBA's data show that all were manually reviewed, but none of the review notes mention affiliate information. SBA instructions to reviewers verifying award amounts did not include guidance on how to review reported affiliates to ensure that groups did not receive more than $10 million and met eligibility requirements.

SBA Does Not Plan to Assess Pre-award Controls

In April 2022, SBA officials told us they were not planning to assess whether RRF's pre-award controls worked as expected. In September 2021, SBA completed a fraud risk assessment for RRF that reviewed program design and controls for potential fraud risk and concluded the program's controls were sufficient to mitigate fraud risk. However, this assessment did not analyze the efficacy of pre-award controls. Furthermore, it did not include all relevant information, such as description and analysis of the POS vendors' customer due diligence controls or information on the more than 30,000 applications identified as potentially fraudulent.

Federal internal control standards state that management should establish and operate activities to monitor the internal control system, evaluate the results, and remediate identified internal control deficiencies on a timely basis.[57]

A November 2021 report by SBA's independent financial statement auditor described weaknesses in and provided recommendations for RRF

[57] GAO-14-704G.

controls over the evaluation of service organizations, accounting and monitoring, and entity-level controls.[58] The RRF-related recommendations included that SBA perform a thorough review of awards issued and identify potentially ineligible recipients, design and implement effective monitoring controls to ensure recipient compliance, and develop and implement monitoring controls to ensure an effective internal control environment. Also, the Pandemic Response Accountability Committee found that PPP Phase III controls applied to RRF were not sufficient to catch known PPP fraud cases.[59] Phase III controls included verifying applicant information (such as taxpayer identification number, legal name of business, and business address) and crosschecking with information in SBA's payment system.

SBA officials told us they believed the pre-award controls aligned with leading practices and identified over 30,000 potentially fraudulent or ineligible applications, and thus were sufficiently robust. Officials also said they believed the controls had worked as expected because SBA had received few complaints about RRF through its fraud hotline.

However, without an assessment of the pre-award controls, SBA cannot confirm the robustness of the controls and whether they operated as expected. Such an assessment could include examining a sample of applications from sole proprietorships (which could not be verified through automated public records searches) and determining if the controls were sufficient for catching potential fraudsters applying as such businesses. The assessment also could include direct testing of internal controls. SBA also could manually review a sample of applications denied because the automated controls flagged them as potentially fraudulent to confirm the automated controls operated as expected. SBA can also use the assessment as an opportunity to document how its planned control framework changed during implementation, such as issues with IRS verification or adding additional risk tiers not described in the framework documentation. In addition, SBA could use the results of its post-award

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[58]*Independent Auditors' Report on SBA's FY 2021 Financial Statements,* 22-05. The auditor issued a disclaimer of opinion on SBA's consolidated financial statements for the year ended September 30, 2021, meaning the auditor was unable to express an opinion due to insufficient evidence. The basis for the disclaimer was that, due to inadequate processes and controls, SBA was unable to provide adequate evidential matter in support of a significant number of transactions and account balances related to its COVID-19 relief programs, including RRF.

[59]Pandemic Response Accountability Committee, *Small Business Administration Paycheck Protection Program Phase III Fraud Controls* (Washington, D.C.: Jan. 21, 2022).

manual reviews, discussed in the next section, to assess whether the controls operated as expected.

Without comprehensively assessing the strength of pre-award controls and taking steps to address any deficiencies, SBA increases the risk of making awards to fraudulent or ineligible applicants with remaining program funding. As of June 2022, there was $180 million in remaining RRF funds, and SBA officials said they planned to make awards until all funds were expended. In addition, documenting an assessment of the pre-award controls could inform SBA's control design for future emergency programs.

Key Pre-Award Controls May Have Disadvantaged Applicants from U.S. Territories

As previously discussed, SBA used several controls to verify RRF applicants' identities and data, such as reviewing tax returns to verify the applicant's identity and gross receipts (used to calculate award amounts). OCA officials said that tax return verification was an important control for the RRF application process. SBA also used third-party software to verify applicants' bank account information. We have reported that cross-checking with third-party data (such as tax information) can be an effective way to verify applicant information.[60] But SBA's design and execution of these controls may have contributed to longer review times for businesses in U.S. territories.

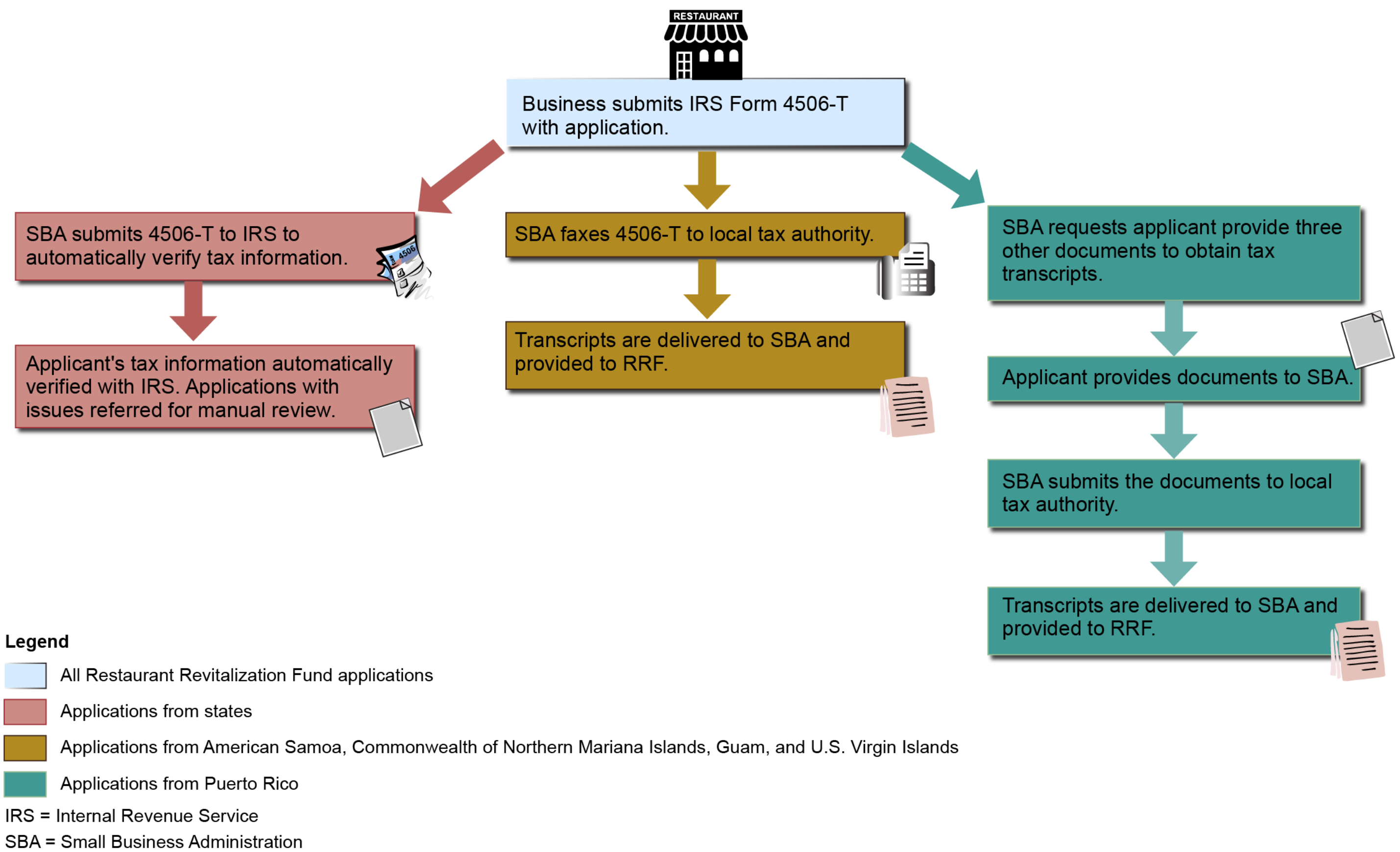
Many businesses formed in the U.S. territories do not pay federal income taxes, and instead file with territorial tax authorities (not IRS).[61] Applications that could not be verified with IRS were referred to SBA staff for manual review—thus, SBA would have had to manually review most applications from businesses in U.S. territories. SBA officials stated that manual reviews of applications from U.S. territories took more time than manual reviews of applications from states. During the manual review, SBA had to obtain tax information from territories' tax authorities (see fig. 14). For most territories, SBA had to submit a tax transcript request form to the appropriate tax authority, according to SBA officials. However, for businesses in Puerto Rico, the Departamento de Hacienda (the commonwealth's tax authority) required three additional documents to provide a tax transcript. SBA officials said reviewers directly contacted

[60]GAO-15-593SP.

[61]Congressional Research Service, *Tax Policy and U.S. Territories: Overview and Issues for Congress*, R44651 (Washington, D.C.: Oct. 7, 2016). Federal taxes generally will only be levied when a territory resident or corporation has income that can be sourced (or connected) to the United States.

applicants to obtain these other documents, and then provided the documents to Hacienda.

Figure 14: Process for Obtaining a Restaurant Revitalization Fund (RRF) Applicant's Tax Transcripts, by Location



Source: GAO analysis of Small Business Administration (SBA) documentation and officials' statements. | GAO-22-105442

SBA officials also attributed the longer review times to the control for verifying applicants' bank accounts.[62] SBA used a third-party software for this verification. However, the software was not compatible with all banks and some applicants had to manually verify their accounts. In information provided to RRF applicants, SBA strongly advised against manual bank

[62]Bank account verification was the first step in SBA's series of pre-award controls. During the application process, SBA asked RRF applicants to provide deposit information for the account in which they wished to have the award deposited. SBA officials said that this was an important control because potential fraudsters would sometimes request to have awards deposited to prepaid credit cards.

account verification as it would significantly increase application processing time. SBA officials said that applicants in Puerto Rico were more likely to trigger manual bank account reviews, with 75 percent of applications from Puerto Rico requiring manual verification.

SBA's RRF planning documents do not describe how the control design would affect applicants from U.S. territories. And, SBA's guidance for staff reviewing RRF documents does not contain information about processing applications from U.S. territories, which may have left staff unprepared for handling these applications. For example, we identified an instance in which an SBA reviewer flagged an application from Puerto Rico as ineligible because the applicant had not paid federal income tax, although the applicant was not required to do so. As noted earlier, manual reviews took longer than automated ones and applications requiring manual review were less likely to be approved. Because RRF funding was quickly exhausted by high demand, the manual review and delay in obtaining tax information caused fewer applications from U.S. territories to receive funding, according to SBA officials. As stated earlier, among U.S. territories 10–27 percent of applicants received awards, compared to 40 percent program-wide.

SBA already has an example of tailoring its program procedures to accommodate different procedures for territorial tax authorities. We previously reported that in 2017, SBA's Office of Disaster Assistance instituted an alternative process for its disaster loan program that allowed applicants from Puerto Rico to provide tax documentation later than applicants from U.S. states. The office also provided qualified applicants from Puerto Rico with conditional approval while obtaining and reviewing their tax returns.[63]

OCA officials said program staff worked with Office of Disaster Assistance staff to obtain transcripts from Hacienda. SBA officials also said that they implemented alternative procedures, such as preserving the order in which applicants from Puerto Rico submitted their applications while they gathered additional information. Furthermore, officials noted that some of the delays were related to the local tax authorities.

We previously noted that applicants from territories generally applied later. However, the discrepancy between award rates for U.S. territories

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

and states indicates that applicants from territories may have faced additional processing delays. For example, applicants in Rhode Island had a median application date of May 11, 2021, and about 30 percent received awards. Applicants in Puerto Rico had a median application date of May 12, 2021, but 15 percent received awards.

SBA's RRF implementation plan included the equitable distribution of funds as one of the program's goals. As of June 2022, almost all RRF funds had been awarded. Remaining funds must be awarded based on the order in which applications were received. Thus, it is too late to remediate weaknesses in RRF control design that may have adversely affected applicants from U.S. territories. However, there may be lessons learned for SBA on how to mitigate a similar issue for future programs. A review of how the tax and bank account verifications—as well as other controls—may have adversely affected RRF applicants from the U.S. territories could help inform SBA's design and implementation of similar controls in future programs.

SBA Has Limited Post-Award Controls for Identifying Fraudulent or Ineligible Recipients

To oversee RRF recipients, SBA requires recipients to report annually on their use of funds and has started reviewing a sample of awards. However, SBA's efforts to enforce compliance with its annual reporting requirement for recipients were limited and its reporting form does not ask for operating status (information that could lead to return of unused funds). The agency has not used techniques such as data analytics to proactively identify awards for indicators of potential fraud. SBA also has not fully leveraged its RRF program data or DOJ and OIG information to detect potentially fraudulent awards. Lastly, SBA does not have a plan to promptly take action on all awards flagged for potential fraud or ineligibility.

SBA Has Not Enforced Compliance with Reporting Requirements or Collected Information on Recipient Operating Status

To monitor that RRF recipients spent their awards on eligible expenses, SBA developed an annual reporting form (see fig. 15).[64] SBA's program guidance describes the reporting requirement and SBA communicated it directly to potential applicants in webinars prior to program launch. SBA officials said they launched the reporting portal in October 2021 and subsequently emailed recipients to inform them of the requirement.

Figure 15: Illustrative Example of a Completed Post-Award Report for the Restaurant Revitalization Fund

Restaurant Revitalization Fund Post-Award Report

Eligible categories	2020 and 2021	2022	2023	Subtotal
Payroll (including paid sick leave)	$75,000			**$75,000**
Mortgage/rent	$0			**$0**
Utilities	$3,000			**$3,000**
Debt service	$0			**$0**
Construction of outdoor seating	$7,000			**$7,000**
Maintenance	$5,000			**$5,000**
Supplies	$0			**$0**
Food and beverage (including raw materials)	$15,000			**$15,000**
Covered supplier costs	$0			**$0**
Business operating expenses	$0			**$0**
	Total			**$105,000**

Source: GAO analysis of Small Business Administration documentation. | GAO-22-105442

Compliance with Annual Reporting Efforts

As of June 2022, about 32 percent of RRF recipients had missed the first reporting deadline (December 31, 2021) and SBA has taken limited steps to enforce compliance. In December 2021, SBA emailed recipients to remind them of the requirement. Since the deadline, SBA officials said

[64]RRF program guidance states that recipients must submit the reports annually until they have spent their entire award, or by March 11, 2023 when the program ends (whichever comes first). The deadline to submit the final use of fund reports is April 30, 2023. Recipients must report award use for the following categories of eligible expenses (based on ARPA): (1) payroll (including paid sick leave); (2) rent or mortgage payments; (3) utilities; (4) debt service; (5) construction of outdoor seating; (6) maintenance; (7) supplies; (8) food and beverage (including raw materials); (9) covered supplier costs; and (10) business operating expenses.

they have emailed and called recipients to encourage reporting and asked industry associations to alert their members.

SBA's RRF reporting form states that if a recipient fails to meet reporting deadlines, SBA may require the return of some or all of the RRF funds. Furthermore, federal internal control standards state that management should use quality information to achieve objectives, including obtaining data on a timely basis so that they can be used for effective monitoring.[65]

In March 2022, SBA officials said they learned that an issue with the reporting portal could have affected reporting rates. Specifically, the portal would not allow recipients to submit their reports unless they certified they had spent their entire award. Thus, recipients who still had remaining funds could not complete the report. SBA officials said they were working with the Office of Management and Budget to update the reporting form and portal.

While updating the reporting portal may improve the response rate, SBA still does not plan to take timely action to address recipients who have not submitted their 2021 reports. SBA's RRF program guide states that recipients must submit their first reports by December 31, 2021.[66] Yet SBA officials stated that they do not consider recipients to be noncompliant until final reports are due (in April 2023). SBA's internal guidance to staff on reviewing recipients' reports does not include information on when to designate recipients as noncompliant with the requirement or how to handle recipients who fail to submit reports.

Without enforcing compliance with the annual reporting requirement—and developing policies and procedures on how and when to do so—SBA will be limited in its ability to monitor how RRF funds have been spent and to obtain reasonable assurance that recipients have complied with program requirements.

Information on Recipient Operating Status

SBA does not require RRF recipients to report their operating status (open or permanently closed)—information that relates directly to fund recoverability. ARPA states that recipients whose businesses permanently close during the program period (which ends on March 11,

[65]GAO-14-704G.

[66]*Restaurant Revitalization Funding Program Guide as of April 28, 2021.*

2023) before expending their entire award must return the unused funds to SBA.[67]

In December 2021 and February 2022, SBA officials stated they had no plans to track if recipients were still open or to change the annual reporting forms to add a question on operating status. SBA's internal guidance on post-award report reviews states that if a recipient closed before awarded funds were spent, then SBA would notify the recipient to return the unused funds. However, SBA's internal guidance does not explain how SBA would become aware that a recipient had closed.

SBA designed the use-of-funds report to minimize the reporting burden on recipients. However, incorporating a question about operating status could help SBA document compliance with the ARPA provision about permanently closed recipients. Furthermore, the post-award reporting form is very short, and only asks recipients to report how they have spent their award to date with no additional questions, as shown in figure 15. Three recipients we interviewed said that the post-award report was easy to complete and not a burden, particularly in comparison to other relief programs and considering the amount of funding they received. Additionally, options such as requiring only a representative sample of recipients to provide supporting documentation to verify the information could minimize other recipients' reporting burden.

Federal internal control standards state that management should use quality information to achieve objectives, including obtaining data on a timely basis so that they can be used for effective monitoring.[68]

By not collecting information on operating status, SBA will not know if RRF recipients have permanently closed before spending their entire award, and thus will not know if recipients should have returned unused funds. If SBA waits until March 2023 (when the program closes) to collect this information, it also may be more difficult to contact recipients and obtain this information. Finally, by not taking steps to identify closed recipients, SBA slows fund recovery and redistribution to open eligible businesses (over 150,000 RRF applicants did not receive funding). SBA officials said that all program funds expire in March 2023; thus, waiting

[67] 15 U.S.C. § 9009c(c)(6).

[68] GAO-14-704G.

until then to take action would mean that any recovered funds could not be redistributed.

SBA Has Not Used Data Analytics to Proactively Identify Fraudulent Awards

SBA has not used data analytics to identify potentially fraudulent awards.[69] During the application process, SBA collected a variety of data from applicants, such as business characteristics, revenue, and tax returns. SBA used these data to screen applications for potential fraud or ineligibility. Yet, in February 2022, SBA officials told us they were not analyzing data to detect potentially fraudulent recipients.

Data analytics, such as mining of RRF applicant and recipient data, could identify trends related to potentially fraudulent awards. For example, we found that RRF applicants not approved because of potential fraud were more likely to be businesses that identified as sole proprietorships. Thus, awards to these businesses could be considered at higher risk for fraud. In addition, SBA officials said they have not reviewed RRF awards to identify different businesses using the same address, an indicator of potential fraud. We found instances in which multiple applicants used the same business address or email address. For example, four businesses all applied using the same business and email addresses and collectively received over $15 million, with three businesses receiving $5 million each (the maximum award amount). Our research of public records indicates that these are owned or managed by the same entity. Post-award data analytics could include identifying awards with such characteristics and incorporating these higher-risk awards into SBA's manual post-award reviews, discussed below.

In addition, SBA matched applicant and recipient data from PPP to screen RRF applicants (about 90 percent of RRF recipients also received PPP loans). As discussed in the following section, SBA used some PPP flags to identify recipients for further review. However, SBA does not have a process to regularly match RRF recipients against recipients of its other COVID-19 relief programs, which could detect potential fraud. For example, if an EIDL loan recipient were flagged for potential fraud after

[69]Data analytics involves a variety of techniques to analyze and interpret data to facilitate decision-making and may be used to identify patterns or trends, determine whether problems are widespread and systemic in nature, and evaluate program performance and outcomes. See GAO, *Highlights of a Forum: Data Analytics to Address Fraud and Improper Payments*, GAO-17-339SP (Washington, D.C.: Mar. 31, 2017).

they also received an RRF award, the RRF award would not be similarly flagged or reviewed for potential fraud.

According to GAO's Fraud Risk Framework, federal program managers should take steps to detect fraud, including conducting data analytics and matching activities.[70] These techniques can enable programs to identify potential fraud or improper payments, thus assisting programs in recovering these dollars. The International Public Sector Fraud Forum has developed principles for effective fraud control in emergency management contexts.[71] They include carrying out targeted post-event assurance to look for fraud.

SBA officials told us they do not need to conduct such analyses of RRF awards because they believe the program's pre-award controls are sufficiently robust. Officials noted that the pre-award controls prevented over 30,000 potentially fraudulent applications from being funded and they did not believe there are major residual fraud risks in the program. In June 2022, officials said that because they consider RRF to be low-risk, they do not need to conduct data analytics.

However, we have noted that because of the government's need to quickly provide funds and other assistance to those adversely affected by the pandemic, federal relief programs generally are vulnerable to significant risk of fraudulent activities.[72] And as previously discussed, in the report on SBA's 2021 consolidated financial statements, SBA's independent auditor recommended that SBA perform a thorough review of RRF awards issued and identify potentially ineligible recipients, especially for recipients with flagged PPP loan guarantees.[73] Moreover, the agency has the capability to perform data analytics for RRF because it conducts ongoing data analysis of PPP to identify potentially fraudulent or ineligible loans. Furthermore, even basic data analytics steps—such as identifying awards using duplicate addresses and incorporating them into

[70]GAO-15-593SP.

[71]The forum noted that the principles also can be applied to any other areas where governments need to implement services quickly. International Public Sector Fraud Forum, *Fraud in Emergency Management and Recovery: Principles for Effective Fraud Control* (February 2020). The forum was established in 2017 by government officials from Australia, Canada, New Zealand, the United Kingdom, and the United States. Its goal is to share best and leading practices to reduce the risk and harm of fraud and corruption in the public sector.

[72]GAO-20-625.

[73]*Independent Auditors' Report on SBA's FY 2021 Financial Statements,* 22-05.

post-award reviews—would help SBA to ensure greater program integrity. Using data analytics to review RRF program awards would enhance SBA's ability to identify potentially fraudulent recipients.

SBA Has Not Fully Leveraged Enforcement Information

SBA has not fully used law enforcement data to identify potential fraud in the RRF program. As previously noted, SBA used PPP data to verify RRF applicant identities and award amounts (approximately 90 percent of RRF recipients also received PPP loans). But as of February 2022, SBA officials told us they were not cross-checking data on RRF recipients against information on suspicious PPP borrowers provided by DOJ or OIG (according to SBA officials, DOJ and OIG regularly provide them with information on suspicious PPP borrowers). In June 2022, SBA officials noted that they follow a set of procedures to use PPP hold code data to identify potential fraud in RRF recipients, but SBA did not provide documentation of these procedures.

According to GAO's Fraud Risk Framework, federal program managers should work with stakeholders (including enforcement entities) to share information on fraud risks and schemes.[74] And as previously discussed, effective fraud control in emergency management contexts includes carrying out targeted post-event assurance.[75]

As with the assessments we discussed previously, SBA officials said they do not conduct this analysis because they believe the program's pre-award controls are sufficiently robust and they do not believe there are major residual fraud risks in the program. However, by leveraging enforcement information on potential fraud from other SBA COVID-19 relief programs, SBA could better detect and mitigate fraud risk and potential RRF fraud.

SBA Reviews a Sample of RRF Recipients but Does Not Act Promptly on Potential Fraud

In March 2022, SBA started contacting 10,050 recipients (about 10 percent of the total) to manually review their awards, but it has not developed a plan to promptly act on all potentially fraudulent or ineligible awards.

SBA Based Review Selection in Part on System Flags

SBA selected recipients for manual review based on flags from other reviews or through sampling (see table 8).

[74] GAO-15-593SP.

[75] *Fraud in Emergency Management and Recovery: Principles for Effective Fraud Control*.

- **Flagged awards.** The post-award review sample includes three categories of RRF awards that were flagged for various reasons. After awards were made, SBA staff identified potentially ineligible recipients by conducting searches using keywords, such as clubs and hotels. Through these searches, they identified 8,900 potentially ineligible awards. Staff then reviewed the recipients' supporting documentation and searched for the businesses online. After this additional research, staff had about 1,300 awards that appeared to be ineligible and included these awards in the sample. SBA also included recipients with a flagged PPP loan or other flags in the payment system, including those that had applied through the POS vendor with a technical error (discussed earlier in the report). SBA officials said that additional awards flagged after March 2022 would be added to the sample for later reviews.
- **Random samples.** SBA worked with a contractor to develop an improper payment testing sample in compliance with federal guidelines.[76] The sample was stratified among SBA's different risk tiers for RRF awards and recipients were randomly selected based on this stratification. In addition, SBA randomly selected 5,100 awards from the remaining population. SBA added this additional random sample to reach a sample size of 10 percent of awards.

[76]In accordance with the Payment Integrity Information Act of 2019 and Office of Management and Budget Circular A-123 Appendix C, SBA must annually review all programs and activities that may be susceptible to significant improper and unknown payments. In general, SBA must report improper and unknown payment amounts, program improper payment rates, and activities undertaken to reduce improper payments. For its sampling methodology, SBA used a 10 percent estimate based on Circular A-123 guidance that a program's improper payment rate should not exceed 10 percent. In April 2022, SBA officials said they will conduct a risk assessment later in fiscal year 2022 to determine if RRF is susceptible to improper payments (as is required by federal guidelines). If SBA determines the program is susceptible to improper payments, it will report an improper payment estimate in fiscal year 2023. See Office of Management and Budget, *Circular A-123 Appendix C: Requirements for Payment Integrity Improvement*, OMB-21-19 (Washington, D.C.: Mar. 5, 2021).

Table 8: Number and Categories of RRF Awards Selected for Manual Review

Category		Description	Number of awards
Flagged awards	RRF award with flag	The award was flagged in SBA's payment system as having an issue.	3,926
	PPP loan with a flag	A PPP loan associated with the RRF recipient had a flag potentially relevant to the award.	241
	Eligibility flag	SBA identified the RRF award as having potential eligibility issues.	399
Random samples	Statistical sample	Statisticians identified awards as part of a statistically valid improper payment testing sample.	384
	Internal sample	Awards were randomly selected from remaining population.	5,100
Total			**10,050**

Legend: PPP = Paycheck Protection Program; RRF = Restaurant Revitalization Fund; SBA = Small Business Administration

Source: SBA. | GAO-22-105442

Note: According to SBA documentation, some awards fell into multiple categories and each award was only grouped with its primary category.

SBA will initiate the manual review only when a recipient reports having spent its entire award. (In other words, if in December 2021, a selected recipient reported using 50 percent of award funds, SBA would not contact that recipient until it reported spending the entire award.) SBA officials said they determined this sampling method would use agency resources more efficiently.

SBA contacts the recipients selected for manual review through the online RRF portal and asks them to provide documentation supporting their use of awards (such as payroll, paid invoices, or proof of rent or mortgage payments). SBA staff review the documentation for any indications of fraud and confirm it supports all eligible expenses reported. If a recipient cannot provide supporting documentation for some or all of the expenses, SBA will initiate steps to recover the award.

SBA Does Not Have a Plan to Respond Promptly to Suspicious Awards

Almost half of the awards selected for review were flagged for potential fraud or ineligibility, but SBA does not review all such awards promptly. In June 2022, SBA officials said they will begin manually reviewing flagged awards that were submitted through the POS vendor with a technical error (discussed earlier in the report). However, according to SBA's RRF post-award review process procedures, the remaining flagged awards are only reviewed when the recipients certify they have spent their entire award or after they submit their final use-of-funds report (which will be due in April 2023). Thus, SBA might not investigate a potentially fraudulent or ineligible award until after April 2023.

SBA has referred few suspicious RRF awards to its OIG, according to SBA OIG officials. After the initial application period in May and June 2021, OIG officials said OCA sent them data on more than 30,000 applications denied on account of suspected fraud. OIG officials said they did not take further action, as the current priority is to investigate potential fraud related to disbursed funds. However, they told us the information did not specify why the applications had been flagged. In April 2022, SBA OIG officials said they had received 19 formal SBA referrals of potential RRF fraud through the SBA OIG hotline (some of which came from recipients' banks). In June 2022, SBA officials stated they had referred 46 cases of potential RRF fraud to the OIG. However, SBA's own data indicate almost 400 RRF awards were flagged for potential fraud.

OIG officials said they generally rely on SBA program management to identify potential fraud and conduct initial research into suspected fraud. OIG officials said they also rely on program offices to pursue payment recoveries to mitigate fraud the OIG is unable to investigate. OIG officials said that they have had relatively less contact with SBA on RRF fraud compared to the other pandemic relief programs. OIG officials also noted that the EIDL and SVOG programs have dedicated fraud mitigation teams and that PPP relies on lenders to conduct oversight of PPP borrowers. SBA officials also noted that they proactively identify potentially fraudulent PPP loans for referral to the OIG through data analysis (including automated screenings and aggregate portfolio reviews).

OCA officials said that RRF does not have a dedicated fraud mitigation team but that a team in OCA's Office of Financial Program Operations tracks potential PPP and RRF fraud cases that SBA's analysts, other government agencies, lenders, or victims of identity theft have reported. The team coordinates with investigative agencies to flag potentially fraudulent RRF awards, with the goal of preventing the flagged recipients from receiving additional SBA funds. RRF program staff said that they sometimes will ask recipients to return an award if they find an improper payment. However, as noted previously, staff generally only review awards for improper payments upon submission of the final use of funds report, and not when they first learn about issues with the award.

While RRF does not have standard operating procedures of its own, the procedures for another SBA program providing assistance to individuals—the Disaster Assistance Program—state that that SBA personnel should take immediate action in cases of suspected fraud.[77] In addition, GAO's Fraud Risk Framework states that federal managers who effectively manage fraud risks develop a plan outlining how the program will respond to identified instances of fraud and ensure the response is prompt and consistently applied.[78] The framework also says effective managers refer instances of potential fraud to the OIG or other appropriate parties for further investigation, and collaborate and communicate with the OIG to align efforts to address fraud.

SBA officials said they do not plan to investigate all RRF recipients flagged for potential fraud or ineligibility until recipients certify that all funds have been expended or until after recipients submit their final reports. This is to avoid having to examine recipients more than once. But by not taking prompt action to respond to flagged RRF recipients, potential RRF fraud and improper payments could go uninvestigated until after final reports are due (on April 30, 2023). In addition, SBA's lack of timely action on potentially fraudulent awards may slow fund recovery and also prevent redistribution to eligible businesses in need of assistance (because all remaining RRF funds will expire in March 2023).

Conclusions

SBA expeditiously implemented RRF and used lessons learned from previous emergency programs (such as PPP) to improve program design and increase safeguards. For instance, the agency emphasized pre-award controls to prevent over 30,000 potentially fraudulent or ineligible applications from receiving awards. Since then, SBA instituted a recipient reporting requirement and has started to review 10 percent of awards. However, our work suggests a more balanced approach toward oversight, using both pre- and post-award controls, is warranted.

SBA could improve its oversight of the RRF program in the following areas:

- **Assessment of pre-award controls.** We identified weaknesses in SBA's design and execution of some pre-award controls, but as of June 2022, SBA had not assessed them. SBA officials stated they planned to continue to make awards until the remaining $180 million

[77]As of April 2022, SBA did not have standard operating procedures for RRF. We reviewed the standard operating procedures for SBA's Disaster Assistance program because, like RRF, it is an emergency program in which SBA provides direct assistance to individuals. Small Business Administration, *Disaster Assistance Program*, SOP 50 30 9 (Washington, D.C.: May 31, 2018).

[78]GAO-15-593SP.

in program funds were spent. Conducting and documenting an assessment of these controls would allow SBA to determine if they worked as expected. The assessment could also provide SBA with the opportunity to document changes made to its planned control framework during implementation, such as issues with IRS verification and risk tier assignments. Taking steps to strengthen pre-award controls could help ensure that remaining funds are awarded to eligible applicants, and could inform future programs.

- **Applications from U.S. territories.** The design of some pre-award controls—such as verifying applicants' tax information and bank accounts—caused delays in reviewing applications from businesses in U.S. territories. Because funding was limited, the delays may have disadvantaged these applicants. Assessing how the control design affected applicants in U.S. territories and identifying potential alternatives could help SBA mitigate this issue in future programs.
- **Overdue post-award reports.** As of June 2022, about one-third of RRF recipients had not met the first deadline for reporting on how they used awards. But SBA officials said they will only consider recipients noncompliant if they miss the final reporting deadline in April 2023. Timely enforcement of the reporting requirement would provide SBA with more relevant and complete data to monitor the program and potentially recover funds not appropriately used.
- **Reporting of operating status.** SBA's post-award reporting form does not ask recipients about their operating status (although ARPA stipulates that recipients whose businesses close before expending their entire awards must return unused funds). By collecting this information, SBA would have greater assurance that recipients complied with award conditions.
- **Data analytics.** SBA has taken limited steps to analyze program data to detect potentially fraudulent awards. SBA collected a great amount of data during the application review process, and also has information on characteristics of fraudulent applications. By leveraging these data, SBA can proactively identify suspicious awards.
- **Use of enforcement information.** As of June 2022, SBA was not leveraging DOJ or OIG information on suspected fraud in other SBA pandemic relief programs. Leveraging these data would allow SBA to more effectively identify potential fraud among RRF recipients.
- **Fraud response plan.** As of June 2022, SBA was not taking timely action to respond to all awards flagged for potential fraud or ineligibility. Developing a plan to respond to such awards—including coordinating with the OIG—could help the agency address potentially

fraudulent or ineligible awards in a more timely and consistent manner.

By taking such steps to proactively identify fraudulent or ineligible award recipients, SBA would be better positioned to recover RRF funds before the program closing date and redistribute them to eligible businesses in need of assistance—thus expanding the reach of the program. Furthermore, if Congress decided to use RRF again, incorporating these steps would help SBA promote program integrity.

Recommendations for Executive Action

We are making the following seven recommendations to SBA:

The Associate Administrator for the Office of Capital Access should conduct and document an assessment of the RRF pre-award controls and address or mitigate deficiencies. (Recommendation 1)

The Associate Administrator for the Office of Capital Access should assess how the design of RRF pre-award controls may have adversely affected applicants from U.S. territories, and identify and document steps to mitigate this issue for future programs. (Recommendation 2)

The Associate Administrator for the Office of Capital Access should develop and implement policies and procedures for addressing RRF recipients who do not meet annual reporting requirements. (Recommendation 3)

The Associate Administrator for the Office of Capital Access should enhance RRF post-award reporting procedures by adding requirements for recipients to report their operating status. (Recommendation 4)

The Associate Administrator for the Office of Capital Access should develop and implement data analytics across RRF awards as a means to detect potentially fraudulent award recipients. (Recommendation 5)

The Associate Administrator for the Office of Capital Access should develop, document, and implement procedures to use enforcement data on suspected fraud in other SBA programs, such as PPP, to identify potential fraud in RRF recipients. (Recommendation 6)

The Associate Administrator for the Office of Capital Access should develop and implement a plan to respond to potentially fraudulent and ineligible RRF awards in a prompt and consistent manner. This plan should include coordinating with the OIG to align efforts to address fraud. (Recommendation 7)

Agency Comments and Our Evaluation

We provided a draft of this report to SBA for review and comment. In written comments, which are summarized below and reproduced in appendix III, SBA disagreed with five recommendations, partially agreed with one, and agreed with one. Overall, SBA's response echoes officials' statements throughout our audit: that RRF controls align with industry leading practices and thus do not need to be assessed, and that the strength of the controls means there is limited fraud in the program and agency officials do not need to take additional steps to identify potential fraud.

In contrast, we maintain that our recommendations are still valid, as described below.

- **Assess pre-award controls.** SBA disagreed with our recommendation that it assess the RRF pre-award controls (Recommendation 1). SBA described its pre-award control framework and maintained that because the framework was based on industry best practices, it does not need to be assessed. In our report, we commend SBA's pre-award control framework and noted the controls prevented over 30,000 suspicious applicants from receiving awards. However, we still believe there is value in SBA documenting an assessment of its pre-award controls. For example, in our report, we identified several control weaknesses, including fraudulent applications stemming from a POS vendor and potentially ineligible businesses that received awards. In its letter, SBA said that it has started reviewing the awards from the problematic POS vendor. This action is in line with this recommendation and a step in the right direction. SBA could incorporate what it learns in these reviews into its assessment of the pre-award controls.

  Furthermore, documenting an assessment of these controls would be valuable even if it found the controls worked as expected. Throughout our work, we identified instances in which SBA did not document how it adjusted the RRF control framework during program implementation (for example, a risk tier designation was not described in any documentation). Because SBA never updated its documentation, SBA officials had to explain these differences in interviews. SBA's response mentions that it is already applying the RRF control framework to other programs. But if SBA wished to apply the RRF pre-award control framework to a future program, it would be difficult for future program officials to do so based on current documentation and without any description of how controls were modified or an assessment of how they worked.

Finally, SBA noted that it has already begun the manual post-award review described in the report. This effort can inform a pre-award controls assessment. For example, if SBA finds a fraudulent or ineligible award, it could subsequently assess why it was not caught by the pre-award controls. Upon completing the manual reviews, SBA could identify changes to the control framework that would benefit future programs. We believe that taking these steps would provide SBA with greater assurance that the RRF controls worked as expected and that the controls could be used for future programs.

- **Control framework and U.S. territories.** SBA disagreed with our recommendation that it assess how its tax verification pre-award control may have adversely affected applicants from U.S. territories (Recommendation 2). In its response, SBA noted 75 percent of applicants from Puerto Rico triggered a manual bank account verification, which took longer than automated verifications. We agree with SBA's point that bank account verification contributed to the discrepancies; we therefore modified our recommendation to focus on the RRF pre-award controls more broadly. For example, SBA could examine why 75 percent of applicants from Puerto Rico had to have their bank accounts manually verified, how long such verifications took, and if the agency could have instituted alternative procedures to mitigate any negative impacts.

  SBA also noted that in a February 2020 report about SBA disaster loans for damage from Hurricane Maria, we did not make any recommendations regarding territory tax processing challenges.[79] However, we cited this report as an example of a time when SBA instituted alternative procedures to address challenges verifying territory residents' tax information. As we describe here and in the 2020 report, SBA granted applicants from Puerto Rico conditional approval for disaster loans while it took additional time to verify tax information.

  While OCA has said it worked with Office of Disaster Assistance to process RRF applicants from U.S. territories, it did not implement the alternative procedures previously used by that office. For example, the RRF documentation does not mention conditional approval or other ways to mitigate territorial processing delays. For part of this controls assessment, SBA could assess if the alternative procedures

[79]GAO-20-168.

described in our 2020 report (or other options) would have helped RRF applicants, and trade-offs to instituting such alternatives.

- **Overdue post-award reports.** SBA disagreed with our recommendation that the agency implement policies and procedures for RRF recipients who do not meet annual reporting requirements (Recommendation 3). In its response, SBA said that ARPA did not mandate a post-disbursement review process. However, SBA chose to institute an annual reporting requirement for RRF recipients. It also included a clear warning on its OMB-approved annual reporting form (just above the signature line) that the agency may require recipients who "fail to submit reports by reporting deadlines" to return some or all of their funds.

  SBA's response noted that its post-award reporting procedures address recipients who fail to provide requested documents, and situations in which SBA cannot verify the use of funds. However, SBA does not have criteria or a definition for when a recipient has failed to meet the annual reporting requirement (e.g., 1 month overdue) or consequences for doing so. Finally, as of June 2022 (6 months after the original deadline), almost one-third of recipients have not submitted their 2021 annual reports, and SBA is unaware of how these recipients are using their awards.

  We believe instituting clear policies about when a recipient has missed the annual reporting deadline and procedures for how to handle overdue reports (including when the agency will pursue fund recovery) would help SBA improve the response rate and have better assurances that recipients are spending funds in eligible categories.

- **Use of enforcement data.** SBA disagreed with our recommendation that it develop procedures to use enforcement data on suspected fraud in other SBA programs to identify potential RRF fraud (Recommendation 6). In its response, SBA said it is currently following procedures to utilize PPP hold code data to identify potential fraud in RRF recipients, but as of June 27, 2022, SBA had not provided documentation or additional information about the procedures. Thus, we modified our recommendation language to include that SBA document these procedures.

  Secondly, SBA said it was not cross-checking RRF recipients with EIDL, specifically because we and the OIG previously reported on EIDL's control weaknesses. However, we believe cross-checking RRF recipients with EIDL recipients would be useful. Fraudsters may attempt to defraud multiple programs and re-use information across programs. For example, as we describe in the report, the alleged RRF fraudster that the DOJ is prosecuting previously applied for EIDL and was denied. The defendant then used the same address on his RRF application and received over $8 million. SBA could regularly cross-check addresses, emails, or other identifiers associated with flagged EIDL, SVOG, or PPP recipients with RRF recipients.

Finally, we know some RRF recipients have been flagged in other programs: SBA's independent auditor found that some RRF recipients also had PPP loans that were flagged and recommended SBA thoroughly review all RRF awards.[80] SBA incorporated RRF recipients with flagged PPP loans into its manual post-award reviews, but SBA has not provided documentation that it regularly conducted such cross-checks. We maintain that regularly cross-checking RRF recipients with enforcement information from other SBA programs would help SBA identify potential fraud in the RRF program and ensure program integrity.

- **Timely fraud response and OIG coordination.** SBA disagreed with our recommendation to develop a plan to address fraudulent and ineligible awards in a timely and consistent manner (Recommendation 7). In its response, SBA noted that it will soon start to manually review all flagged awards that originated from the POS partner with a control weakness, even those that have not certified spending their entire RRF award. We commend SBA for this change in its procedures—when we interviewed SBA officials in March 2022, they maintained they would only review awards flagged for potential fraud upon submission of the final report.

  We still believe that SBA should change its procedures to manually review any award flagged for potential fraud or ineligibility shortly after it is flagged and not when the recipient certifies spending the entire award (which could be almost 2 years after the award was disbursed). Doing so could help SBA to recover funds in a timely manner so that they could be redistributed to eligible applicants in need of assistance (under current procedures, SBA would not be able to redistribute awards recovered after March 2023, when the funds expire).

  SBA also disagreed with the part of our recommendation to coordinate with the OIG. SBA listed the ways it has worked with the OIG on RRF, including responding to OIG requests for information (as would be expected) and referring 46 potentially fraudulent awards to the OIG. Regardless, OIG officials told us that they have had relatively less contact with RRF program officials than with those from other pandemic relief programs and that some information SBA initially

[80] *Independent Auditors' Report on SBA's FY 2021 Financial Statements,* 22-05.

provided on RRF was unclear. OIG officials also said that for other programs, sometimes SBA staff conduct initial research into suspected fraud or pursue recoveries of smaller amounts, and that such actions were useful to the OIG during a time of increased workload.

Furthermore, SBA did not mention any specific coordination on how it should refer suspected RRF fraud to the OIG. Through such coordination, OIG and SBA officials could discuss when SBA should refer suspected RRF fraud to the OIG, information SBA should provide the OIG, and actions SBA could take on its own (such as initial research or pursuing recoveries of smaller awards). Coordinating on these specific actions would help ensure SBA provides the OIG with useful information and help the OIG use its resources efficiently.

SBA partially agreed with our draft recommendation to use data analytics to identify potentially fraudulent RRF recipients (Recommendation 5). In its response, SBA said the agency's Fraud Risk Management Board had identified RRF data analytics as a possible project. SBA also noted that some data analytics had already occurred and specifically pointed to its analysis of awards to identify those that are potentially ineligible. We believe this is a step in the right direction and that a similar analysis to identify potentially fraudulent awards would be beneficial. Such analysis could involve basic steps, such as identifying recipients that used duplicate business addresses or recipients with characteristics similar to those of applicants denied due to suspected fraud (such as sole proprietorships). SBA could then include a sample of these awards in its manual reviews.

SBA agreed with our recommendation that it institute procedures for RRF recipients to report on their operating status (Recommendation 4).

SBA's letter also included an appendix that elaborated on the agency's disagreements with our recommendations and other aspects of the report. For example, SBA included additional detail on public records checks for sole proprietorships and described a bank account status review team. SBA also provided data on applicants from Puerto Rico. SBA noted that the percentage of applicants from Puerto Rico at the stage of IRS verification was lower than applicants from two other states. However, in the two states SBA selected, approximately 30 percent of applicants had received awards, while 12 percent of applicants from Puerto Rico had. Thus, we do not believe this is a fair comparison. The data SBA provided also highlight the challenges applicants from Puerto

Rico faced with bank account verification: approximately 17 percent of applicants from the two states were at the bank account verification stage when RRF funds were exhausted, compared to 28 percent of applicants from Puerto Rico.

The appendix also contained a number of technical comments, which we reviewed and incorporated as appropriate.

We are sending copies of this report to the appropriate congressional committees and the SBA Administrator. In addition, the report is available at no charge on the GAO website at http://www.gao.gov.

If you or your staff have any questions about this report, please contact me at (202) 512-8678 or shearw@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made key contributions to this report are listed in appendix IV.

William B. Shear

William B. Shear
Director, Financial Markets and Community Investment

List of Committees

The Honorable Patrick Leahy
Chairman
The Honorable Richard Shelby
Vice Chairman
Committee on Appropriations
United States Senate

The Honorable Ron Wyden
Chairman
The Honorable Mike Crapo
Ranking Member
Committee on Finance
United States Senate

The Honorable Patty Murray
Chairwoman
The Honorable Richard Burr
Ranking Member
Committee on Health, Education, Labor, and Pensions
United States Senate

The Honorable Gary C. Peters
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The Honorable Rob Portman
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Committee on Homeland Security and Governmental Affairs
United States Senate

The Honorable Benjamin Cardin
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The Honorable Rand Paul
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Ranking Member
Committee on Small Business
House of Representatives

The Honorable Richard E. Neal
Chairman
The Honorable Kevin Brady
Republican Leader
Committee on Ways and Means
House of Representatives

Appendix I: Objectives, Scope, and Methodology

This report examines (1) how the Small Business Administration (SBA) implemented the Restaurant Revitalization Fund (RRF), (2) the characteristics of RRF recipients, (3) SBA's steps to manage risks for RRF and the extent to which these steps align with leading practices, and (4) SBA's efforts to monitor recipients, including identifying fraudulent or ineligible award recipients.

For the first, second, and third objectives, we analyzed SBA's data on RRF applicants (which includes those who applied for but did not receive funding) and recipients.

- **Objective 1.** We analyzed applicant and recipient data to determine the number of applications received and approved per day, the number of applications received through different methods (SBA's portal or external vendors), the amounts requested, and processing times.
- **Objective 2.** We analyzed applicant data to describe funding amount requested, demographic information on the business owner, business location, business type, 2019 gross receipts, and whether the business participated in other SBA pandemic relief programs. From the recipient data, we analyzed funding amount requested, demographic information on the business owner, business location, and business types.
- **Objective 3.** We analyzed the RRF applicant and recipient data to identify potential control weaknesses, such as duplicate business locations and tax identification numbers and awards to potentially ineligible businesses. We also analyzed applicant data to identify the reasons applications were denied, such as potential fraud or ineligibility. In addition, we compared applicant and recipient data to other datasets (described below) to assess RRF pre-award controls.

For these three objectives, we assessed the reliability of SBA's RRF applicant and recipient data by reviewing related documentation, conducting testing to check for outliers and errors, and interviewing agency officials. We determined these data were sufficiently reliable for describing trends in application receipt and processing; recipient characteristics such as business type and location, self-reported characteristics, and revenue; and denial reasons.

In addition to the data analysis, for the first objective, we reviewed SBA documentation and interviewed agency officials. Specifically, we reviewed the RRF implementation plan, program guide, and applicant outreach materials. To describe how SBA plans to assess the performance of the RRF program, we reviewed SBA's RRF logic model (which includes the agency's desired outcomes for the program and the data it will use to assess progress toward the outcomes) and interviewed SBA officials about these efforts.

We also interviewed representatives from seven industry associations representing restaurants, other eligible businesses, and relevant stakeholders to obtain their perspectives on SBA's implementation of the program and their members' experiences with the application process. We selected associations that met at least two of the following criteria: represented different sectors of eligible businesses, had testified about RRF or had significant information about RRF on their websites, and had been consulted by SBA when implementing RRF. We interviewed or obtained written responses from representatives of the American Craft Spirits Association, Distilled Spirits Council of America, Independent Restaurant Coalition, National Federation of Independent Businesses, National Food Truck Association, National Restaurant Association, and United States Hispanic Chambers of Commerce. We also requested interviews with eight other associations that met our criteria, but they declined our requests. For our interview with the American Craft Spirits Association, we interviewed three members who received RRF awards. These views are not generalizable to other associations or all funding recipients but offer important perspectives.

For the second objective, in addition to analyzing RRF applicant and recipient data, we used the Census Bureau's 2019 Statistics of U.S. Businesses data to estimate the number of restaurants per state potentially eligible for RRF. Specifically, we designated "total" restaurants in each state as firms with 500 or fewer employees and a North American Industry Classification System code definition of "Food Services and Drinking Places" (NAICS 722) from the most recent County Business Patterns data from the Census Bureau. While these data do not align with all the eligibility criteria for RRF recipients—such as not having more than 20 locations and receiving 33 percent or more of their revenue from food or drink—they provide reasonable estimates for comparing eligible business populations at the state level. We assessed the reliability of the census data by reviewing documentation and determined the data were sufficiently reliable to estimate the number of eligible businesses per state.

In addition to the state-level analysis for the second objective, we compared median RRF award sizes to recipients across five major cities:

Washington, D.C.; New York, New York; Boston, Massachusetts; San Francisco, California; and Denver, Colorado. The RRF data contained ZIP codes for recipient businesses. Recipient businesses' awards were included in our calculations if their ZIP code fell at least partially within the U.S. Postal Service's city-state boundary based on the Department of Housing and Urban Development's ZIP code to Core Based Statistical Area crosswalk.

For the third objective, to examine SBA's RRF risk management, we analyzed RRF applicant and recipient data and compared these data with SBA's Shuttered Venue Operators Grant applicant and recipient data to identify applicants and recipients of both programs.[1] For a sample of applicants and recipients identified through our analysis, we conducted additional research using public records to verify legal organization, address, and operating status. We also analyzed SBA documentation, such as application review plans and materials provided to application reviewers.

We reviewed SBA's fiscal year 2021 independent financial statement audit and a report from the Pandemic Response Accountability Committee.[2] We also reviewed a criminal complaint about an alleged case of fraud in the RRF program. We interviewed SBA officials and the contractor that developed the RRF portal about pre-award controls designed to verify applicant identity and eligibility and mitigate fraud risk. Finally, we compared SBA's policies and procedures related to managing risks against federal internal control standards and SBA's goals for the RRF program.[3]

For the fourth objective, we reviewed SBA documentation on its post-award controls, including recipient reporting requirements and forms, improper payment testing plans, and an assessment of potentially ineligible awards. We also reviewed SBA's standard operating

[1]RRF applicants were ineligible for the Shuttered Venue Operators Grant program and vice versa.

[2]Small Business Administration, Office of Inspector General, *Independent Auditors' Report on SBA's FY 2021 Financial Statements,* 22-05 (Washington, D.C.: Nov. 15, 2021); and Pandemic Response Accountability Committee, *Small Business Administration Paycheck Protection Program Phase III Fraud Controls* (Washington, D.C.: Jan. 21, 2022).

[3]GAO, *Standards for Internal Control in the Federal Government*, GAO-14-704G (Washington. D.C.: Sept. 10, 2014).

procedures regarding how another SBA program treats potential fraud.[4] In addition, we interviewed SBA officials to better understand post-award controls and fraud detection methods, such as the agency's use of data analytics to identify potential fraud and referrals to the Office of Inspector General. We also interviewed officials from SBA's Office of Inspector General regarding RRF fraud referrals. We compared SBA's RRF monitoring against federal internal control standards, GAO's Fraud Risk Framework, SBA's standard operating procedures, and relevant provisions in the American Rescue Plan Act.[5]

We conducted this performance audit from September 2021 to July 2022 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

[4]Small Business Administration, *Disaster Assistance Program,* SOP 50 30 9 (Washington, D.C.: May 31, 2018). At the time of our review, SBA did not have standard operating procedures for RRF.

[5]GAO, *A Framework for Managing Fraud Risk in Federal Programs*, GAO-15-593SP (Washington, D.C.: July 28, 2015); GAO-14-704G, and 15 U.S.C. § 9009c(c)(6).

Appendix II: SBA Procedures to Verify Restaurant Revitalization Fund Applicants Met Eligibility Requirements

Restaurant Revitalization Fund (RRF) applicants were required to self-certify that they met each of the program's eligibility requirements. The Small Business Administration (SBA) developed a variety of procedures to verify this information, such as automated public records searches and manual reviews of supporting documents (see table 9).

Table 9: RRF Eligibility Requirements and SBA Verification Procedures

Eligibility requirement	Description	SBA verification procedures
20 or fewer locations	Businesses with more than 20 locations were ineligible.	SBA staff generally relied on applicant-provided information on number of locations and affiliates.
Bankruptcy status	Businesses could not have filed for bankruptcy; may be under an approved reorganization plan.	Automated public records searches to check bankruptcy status via SBA's payment system.
Business type	Eligible businesses were those where patrons primarily assembled to be served food or drink.	Automated controls to check IRS tax return data, which include codes from the North American Industry Classification System, to support business type. Certain business types, such as bakeries and inns, had to submit documents to support that at least 33 percent of sales were from on-site food or drink.
Organization type	Certain organizations, such as nonprofits and publicly traded entities, were ineligible.	Applicant self-certification could be supported with SBA's automated controls for other eligibility verification requirements.
SVOG application	RRF applicants could not also have a pending application or have received SVOG funds.	SBA staff conducted a data comparison and matching of RRF and SVOG applicant records.
Operating status	Permanently closed businesses were ineligible.	Automated public records search of information such as Secretary of State filings, unemployment insurance filings, or state business license.
Award amount	Between $1,000 and $5 million per location (not to exceed $10 million for the applicant and any affiliated businesses).	SBA automatically verified award amounts using tax return and PPP information. For larger awards, SBA staff reviewed supporting documentation to confirm requested amount.

Legend: IRS = Internal Revenue Service; PPP = Paycheck Protection Program; RRF = Restaurant Revitalization Fund; SBA = Small Business Administration; SVOG = Shuttered Venue Operators Grant

Source: GAO analysis of SBA documentation. | GAO-22-105442

Appendix III: Comment from the Small Business Administration

U.S. SMALL BUSINESS ADMINISTRATION
WASHINGTON, DC 20416

June 17, 2022

Bill Shear
Director
Financial Markets and Community Investment
U.S. Government Accountability Office
Washington, D.C. 20548

Dear Mr. Shear:

Thank you for providing the U.S. Small Business Administration (SBA) with the opportunity to comment on the Government Accountability Office (GAO) Draft Report titled, "Restaurant Revitalization Fund: Opportunities Exist to Improve Oversight (GAO-22-105442)." The Draft Report discusses (1) how SBA implemented the Restaurant Revitalization Fund ("RRF"), (2) the characteristics of RRF recipients, (3) SBA's steps to manage risks for RRF and the extent to which these steps align with leading practices, and (4) SBA's efforts to monitor recipients, including identifying fraudulent or ineligible award recipients. Of the seven recommendations, there are five recommendations with which we disagree, one with which we agree, and one with which we partially agree. SBA will continue to work with the GAO to provide evidence to eliminate the need for these recommendations.

SBA and the Office of Capital Access (OCA) acknowledge the way in which GAO has highlighted in the Draft Report some of the successes of the RRF program. GAO highlighted the extensive implementation plan that was created through an interagency process to obtain feedback from internal and external stakeholders, such as staff from other SBA offices, congressional committees, the Office of Management and Budget, as well as recommendations from industry associations. GAO also highlighted SBA's broad collaboration efforts with industry associations such as the National Restaurant Association to discuss the restaurant industry's experience with other pandemic relief programs to inform RRF implementation, the Independent Restaurant Coalition to ensure that the RRF program adequately addressed how restaurants categorize expenses and structure ownerships, as well as the 12 focus groups SBA conducted to collect feedback on the application, program guide, and other materials. The more than 40 outreach events—such as webinars, discussions, and roundtables held in multiple languages—with restaurant industry associations and trade associations were able to reach more than 80,000 restaurants.

As a result of these efforts, GAO received positive feedback from representatives of various restaurant industry groups. For instance, in January 2022, the National Restaurant Association reported that 96 percent of RRF recipients responding to the association's survey said the award made them more likely to stay in business. Ninety-two percent of RRF recipient respondents said the award helped them pay expenses or debt that had accumulated since the beginning of the pandemic. As GAO noted in the Draft Report, representatives from six of the seven industry associations GAO interviewed said their members shared positive feedback regarding SBA's outreach efforts and guidance stating that their group members found the RRF program guidance (provided in English as well as 17 other languages) and webinars to be helpful, that the RRF application was easier to complete than applications for other COVID-19 relief programs and that they had positive experiences with SBA's online portal.

GAO also highlighted in the Draft Report that "SBA's emphasis on automated, pre-award controls to prevent fraud reflects some leading practices described in GAO's fraud risk framework." For example, SBA validated applicants' information with third-party data sources and limited applicants' ability to modify their information after submission. **These pre-award controls helped to detect and prevent over 30,000 potentially fraudulent applications from being funded.**

SBA would like to address the instances where the agency has found inaccuracies and mischaracterizations within the Draft Report. Our observations begin with the seven recommendations which GAO has made. Additional areas where SBA disagrees with the assertions from the Draft Report may be found in Appendix A. Appendix B. contains supporting confidential and proprietary documentation to substantiate our observations. SBA is hopeful that GAO will remedy these inaccuracies in its Final Report.

Recommendation 1: *The Associate Administrator for the Office of Capital Access should conduct and document an assessment of the RRF pre-award internal controls and address or mitigate deficiencies.*

SBA disagrees with this recommendation. The RRF Fraud Control Framework is comprised of best-in-class private sector and public sector databases that have been leveraged extensively and cited by the GAO, the Pandemic Response Accountability Committee ("PRAC") and the Office of Inspector General ("OIG") as effective fraud data analytics tools.

1. SBA utilizes the following robust third-party data validation tools from industry leaders including:

    a. IRS 4506-T verification - The IRS 4506-T process begins with the applicant completing the 4506-T form. Once SBA receives the document, it is submitted to the IRS for verification. The IRS checks its records and either returns the Tax Transcripts from the year(s) petitioned that it has on record for the applicant or returns a result of No Record Found. The latter may result when the applicant does not file taxes for the year(s) petitioned, filed a different form than the type of form SBA is requesting, or due to an error that an applicant made while completing the 4506-T form. The IRS 4506-T verification process is used throughout the lending industry to verify income and identify.

b. The SBA leveraged the U.S. Treasury Department's Do Not Pay (DNP) system to screen all approved awards before their disbursement to Restaurant awardees. SBA transmitted Tax ID, DUNS number, Business Name, Trade Name, Address, and email address to DNP for purposes of screening these awards. This control is leveraged widely across various public sector agencies and previous CARES Act programs. DNP has become a gold standard in the public sector, providing services to Federal agencies, federally funded state-administered programs, the Office of Inspectors General, Council of Inspectors General on Integrity and Efficiency, Pandemic Response Accountability Committee, Special Inspector General for Pandemic Recovery.

c. SBA also leveraged a system that allowed RRF awardees to link their commercial restaurant bank account to the SBA's disbursement system. This control allowed the SBA to verify first that the applicant had ownership and domain of the commercial bank account, and second that the bank providing this account had the proper Know Your Customer (KYC) controls and name on the account. If this check failed, and the SBA was unable to validate the payment information provided by the restaurant applicant, a manual review of 3 months of bank statements was completed. The Plaid platform supports over twelve thousand financial institutions and is utilized extensively to mitigate third party funding risk. Applicants could elect to use this service but if they decided to bypass this automated step, this would route them directly for a manual review.

d. SBA leverages LexisNexis via a proprietary STAR Tool operated by Guidehouse to conduct public record searches on a variety of CARES Act programs and utilized this tool to support the RRF program as well. The agency utilized seven rules defined for applicants that covered: incarceration status, bankruptcy, OFAC screening, death roll, TIN matching, public record existence search, and number of business locations. The rules are designed to interrogate both the underlying loan data, as well as comparative data, for indications of noncompliance with eligibility requirements, fraud, or abuse. Automated screening was conducted in STAR. This tooling was utilized before the funding of the RRF award and any exceptions or failures in this control would trigger a subsequent manual review before declination. This tool is used by law enforcement agencies, federal homeland security departments, banking and financial services companies and insurance carriers, legal professionals, and state and local governments. Its database content includes more than 273 million court dockets and documents, over 148 million patent documents, 3.26 million State Trial Orders, and 1.37 million jury verdict and settlement documents. The original iteration of STAR was launched in 2007 and has been subject to continuous enhancement and development. STAR has been deployed on more than 50 projects serving thousands of investigators and millions of transactions and cases across several different types of public sector and commercial financial institutions. All RRF awardees were screened through the STAR tool prior to disbursement.

e. Guidehouse Outwit Complexity Guidehouse has unparalleled experience consulting on financial crime and fraud prevention for both the public and commercial sectors, including all 15 departments of the Federal Government, six branches of military service, 20 of 30 largest global SIB banks, and eight of the top ten U.S. banks. Guidehouse brings together leading public and commercial fraud experts, including former law enforcement agents and former regulators, to offer leading end-to-end technology, data analytics, and data integration solutions that are imperative to combatting fraud. In the Federal space, Guidehouse has performed thousands of engagements, including for the VA, Department of Justice, Department of Treasury, Centers for Medicare & Medicaid Services, the Center for Consumer Information and Insurance Oversight, Defense Health Agency, and the Health Resources and Services Administration.

2. To further strengthen the upfront controls in the RRF program, SBA leveraged the PPP control framework due to its multiple levels of interrogation against PPP borrowers. Ninety percent of RRF recipients had a PPP loan, making the PPP program a key data checkpoint in the RRF approval process. Three key tools that were part of the PPP control framework were:

   a. Aggregate Reviews - This is an additional fraud risk identification process intended to identify otherwise non-obvious relationships between borrowers, owners, lenders, and agents to uncover potential hidden indicia of fraud. The Aggregate Review will be performed on disbursed Phase I and Phase II PPP loans, regardless of whether the loan has previously been forgiven. Using the risks inherent to the PPP – risk of ineligibility and risk of fraud - SBA has identified seven initial criteria that it used to search for networks of loans where the primary focal entity had potential indicia of fraud (“Focal Entity Filters”). Additional risk-based criteria are then applied to the related loans for review. For example, loan patterns were evaluated whereby certain loans associated with borrowers that did not apply for Forgiveness but did apply for a Second Draw were searched for related networks where each loan had: 1) a similar loan amount; 2) a similar payroll amount; and 3) a similar employee count as these characteristics could indicate a fraudulent loan ring. 38,000 Loans were identified for Aggregate Review including loans identified through the "Zip Code" review. (See related Aggregate Review documents in Appendix B.)

b. Usage of Machine Learning Algorithm - Through leveraging a selection of approximately 50,000 manual investigations conducted during the course of the PPP, the SBA was able to develop a random forest machine learning algorithm that utilized both loan-level and external (I.e., information obtained via Lexis-Nexis) features to derive a probability score (ranging from 0.0 - 1.0) for each loan that indicated the likelihood of potential fraud. Using this score, approximately 38,500 loans were prioritized for review, with an additional 25,000 reviewed as related loans to the 38.5k population. (See Draft Machine Learning Technical Paper in Appendix B.)

c. Manual Reviews - 250,000 manual reviews were completed, to date.

3. On June 14, 2022, SBA Office of Inspector General Mike Ware testified before the U.S. House of Representatives Select Subcommittee on the Coronavirus Crisis in a hearing entitled, "Examining Federal Efforts to Prevent, Detect, and Prosecute Pandemic Relief Fraud to Safeguard Funds for All Eligible Americans." IG Ware's published testimony repeatedly referenced fraud in the PPP and COVID EIDL programs, including the absence of controls in the programs in 2020, but made little mention of RRF other than to state that his office is reviewing the program. He stated that the OIG's review of the U.S. Department of Treasury's analysis of processed COVID-19 EIDL and emergency EIDL grants from March to November 2020 revealed that SBA's lack of adequate pre-award controls during this period of review led to 75,180 COVID-19 EIDLs, totaling over $3.1 billion (3.6 million loans), and 117,135 emergency EIDL grants, totaling over $550 million, being disbursed to potentially ineligible recipients. During this time, Treasury DNP and 4506-T validation tools were not being leveraged. For this reason, SBA did not believe COVID EIDL data was an effective data set to rely on, whereas the entire 2021 5.1 million PPP loans had been analyzed through the various data validation tools previously mentioned.

4. SBA believes that its approach to data validation was robust, and the pre-award assessments conducted are sufficient to mitigate the need for this recommendation. As noted in the Draft Report and further described above, SBA utilized the leading industry tools to validate applicant data. With these industry best practices in place, coupled with the other components of the RRF framework, SBA believes that conducting further pre-award assessments may not advance the shared interest of further mitigating the fraud risks that may be present in RRF. Further pre-award controls assessment should not be necessary in light of the strength of the controls implemented as well as a cost-benefit analysis of dedicating additional resources given such robust controls.

Recommendation 2: *The Associate Administrator for the Office of Capital Access should assess how the design of a RRF pre-award control (for tax information verification) may have adversely affected applicants from U.S. territories, and identify and document steps to mitigate this issue for future programs.*

SBA disagrees with this recommendation. The American Rescue Plan Act (ARPA) did not task the SBA with remediating the pre-existing tax reporting delays within the U.S. Territories.

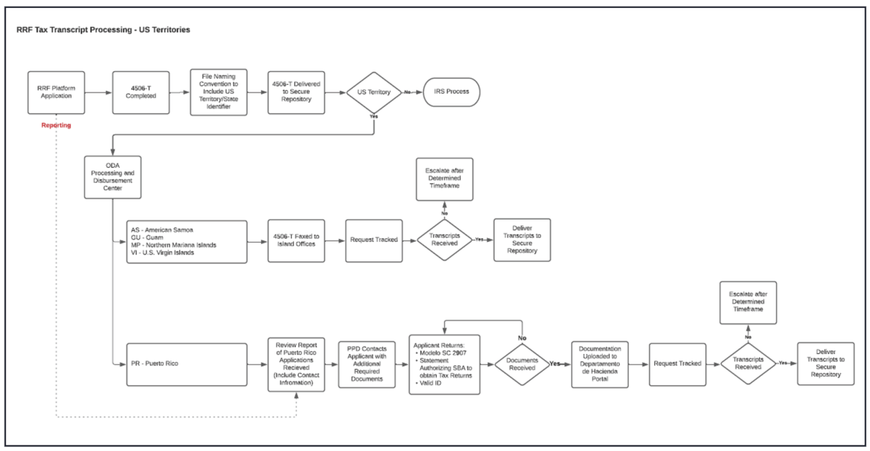
1. SBA has provided direct evidence that the RRF awardee population was not impacted as the result of territory tax processing. As noted in the data provided in Appendix A., Puerto Rico applicants had the same or better IRS tax processing experience than did other US States such as Pennsylvania or Connecticut. In addition, 75% of the Puerto Rico applicants triggered an SBA manual bank account review, further supporting that the IRS processing step was a de minimis factor in the speed of disbursement for RRF award disbursements. So independent of the territory tax treatment, 3/4ths of applications opted voluntarily to forgo the Plaid automated bank account validation and elected to have SBA manually validate their bank account status.

2. SBA would agree that maturity in the general Internal Revenue Service (IRS) and territory tax validation systems should be highlighted as a government-wide opportunity for improvement. This challenge should not be highlighted as a weakness of the RRF program. The challenges with IRS transcript processing and territory tax processing are well-documented challenges for the Federal government.

    a. GAO did not issue any recommendations related to the IRS transcript processing and territory tax processing challenges in its report on Hurricane Maria, which caused extensive damage to Puerto Rico in 2017. In its February 2020 report entitled, “Disaster Loan Processing Was Timelier, but Planning Improvements and Pilot Program Evaluation Needed,” GAO acknowledged delays during Hurricane Maria but did not make any recommendations to SBA to assess or cure the delays. GAO made 5 recommendations in the report, summarized as follows: 1) identify and document risks associated with its disaster response and plans to mitigate these risks in its disaster planning documentation; 2) 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; 3) update the outreach plan to include information on region-specific risks or challenges, such as those encountered after the 2017 hurricanes; 4) establish metrics to measure the success of its outreach efforts during the response to a disaster; and 5) evaluate the implementation of the Express Bridge Loan Pilot Program. None of these recommendations mentioned tax information verification.

    b. Moreover, in recent testimony by the House Small Business Committee Chairwoman Nydia Velázquez stated, "We have seen the Office of Disaster Assistance do good work in response to major disasters, especially in Puerto Rico after Hurricane Maria where ODA provided over $2.2 billion in disaster loans."[1] It should be noted that for RRF, SBA created a process for tax verification in Puerto Rico and other territories based on ODA's procedures and their previous best practices. These procedures were reviewed with IRS directly before the launch of the program. During Hurricane Maria, SBA followed the procedures below:

i. RRF collects an IRS4506-T income verification form
ii. Gives it to ODA via Goldfax Process
iii. ODA will provide to the Processing and Disbursement Center's Pre-Processing Group
iv. Pre-Processing will reach out to the applicant to obtain the 3 different documents that PR require
v. Pre-Processing will interact with PR and the related documents
vi. Pre-Processing will give RRF the end result



c. Finally, the American Rescue Plan made no explicit recommendations to address these tax issues within the territories.

[1] House Small Business Committee Hearing, SBA Management Review: Office of Capital Access, May 18, 2022 quote by House Small Business Committee Chair Nydia Velasquez,
"I understand that SBA plans to transfer all disaster lending to OCA soon. We have seen the Office of Disaster Assistance do good work in response to major disasters, especially in Puerto Rico after Hurricane Maria where ODA provided over $2.2 billion in disaster loans. Can you guarantee this transfer will not compromise the ability of SBA to respond to natural disasters?"

Recommendation 3: *The Associate Administrator for the Office of Capital Access should develop and implement policies and procedures for addressing RRF recipients who do not meet annual reporting requirements.*

SBA disagrees with this recommendation. SBA has post-award policies and procedures in place (See Appendix B for policies and procedures).

1. SBA has taken tangible steps to control for and mitigate fraud risks in its COVID-19 related relief programs by working in tandem with other agencies across the federal government and using a whole-of-government approach to reduce risks. In addition, SBA's fraud risk management framework supports information sharing across SBA programs. As flags and alerts are placed on businesses and business owners, fraud indicators can be applied across various SBA programs, utilizing a whole-of-SBA approach to preventing and detecting, and responding to fraud risks.

   SBA followed an RRF Implementation Plan (please see Appendix B) which was approved by the Office of Management and Budget (OMB).

2. The American Rescue Plan authorizing language for the Restaurant Revitalization Fund requires no post disbursement review process and explicitly authorized the SBA Administrator's discretion to elect to allow recipients of an award to have until March 2023 to exhaust all proceeds. The RRF Program guide explicitly sets forth post award reporting and allows all recipients of awards until March 11, 2023, to exhaust their funds.

3. Here are 2 excerpts from the policy document (See "RRF Process Manual" in Appendix B.):

   a. "What happens if the Awardees Doesn't Comply with Requests for Documents?
      SBA will notify the Awardee that they must return the funds immediately if SBA is not able to properly document the use of funds."

   b. "What Happens if SBA is Unable to verify the Use of Funds?
      SBA will make every effort to collect the required supporting documentation to validate the use of funds. If the awardee is unable to provide the documentation, the awardee will be asked to return the undocumented funds if the covered period has expired. If the covered period has not expired, the borrower will be asked to either return the funds or rescind their submission and resubmit when they have finished using the funds by the end of the covered period. If the business is closed or has been sold, the awardee is expected to return any unused funds. If SBA identifies that the Awardee is being intentionally deceitful or had potentially

committed fraud, SBA will refer the Awardee to the Office of Inspector General as well demand the return of funds.”

Recommendation 4: *The Associate Administrator for the Office of Capital Access should enhance RRF post-award reporting procedures by adding requirements for recipients to report their operating status.*

SBA agrees with this recommendation.

Recommendation 5: *The Administrator of the Small Business Administration should develop and implement data analytics across RRF awards as a means to detect potentially fraudulent award recipients.*

SBA partially agrees with this recommendation. SBA’s Fraud Risk Management Board (FRMB) has identified data analytics as a possible project for RRF. The project scope and target date will be further discussed with FRMB. With the work already being done in this area, further data analytics may not be necessary (Please see “RRF Quality Control Methodology and Analysis FINAL” document in Appendix B. for more details on the data analytics activities to date). SBA also conducted PPP aggregate fraud reviews. These reviews are covered in detail above under our comments on Recommendation 1.

Recommendation 6: *The Associate Administrator for the Office of Capital Access should develop and implement procedures to use enforcement data on suspected fraud in other SBA programs, such as the Paycheck Protection Program (PPP), to identify potential fraud in RRF recipients.*

SBA disagrees with this recommendation. SBA is currently following a set of procedures to utilize PPP hold code data to identify potential fraud in RRF recipients. We are also working with the OIG to obtain enforcement data across all SBA programs.

Below are actions SBA has already taken related to this recommendation:

1. As potentially fraudulent PPP loans are identified by enforcement agencies or via SBA’s own analysis, PPP hold codes are placed in the Capital Access Financial System (CAFS). Those hold codes are leveraged by the RRF system to prevent potentially fraudulent applicants from receiving RRF awards.

2. The ongoing PPP loan aggregate review process coupled with the PPP machine learning has generated 38,000 manual fraud reviews of PPP loans.

3. As a result of the controls during the RRF origination process, zero RRF awards were

made to applicants who had an outstanding PPP hold code.

4. SBA already collaborates with enforcement agencies. We routinely receive document requests from OIG, DOJ and FBI and place the highest priority on delivering the documents to the requestors in a timely manner (See Appendix B. for examples of these requests). SBA has provided access to its data to approximately 25 OIG staff members and created 3 data marts specifically for OIG. We have also partnered with OIG on casework for many investigations (approximately 50 – 60). We have never declined a request to assist OIG. SBA has no prosecutorial authority to investigate suspected fraud.

5. At the time the RRF program was launched, GAO and OIG made several recommendations related to the COVID EIDL program. Therefore, SBA elected to utilize data from PPP instead of COVID EIDL program to help identify potential fraud in RRF recipients.

6. As noted in the previous observation, the Office of Capital Access continues to advance its internal controls and fraud control framework and is in the process of leveraging them in other programs.

7. As previously mentioned, to further strengthen the upfront controls in the RRF program, SBA leveraged the PPP control framework due to its multiple levels of interrogation against PPP borrowers. Ninety percent of RRF recipients had a PPP loan, making the PPP program a key data checkpoint in the RRF approval process. This is significant because over 90% of RRF award recipients had an outstanding PPP loan. SBA OCA performed a portfolio review of all 5.1 million PPP loans originated in 2020. Three key tools that were part of the PPP control framework were:

    a. Aggregate Reviews - This is an additional fraud risk identification process intended to identify otherwise non-obvious relationships between borrowers, owners, lenders, and agents to uncover potential hidden indicia of fraud. The Aggregate Review will be performed on disbursed Phase I and Phase II PPP loans, regardless of whether the loan has previously been forgiven. Using the risks inherent to the PPP – risk of ineligibility and risk of fraud - SBA has identified seven initial criteria that it used to search for networks of loans where the primary focal entity had potential indicia of fraud ("Focal Entity Filters"). Additional risk-based criteria are then applied to the related loans for review. For example, loan patterns were evaluated whereby certain loans associated with borrowers that did not apply for Forgiveness but did apply for a Second Draw were searched for related networks where each loan had: 1) a similar loan amount; 2) a similar payroll amount; and 3) a similar employee count as these characteristics could indicate a fraudulent loan ring. 38,000 Loans were identified for Aggregate Review including loans identified through the "Zip Code" review. (See related Aggregate Review documents in Appendix B.)

b. Usage of Machine Learning Algorithm - Through leveraging a selection of approximately 50,000 manual investigations conducted during the course of the PPP, the SBA was able to develop a random forest machine learning algorithm that utilized both loan-level and external (I.e., information obtained via Lexis-Nexis) features to derive a probability score (ranging from 0.0 - 1.0) for each loan that indicated the likelihood of potential fraud. Using this score, approximately 38,500 loans were prioritized for review, with an additional 25,000 reviewed as related loans to the 38.5k population. (See Draft Machine Learning Technical Paper in Appendix B.)

c. 250,000 manual reviews were completed, to date.

Recommendation 7: *The Associate Administrator for the Office of Capital Access should develop and implement a plan to respond to potentially fraudulent and ineligible RRF awards in a prompt and consistent manner. This plan should include collaboration and communication with the OIG to align efforts to address fraud.*

SBA disagrees with this recommendation. SBA follows and implements procedures to respond to potentially fraudulent and ineligible RRF awards. Most notably, we follow our standard operating procedures and refer any suspicious activities to the OIG.

1. We routinely receive document requests from OIG, DOJ and FBI and place the highest priority on delivering the documents to the requestors in a timely manner (See Appendix B. for examples of these requests).

2. SBA has no prosecutorial authority to investigate suspected fraud.

3. One-hundred thirty RRF awards have been flagged by SBA for suspected fraud. Of those 130, 46 were referred by SBA to OIG. The remaining flagged RRF awards were either sent to us by lenders who referred them to SBA or referrals made by other U.S. enforcement agencies.

4. Lastly, there are an additional 4,150 RRF awards flagged for manual review by SBA that are related to the applications processed by the Square point-of-service vendor that may not have passed through their control framework. If the manual review results in SBA identifying potential fraud, the RRF awards will be referred to the OIG. This month we are commencing the process of manual reviews of Square applicants prior to their full certification of use of proceeds in RRF. We are coordinating directly with Square in the process, too.

Fraud Group's Flagged RRF Awards

Total RRF's Referred to OIG	**46**

RRF's Only Referred (6 ROF's and 3 ID Thefts)	9
RRF's with PPP/PPS Referred (1 ROF and 1 ID Theft)	37
RRF's Referred to SBA by OIG/USSS/FBI (document requests)	**51**
Lender referrals (related PPP/PPS loans related to Indictments)	**31**
News Articles related to Indictments	**2**
Total RRF's Flagged	**130**

5. To Expand Efforts to Aggressively Crack Down on Bad Actors and Prevent Fraud in Programs, the Administrator of the SBA enacted the following measures, announced April 1, 2022[2]:
    a. The designation of Peggy Delinois Hamilton to a new role as SBA Special Counsel for Enterprise Risk to advise Administrator Guzman on fraud and risk management activities across the Agency.
    b. The creation of the SBA's Fraud Risk Management Board (FRMB) to provide anti-fraud oversight and coordination.
    c. Consistent with new efforts to bring bad actors to account for their fraudulent acts, the SBA fully supports the work of the Interagency COVID-19 Fraud Enforcement Taskforce and DOJ's Chief Pandemic Prosecutor and Director for COVID-19 Fraud Enforcement. The SBA believes these new initiatives can enhance the Agency's fraud risk framework and further strengthen its fraud risk mitigation efforts.

We appreciate the opportunity to comment on this Draft Report and recommendations, and for taking our views into consideration. Please see Appendix A. which contains the other observations where SBA disagrees with GAO assertions made within the Draft Report and Appendix B. which contains a list of confidential and proprietary documentation which supports our observations.

Sincerely,

Patrick Kelley
Associate Administrator
Office of Capital Access
U.S. Small Business Administration

Appendices

[2] Administrator Guzman Announces Expanded Efforts to Aggressively Crack Down on Bad Actors and Prevent Fraud in Programs (sba.gov)

Appendix IV: GAO Contact and Staff Acknowledgments

GAO Contact

William B. Shear, (202) 512-8678 or ShearW@gao.gov

Staff Acknowledgments

In addition to the contact name above, Lisa Moore (Assistant Director), Miranda Berry (Analyst in Charge), Ranya Elias, Daniel Flavin, Toni Gillich, Nicholas Jones, Jill Lacey, Ying Long, John McGrail, Colleen Moffatt Kimer, Barbara Roesmann, and Jena Sinkfield made significant contributions to this report.

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