

Congress of the United States
U.S. House of Representatives
Committee on Small Business
2501 Rayburn House Office Building
Washington, DC 20515-0515

November 20, 2020

The Honorable Jovita Carranza
Administrator
U.S. Small Business Administration
409 3rd Street, S.W.
Washington, D.C. 20416

Dear Administrator Carranza:

We write today to inquire into the status of the Small Business Administration's (SBA) Economic Injury Disaster Loan (EIDL) program, which has been a lifeline for small businesses across the country throughout the pandemic. We acknowledge SBA had to process more disaster loans and advances than for all other disasters in the agency's history quickly to get money into the hands of small business owners across the country. However, the operation of such a large program cannot be without challenges, and as Chairwoman of the House Committee on Small Business, and Chairwoman of the Subcommittee on Investigations, Oversight, and Regulations, we want to ensure the economic relief programs are operating effectively.

To date, Congress has appropriated \$70 billion for EIDLs and \$20 billion for EIDL Advances, supporting \$366 billion in new lending. Yet, the publicly available data does not provide the necessary detail to determine the effectiveness of EIDLs or the precise amount remaining in the fund. The opaqueness of the EIDL process and lack of detailed data is concerning, and we believe greater transparency between SBA, EIDL applicants, and Congress is necessary to strengthen the program.

Moreover, on October 28, 2020, SBA's Office of Inspector General (OIG) released a report detailing concerns of fraud and potential fraud in the EIDL program. We are particularly concerned with the Inspector General's (IG) findings on the lack of internal controls in the EIDL review process, leading to many fraudulent advances and loans being approved. While we understand SBA had to act quickly to get money into the hands of small business owners, having the proper internal controls in the program is vital to prevent waste, fraud, and abuse.

Moving forward, we want to ensure the EIDL program is operating with minimal fraud, SBA can quickly and easily identify improperly disbursed loans, and the agency has the ability to recover the taxpayer dollars identified as fraudulent. We are committed to working in conjunction with SBA and OIG to address concerns in as fair and effective a manner as possible. To that end, we request SBA provide the following documentation to the Committee by December 11, 2020:

- Copies of contracts with SBA EIDL contractors and subcontractors, including non-disclosure agreements between the parties, related to SBA's Office of Disaster Assistance COVID-19 work; and
- Copies of emails from SBA to Disaster Assistance Processing and Disbursement subcontractors as footnoted on pages 25 and 26 of the October 28, 2020 OIG report.

In addition to these documents, we request SBA provide answers to the following questions no later than December 11, 2020:

1. In SBA's official response to the October OIG report, SBA partially agreed with the OIG's recommendation to continue "to expand and strengthen controls for the COVID-19 EIDL Program."¹ Please list the internal controls SBA is putting in place to satisfy the closing of this recommendation.
2. In the October OIG report, the IG cited additional controls put in place in August by SBA in response to their July 28, 2020 report. Has SBA conducted an analysis on the loans approved and disbursed after these controls were put in place to determine if the controls helped mitigate fraud?
 - a. If so, what are the results of this analysis?
3. At the July 17, 2020 House Small Business Committee hearing, you testified the \$150,000 cap on EIDLs was a policy decision made to provide funding to as many small businesses as possible until the funds ran out in August. However, in November, there are still funds remaining in the EIDL program that have yet to be disbursed. What steps is SBA taking to reassess the cap on EIDLs?
 - a. What analysis has SBA done to date to determine the appropriateness of the cap policy and what are the results of that analysis?
 - b. What is the amount of funding remaining the EIDL program?
 - c. Of the remaining funds, how much is committed but not disbursed?
 - d. How many new EIDL applications does SBA receive each week?
 - e. How many EIDL applications is SBA processing each week?
 - f. How many EIDL applications are currently pending in the queue to be processed?
 - g. On what day can Congress and EIDL applicants expect the cap to be lifted?
 - h. Will previous EIDL recipients be able to access more funds from the program once the cap is lifted?
4. On page 51 of the October OIG report, SBA stated they would "review a sampling of loans that had a bank account number changed prior to disbursement which did not pass through the established bank account validations." What are the results of this sampling?

¹ U.S. Small Business Administration, Office of Inspector General, Report Number 21-02, Inspection of Small Business Administration's Initial Disaster Assistance Response to the Coronavirus Pandemic (2020) at 34.

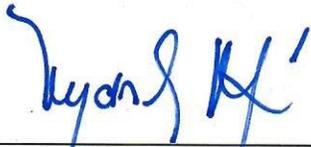
5. Who at SBA is tasked with overseeing the review of potentially fraudulent disbursed loans?
6. How does SBA plan to recover disbursed funds from fraudulent loans?
7. Will recovered fraudulent EIDL funds be returned to the EIDL program for redistribution to new eligible applicants?
8. In SBA's official response to the OIG report, you stated the report's "findings and figured are inflated and rest on hasty, incomplete conclusions."² What specific methodologies used in the OIG's analyses does SBA management believe to be insufficient or misleading?
9. SBA's response to the OIG included a list of internal controls it has implemented and noted controls specific to the COVID-19 EIDL program.
 - a. Please explain the effectiveness of each of the internal controls specific to COVID-19 EIDL in identifying and stopping fraud.
 - b. How have each of these internal controls been implemented? *Please include the date on which each control was implemented.*
10. Did SBA conduct a risk assessment to validate the effectiveness of its security controls in its COVID-19 EIDL application and portal? If yes, please summarize the results.
11. The OIG report stated one potential weak point in SBA's EIDL internal controls was the abandoning of the "Rule of Two" during EIDL processing. What mechanisms in either SBA's, EIDL contractors', or EIDL subcontractors' information review systems are equivalent to human review and were determined to be sufficient to replace the traditional "Rule of Two" review?
12. Please describe the communication chain between SBA management, SBA personnel, and EIDL contractors and subcontractors including:
 - a. How internal control information was disseminated to SBA personnel, contractors, and subcontractors;
 - b. Schedule of meetings, check-ins, consultations between SBA, EIDL contractors, and EIDL subcontractors; and
 - c. How SBA management received and addressed concerns from SBA personnel, EIDL contractors and subcontractors regarding potentially fraudulent loans, internal controls, or EIDL processing requirements.
13. How were SBA personnel, contractors, or subcontractors directed to present concerns over potentially fraudulent loans?
 - a. When was this process created?
 - b. Have there been any changes to this process since the CARES Act was enacted?
 - c. Who at SBA is tasked with managing contractor and subcontractor concerns?
14. When and how did SBA communicate to its contractors it was abandoning the "Rule of Two" for COVID-19 EIDLs?
15. How did EIDL automation work and how did it identify potentially fraudulent loans?
 - a. How did the automated process identify cases of synthetic fraud?
 - b. At any point in time, did SBA direct its personnel, EIDL contractors or subcontractors to run applications through the automated process a second time with fewer fraud controls to expedite the processing of the loans. If yes, what fraud controls were bypassed?

² U.S. Small Business Administration, Office of Inspector General, Report Number 21-02, Inspection of Small Business Administration's Initial Disaster Assistance Response to the Coronavirus Pandemic (2020) at 43.

16. On page 48 of the OIG report, SBA states “the Draft Report provides no support for the counterintuitive notion that individuals manually examining individual applications can spot trends that an algorithm cannot.” How did the algorithm better identify potentially fraudulent loans than manual review? Please provide examples.
17. SBA needed to quickly staff up to meet small business need for COVID-19 EIDLs. How did SBA train new employees?
 - a. What specific steps were taken to ensure new employees could identify potentially fraudulent loans?

Thank you in advance for your prompt attention to this request.

Sincerely,



Nydia M. Velázquez
Chairwoman
House Committee on Small Business



Judy Chu
Chairwoman
Subcommittee on Investigations,
Oversight, and Regulations