

Top Management and Performance Challenges

Facing the Small Business Administration in Fiscal Year 2026

Report 26-01 | December 18, 2025



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NOTICE:

Pursuant to the James M. Inhofe National Defense Authorization Act for Fiscal Year 2023, Public Law 117-263, Section 5274, any nongovernmental organizations and business entities identified in this report have the opportunity to submit a written response for the purpose of clarifying or providing additional context as it relates to any specific reference contained herein. Comments must be submitted to AIGA@sba.gov within 30 days of the final report issuance date. We request that any comments be no longer than two pages, Section 508 compliant, and free from any proprietary or otherwise sensitive information. The comments may be appended to this report and posted on our public website.



Message From the Deputy Inspector General



Deputy Inspector General
Sheldon Shoemaker

Each year, in accordance with the Reports Consolidation Act of 2000, the U.S. Small Business Administration (SBA) Office of Inspector General (OIG) provides a vital assessment of the agency's top management and performance challenges. It is our statutory responsibility to detect and deter fraud, waste, abuse, and mismanagement in agency programs and services.

While the immediate economic crisis of the Coronavirus 2019 pandemic is behind us, the vulnerabilities it exposed are not. These persistent challenges — including improper payments, ensuring program eligibility, and strengthening internal controls — are not relics of the past. They are systemic issues that continue to challenge SBA's flagship capital, contracting, counseling, and disaster assistance programs. Our work remains focused on how these risks persist and how we can best support the agency in mitigating them for the future.

OIG has conducted a significant body of work to inform this assessment. Our audits have explored critical areas, such as the effective use of technology and

the alignment of technology with the comprehensive review of eligibility criteria, which are essential safeguards against fraud and abuse. We are actively engaged with our strategic partners to further use the U.S. Department of the Treasury's Do Not Pay system and other measures to identify and eliminate improper payments. As SBA pursues new priorities, such as an increased focus on manufacturing loans, we are committed to providing independent and objective oversight of these and other critical SBA programs to promote effective and efficient implementation.

We recognize that SBA has undergone significant changes in its operations, including organizational restructuring and workforce reductions. Our continuing oversight will consider the effects of these changes on program operations within our prioritized work. Our partnership with SBA is vital to our shared goal of protecting the integrity of the agency's programs. We acknowledge SBA's continued commitment to being responsive to our recommended corrective actions.

The nation can depend on OIG to continue to leverage our strategic partnerships and risk-based approaches to identify and address the most serious challenges facing SBA. Our ultimate goal is to improve the integrity, accountability, and performance of the agency's programs, ensuring they operate as effectively as possible for the American people and are free from fraud, waste, and abuse.

Sheldon Shoemaker
Deputy Inspector General

Introduction

The *Top Management and Performance Challenges Facing the Small Business Administration (SBA) in Fiscal Year (FY) 2026* is an important tool to help the agency prioritize its work to improve program performance and enhance operations. OIG remains committed to protecting the interests of American taxpayers by promoting positive change within SBA and across government, ensuring taxpayer dollars are spent efficiently according to intent.

Identification of an issue as a top challenge does not necessarily denote significant deficiencies or lack of attention on SBA's part. Many of the challenges are longstanding, inherently difficult, and will likely continue to be challenges in the coming years. Addressing the challenges will require consistent attention from agency management and ongoing engagement with Congress, the public, and other stakeholders. We continue to collaborate with SBA program officials in identifying and mitigating the top challenges and associated issues facing the agency.

Table 1: Top Management and Performance Challenges Facing SBA in Fiscal Year 2026

Challenge	Issues
Challenge 1 Protecting the Integrity of SBA Programs	Managing Fraud Risk Improving Verification of Eligibility Mitigating Improper Payments Seizure and Return of Funds
Challenge 2 Managing SBA's Loan Portfolio and Participating Lenders	Servicing Disaster Loans Planning and Modeling for Future Disaster Responses Overseeing Lenders
Challenge 3 Measuring Performance and Monitoring SBA Programs	Measuring Program Performance Monitoring Program Performance Results Ensuring Funds Are Used as Intended
Challenge 4 Financial Reporting and Managing Data	Improving Internal Controls Through Financial Statements Audit Remediation Authorized Data Sharing

Challenge 5

Managing Risks in Information
Technology Systems

- [Improving Information Technology Systems Management](#)
- [Preparing for Artificial Intelligence Challenges](#)
- [Deploying and Monitoring New Third-Party Systems](#)
- [Cybersecurity and Modernization](#)



Challenge 1:Protecting the Integrity of SBA Programs

The SBA provides loan guaranties, direct disaster assistance loans, government contracting certifications, and business development programs to qualifying small business owners, entrepreneurs, and those recovering from a declared disaster. SBA's challenge is to fulfill its mission of quickly delivering services and capital while also protecting the integrity of its programs. A strong internal control environment will help mitigate this challenge. Agency leaders have implemented new verification measures to ensure only eligible Americans benefit from SBA programs.^A We will continue to provide oversight as the agency moves forward with fraud protection efforts.

Managing Fraud Risk

SBA's four pandemic relief programs delivered 22.1 million loans and grants to help eligible small business owners and entrepreneurs. SBA used limited front-end fraud detection internal controls when it initially distributed the \$1.2 trillion.¹ The agency was following legislative requirements intended to expedite aid to small business owners adversely affected by the pandemic.

The challenge of managing fraud risk continues as SBA conducts post-payment automated and manual reviews of Paycheck Protection Program (PPP) loans. Post-payment reviews are when loans are examined for eligibility after the funds have already been paid to the borrower and forgiven. PPP borrowers can continue to apply for forgiveness for up to 5 years from the issuance of the loan, so through 2026. The statutes of limitations for fraud in the PPP and Coronavirus 2019 (COVID-19) Economic Injury Disaster Loan (EIDL) program were extended from 5 years to 10. In most cases, the U.S. government will have until 2032 to prosecute wrongdoers and return misused and fraudulently obtained funds to taxpayers.

In a recent management advisory, we reported how SBA presumed that post-payment reviews of PPP loans would offset the risks of eliminating key up-front internal controls.² SBA started flagging these loans for review in July 2021; however, as of May 2024, SBA had not completed reviewing 37,938 loans totaling about \$4.6 billion. According to the agency, these reviews are ongoing and will continue as resources allow. SBA is drafting a recovery plan for any loans deemed ineligible. For loans suspected of fraud, SBA did provide information to lenders on how to refer PPP loans, but the agency did not always keep record and review the referrals.

^A SBA, News Release 25-42, "SBA Highlights Range of New Measures to Stop Fraud" (April 10, 2025).



Example of a Massive Scheme to Defraud SBA Preferred Lenders

Fourteen defendants were arrested in a global criminal network charged with conspiracy to defraud the government in obtaining over \$25 million in taxpayer-funded federally guaranteed small business loans and pandemic relief funds over a period of 7 years.

One ringleader allegedly defrauded numerous banks and the SBA Preferred Lender Program, a program designed to help small businesses that otherwise might not obtain financing.

He allegedly directed sham corporations to open bank accounts, make false statements, and concoct documents to support loan applications. He also allegedly purchased phony tax returns that falsely reported millions in revenue.

[U.S. Attorney's Office](#)
[Central District of California](#)

The federal government does have a front-end fraud detection system in place. The U.S. Department of the Treasury's Do Not Pay system is available to help verify applicant eligibility for loans or grants before they are issued. The Do Not Pay system is a series of databases designed to prevent and detect improper payments to those not eligible for government funds because of past fraudulent activity or other high-risk factors. SBA eventually started using the Do Not Pay system for its pandemic assistance programs. The agency is in the process of adding additional front-end verification checks that include Do Not Pay for disaster assistance, 7(a), and 504 program loans.

We also found SBA performed limited oversight of non-bank lenders and lender service providers even though the agency had processes in place. After the non-bank lenders and service providers were approved to become PPP lenders, SBA could have better assessed the risk of allowing them to continue to operate in the program. We found that non-bank lenders made \$14.2 billion in suspected fraudulent loans at a rate more than five times higher than loans made by traditional bank lenders. We also found the rate of suspected fraudulent loans made by lenders using service providers was more than three times the rate of loans processed by lenders that did not use a service provider. For more on this topic see our [Overseeing Lenders](#) section.

In 2023, SBA adopted several new changes to its flagship 7(a) loan program that dramatically reduced underwriting standards. Ultimately, these changes increased potential risk. Many of these changes were reversed in 2025;

however, the loans made during that time remain susceptible to increased risk and financial loss.⁸

Our investigative work has revealed a pattern of fraud by loan packagers and other fee-based agents in the 7(a) loan guaranty program. We found SBA's loan programs are susceptible to borrower fraud from false statements and documentation, misrepresentation of equity injections, and misuse of proceeds. These patterns of fraud continue to pose a risk to taxpayer resources due, in part, to SBA allowing applicants to attest to their own eligibility (see [Improving Verification of Eligibility](#)).

This past year, the agency has expanded the chief financial officer's role to include ensuring agency-wide risk factors are monitored and mitigated. An effective risk management program is sustained by implementing corrective actions and strengthening internal controls, ultimately reducing fraud and enhancing program integrity for current and future programs.

Improving Verification of Eligibility

SBA should obtain evidence to verify an applicant's compliance with program requirements before issuing loans, grants, or conferring certifications. The agency should be able to ensure only eligible applicants receive program benefits. One of the biggest challenges in this area is self-certification. Self-certification is when a person is allowed to make an official declaration that their business complies with standards set for that program without independent evidence. Requiring participants to provide supporting documentation could mitigate the risks associated with self-certification.

We found that SBA allowed self-certification in the Small Business Innovation Research and Small Business Technology Transfer programs. Business owners were asked to submit and verify reports, sales, and investments documentation, but SBA then did not always review the material.³

SBA also allowed applicants to the Restaurant Revitalization Fund (RRF) and Shuttered Venue Operators Grant (SVOG) pandemic relief grant programs to self-certify their eligibility.⁴ Applicants attested that they qualified by both industry and operational status during the eligibility period. We found this self-certification made the programs vulnerable to fraud or misuse. SBA has not made progress in resolving multiple audit recommendations for SBA to review billions in grant awards. Progress had been delayed as the agency contemplated recovery strategies. SBA plans to recover funds for any improper payments made to RRF recipients starting in FY 2026. However, it remains that agency managers will only review 10,050 awards, despite OIG identifying over 61,000 awards that lacked sufficient support to determine whether the payment was made to an eligible entity. This means the agency could miss the opportunity to recoup over \$9.5 billion in potentially improper RRF payments.

⁸ SBA, News Release 25-41, "SBA Initiates Actions to Reverse Biden-Era Mismanagement of Core 7(a) Lending Program" (March 27, 2025).

Another area of concern is the verification of eligibility for SBA contracting certifications. The U.S. government is the largest single purchaser of goods and services in the world, awarding over \$760 billion in prime contracts annually. Congress established SBA contracting certification programs to ensure that a fair proportion of federal awards and subcontracts are awarded to small businesses. Congress intended for these programs to assist small businesses with overcoming the complexities of the federal contracting system. The programs were intended to help build stronger businesses, expanding competition in the marketplace and strengthening the overall U.S. economy.

SBA works to maximize opportunities for small businesses in government contracting, but because it relies on self-certification for a key eligibility requirement, fraudsters can take advantage of the programs.

SBA has seen unscrupulous business owners misrepresent themselves to compete for a contract set aside for a disadvantaged small business, capitalizing on the smaller pool of applicants and taking away the opportunity from an eligible and deserving small business. Fraud in these contracting certification programs contradicts the intent of the congressional mandate to support small business.

OIG investigators currently have 27 cases involving allegations of firms not meeting contracting program requirements, including in the 8(a) Business Development, Women-Owned Small Business, Service-Disabled Veteran-Owned Small Business, and Historically Underutilized Business Zone (HUBZone) programs.

In our reviews of the HUBZone and Women-Owned Small Business programs, we recommended SBA check each business seeking these certifications to ensure they can be categorized as “small.”⁵ SBA decided instead to continue to rely on small business owners attesting that they meet these requirements. The agency has maintained its position that



Example of Contracting Certification Fraud

A Wisconsin woman who was the owner of a Milwaukee HUBZone-certified construction company pled guilty to one count of false statements. She falsely certified her construction company met HUBZone eligibility requirements and complied with rules and procedures. She also falsely certified that she had no affiliate business. She solicited 15 HUBZone set-aside contracts on behalf of her company and was awarded 7 HUBZone set-aside contracts worth \$4.7 million. She did not comply with the subcontracting rules requiring her construction company to perform at least 15 percent of the cost of HUBZone contract performance. She did not disclose to SBA that employees of another construction company exercised control over the management and decision-making process of her business.

We investigated this case with the assistance of the U.S. Department of Transportation OIG, FBI, General Services Administration OIG, Army Criminal Investigation Division, and Department of Defense OIG.

DOT OIG
Investigations

self-certification is the most efficient method, but agreed to implement procedures to monitor contract volume and provide additional training to mitigate the risk of HUBZone firms outgrowing their size.

Relying on self-certification without any verification perpetuates a system in which ineligible business owners can obtain benefits meant for disadvantaged businesses, depriving these business owners of the opportunities that should rightfully be theirs under the statute. Unscrupulous business owners can make unsupported claims to attest they are eligible for these certification programs in SAM.gov or SBA's Small Business Search Database. Federal contracting officers check these databases when awarding a set-aside contract; however, the veracity of the information is not verified by any federal entity.

Given these vulnerabilities across SBA's loan, grant, and certification programs, it is vital the agency implement robust review procedures when conducting eligibility reviews. For certification programs, these reviews could include checking for indicators that a business still qualifies according to size standards. Such mitigating steps can protect program integrity and support SBA's recent focus to comprehensively review 8(a) Business Development program participants and federal contracting officers who awarded contracts to these businesses over the last 15 years.^c

Mitigating Improper Payments

An improper payment is one that should not have been made or was made in an incorrect amount, including overpayment or underpayment, under a statutory, contractual, administrative, or other legally applicable requirement.^d

Agencies are required to review and assess programs to identify those susceptible to significant improper payments and report estimates, corrective action plans, and reduction targets to Congress. However, SBA did not always have acceptable practices and processes to calculate accurate estimates of improper payment rates for some of its programs during the last fiscal year, raising concerns about whether there were problems and the extent of them.⁶

Prior and ongoing OIG audit work has identified 7(a) and PPP loans given to borrowers who were ineligible, resulting in improper payments. OIG's independent public accounting firm found SBA did not publish improper and unknown payment estimates for the SVOG program or for multiple

^c SBA, News Release 25-56, "Administrator Loeffler Orders Full-Scale Audit of 8(a) Contracting Program" (June 27, 2025).

^d Office of Management and Budget, M-21-19, "Transmittal of Appendix C to OMB Circular A-123, Requirements for Payment Integrity Improvement" (March 5, 2021).

programs under the debt relief program, according to our report on SBA's FY 2024 compliance with the Payment Integrity Information Act.

In FY 2024, SBA largely employed adequate and appropriate sampling and estimation methodology plans for each of its seven programs that reported an improper payment rate, a notable improvement from FY 2023.

However, the independent public accountant noted SBA placed undue reliance on its statisticians executing the plans without the appropriate level of oversight and quality control. Further, SBA had data quality issues that affected the improper payment rates for multiple programs due to an inadequate review process.

The independent public accountant also noted SBA published ineffective corrective action plans for the PPP loan forgiveness and the PPP loan guaranty purchase programs. In addition, they found SBA did not accurately disclose the improper payment reduction targets in the annual financial report for six programs.

Payment integrity actions, such as accurately measuring and reporting an agency's improper payment rate, will help to reduce fraud, waste, and abuse in government programs. These actions enhance program missions, efforts to advance equity, efficiency, and customer experience.

Over the past several years, SBA has initiated several corrective actions to enhance and develop additional controls to address loan reviews, loan forgiveness, and fraud, including establishing

POTENTIAL FRAUD RISKS



NEW PROGRAM

When an agency launches a new program (particularly in times of crisis), there will be start-up issues and an internal learning curve. Fraudsters will exploit issues and capitalize on any delays to fix them.



SELF-CERTIFICATION

Relying on applicants to attest to their eligibility opens a program to fraudsters. Don't trust until you verify eligibility with evidence.



HIGH DEMAND

The higher the volume of payments being distributed (like in a crisis), the easier it is for one or many to land in the wrong hands.



THIRD-PARTY PROCESSORS

Payment decisions should be the responsibility of program officials, rather than service providers. We found a higher occurrence of fraud when decisions were made by those outside the agency, in addition to the added incentive of increasing service provider fees for larger loan/grant amounts.



ABSENCE OF DATA MATCHING

One way to avoid making improper payments is to create, update, and use government-wide databases, such as Treasury's Do Not Pay system.

Source: OIG figure adapted from Yellowbook-CPE.com, using GAO's Standards for Internal Control in the Federal Government

guidelines for loan and forgiveness reviews. Although many of SBA's efforts to mitigate improper payments are for pandemic assistance programs, learning from past mistakes will help the agency mitigate improper payments in its traditional programs moving forward.

SBA's implementation of a robust framework and ensuring its effectiveness will help mitigate this challenge. SBA has also adopted several new verification measures within its loan application process that will strengthen protections against fraud to ensure its programs only benefit eligible Americans, including citizenship verification, date of birth verification, and automatic fraud alerts.^E

Seizure and Return of Funds

SBA, SBA OIG, and our external law enforcement partners are continuing to work together to seize or return pandemic-related program funds that remain frozen at financial institutions. SBA is also working to claw back funds the agency has determined to be improper payments including loans flagged as potentially fraudulent. Recovery can be time consuming because it can involve coordination with other government entities and law enforcement agencies. This is a challenge given the volume of loans in SBA's portfolio and the applicable statutory timeframes. SBA is working collaboratively with the Department of Justice, Treasury, and OIG officials to mitigate this challenge.

In the FY 2024 financial statements audit, OIG's independent public accountant identified significant issues in the agency's accounting for the PPP, COVID-19 EIDL, RRF, and SVOG programs.⁷ Because these programs are either in the servicing or post-payment review phases, SBA needs to improve the process to recover funds or identify funds that need to be recovered. Further, the independent accountant found SBA managers did not adequately design and implement controls or develop accounting policies to account for the recovery of funds related to these programs (see [Challenge 4](#) for more discussion on this issue).

Our audits of SBA's oversight of RRF and SVOG recipients also found management did not establish a process to recover funds from these programs.⁸ Subsequently, SVOG program officials sent letters requesting a return of funds to recipients who were found to be ineligible for the award or who improperly used award funds.⁹ During FY 2025, SBA drafted a policy for recovering RRF funds and plans to implement a process in FY 2026.

SBA's challenge is to enforce its current guidance for returning loan funds and standardize procedures on clawing back funds. Recently, SBA established a process to recover SVOG awards that were either sent to an ineligible recipient or used for improper expenses. SBA has also recently drafted a plan to account for the recovery of improperly paid PPP and COVID-19 EIDLs. For RRF awards, SBA needs to finalize a process to recover funds. The agency is still working through finalizing

^E SBA, News Release 25-42, "SBA Highlights Range of New Measures to Stop Fraud" (April 10, 2025).

policies for clawing back PPP loans that were found to be ineligible after forgiveness. We will monitor SBA's progress and actions to close this recommendation. Regarding seized and frozen pandemic-related program funds, SBA developed a procedural notice to provide guidance to borrowers, lenders, and other financial intermediaries on how to return the PPP loan funds to SBA. OIG will continue to evaluate the effectiveness of the processes.

OIG Highlighted Work

¹ *COVID-19 Pandemic EIDL and PPP Loan Fraud Landscape* ([Report 23-09](#))

² *SBA's Actions to Address Forgiven PPP Loans Subsequently Flagged as Potentially Ineligible* ([Report 25-12](#))

³ *SBA's Implementation of the SBIR and STTR Extension Act of 2022* ([Report 24-14](#))

⁴ *SBA's Restaurant Revitalization Fund Program Award Practices* ([Report 24-09](#)); *SBA's Oversight of Shuttered Venue Operators Grant Recipients* ([Report 25-21](#))

⁵ *SBA's Implementation of the Women-Owned Small Business Certification Program* ([Report 22-20](#)); *SBA's Oversight of HUBZone Program Participants' Continuing Eligibility* ([Report 24-23](#))

⁶ *Independent Auditors' Report on SBA's FY 2024 Compliance with the Payment Integrity Information Act of 2019* ([Report 25-15](#))

⁷ *Independent Auditors' Report on SBA's FY 2024 Financial Statements* ([Report 25-05](#))

⁸ *SBA's Restaurant Revitalization Fund Program Award Practices* ([Report 24-09](#)); *SBA's Oversight of Shuttered Venue Operators Grant Recipients* ([Report 25-21](#))

⁹ *Improvements Needed in SBA's Shuttered Venue Operators Grant Post-Award Review Process* ([Report 24-21](#))



Challenge 2: Managing SBA's Loan Portfolio and Participating Lenders

SBA provides entrepreneurs looking to start, grow, or expand their small businesses access to financial assistance through several business loan programs. The 7(a) loan program is SBA's principal vehicle for providing small business owners and entrepreneurs with access to credit they cannot obtain elsewhere. This program relies on numerous outside parties (such as loan agents and lenders) to originate loans. By statute, the 7(a) loan guaranty offered through private lending institutions is required to operate at "zero-subsidy," or zero cost to taxpayers, and is funded through the collection of lender fees. SBA has recently restored lender fees and increased underwriting standards for loan guaranties, which were eliminated or lowered in 2023.^A To protect taxpayer dollars, SBA must maintain adequate oversight of financial institutions participating in its guaranteed loan programs.

SBA also provides long-term, low-interest direct disaster assistance loans to businesses of all sizes, private nonprofits, homeowners, and renters following a declared disaster. The agency is tasked with handling the long-term loan servicing of the COVID-19 EIDL program, which is a loan portfolio of about 3.8 million loans — over 14 times what the agency was managing before the pandemic. SBA's challenge is to effectively service this large volume of disaster loans and recover delinquent funds.

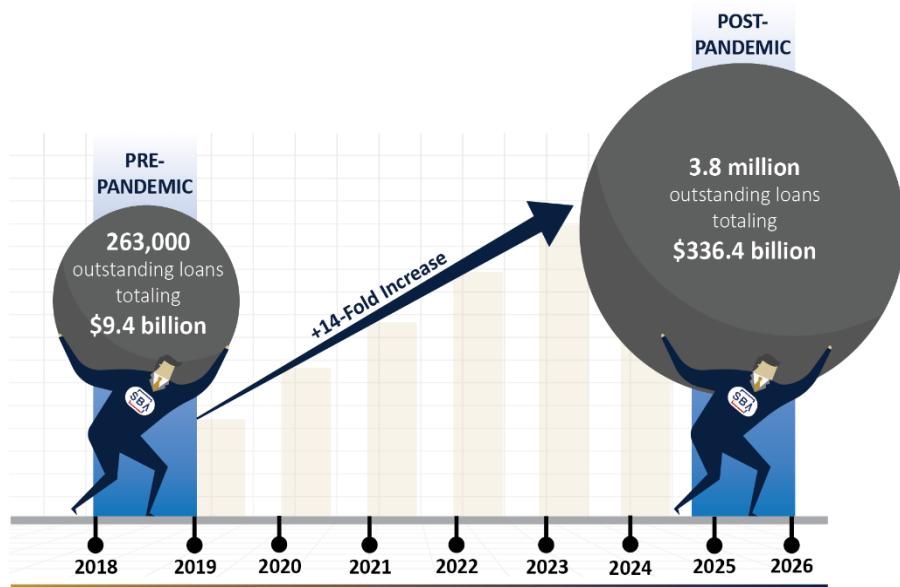
Servicing Disaster Loans

Prior to the pandemic, SBA typically serviced about 263,000 disaster loans totaling approximately \$9.4 billion. Five years after the pandemic, SBA has the challenge of servicing approximately 3.8 million outstanding disaster loans totaling approximately \$336.4 billion — a fourteenfold increase in the amount of loans the agency was managing previously (see Figure 1). Note that the stated size of the portfolio includes about 1.1 million charged-off loans that normally would have been

To protect taxpayer dollars, SBA must effectively service disaster loans and maintain oversight of financial institutions participating in its guaranteed loan programs

^A SBA, News Release 25-41, "SBA Initiates Actions to Reverse Biden-Era Mismanagement of Core 7(a) Lending Program" (March 27, 2025).

Figure 1: The Increased Burden of COVID-19 EIDL Servicing on SBA



Source: OIG generated based on SBA data

years, or until the agency's recovery efforts are exhausted. COVID-19 EIDL servicing is significantly different than traditional loan servicing because it includes a variety of complex action requests that are not common to private sector business loans. This further stresses SBA's ability to fully and completely service current loans and perform full-spectrum collection efforts on past-due and defaulted loans.¹ SBA's challenge is to be responsive to recipients of these loans and perform its due diligence to mitigate loss to the taxpayer.

In our May 2025 inspection report, we concluded that SBA would be able to service its COVID-19 loan portfolio with a staff of 1,492 at its Fort Worth, Texas, processing center.² As of June 2025, SBA reduced its staff at the center to about 819 employees. Since these staff reductions occurred after our review, OIG has not assessed any potential impact on the agency's servicing of the \$336.4 billion COVID-19 EIDL disaster loan portfolio.

Planning and Modeling for Future Disaster Responses

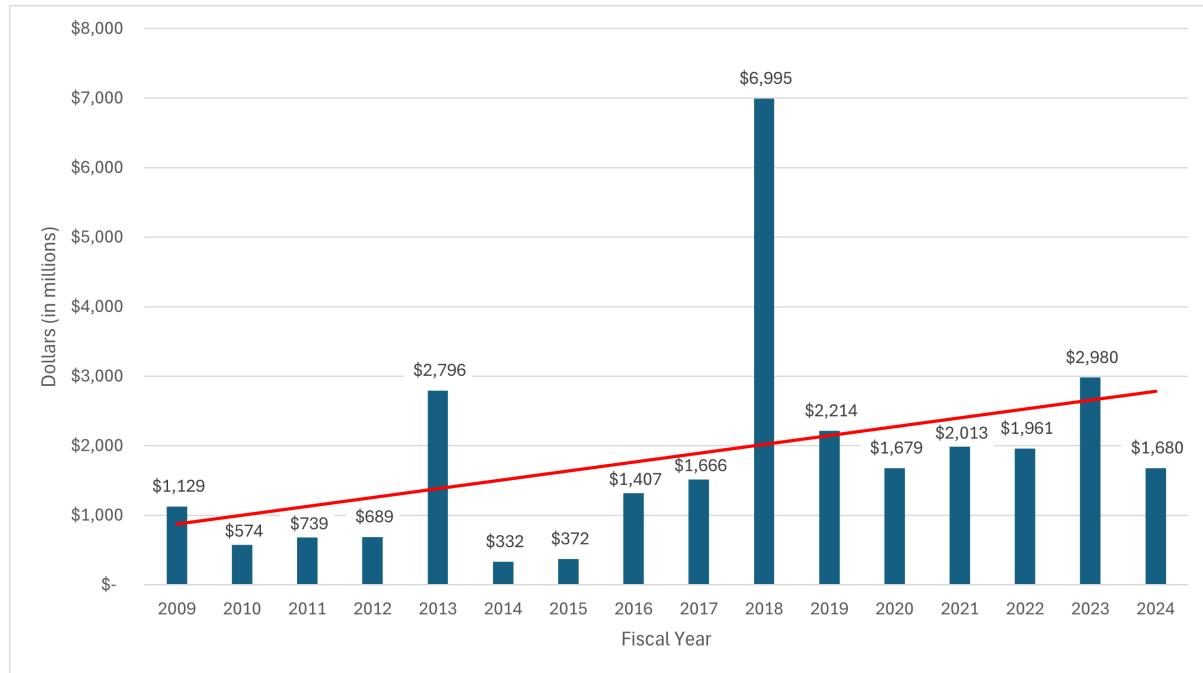
To avoid funding lapses, SBA must improve its processes to forecast and request annual appropriations for future disaster responses. On October 15, 2024, the agency announced funds in its disaster assistance loans program account had been exhausted. This caused a delay in disbursements of loans between October 15 and December 21, 2024, when SBA received supplemental funding. This

transferred to Treasury for cross servicing. SBA has been temporarily exempted from that requirement until March 31, 2026. Upon transfer, the servicing portfolio will significantly decrease.

SBA typically services a disaster loan until it is paid in full or, upon default, to 120 days delinquent. Treasury and the agency have agreed that SBA will service even defaulted loans and attempt recovery on these loans for up to 2

lapse in funding occurred, in part, because the agency had not adjusted its forecasted lending level or annual budget request for disaster assistance since 2009, even though the number and cost of billion-dollar disasters has generally increased over time (see red trendline on Figure 2).³ Our report 25-24 shows the correlation between a large number of costly disasters and a larger number of disbursed loans and SBA loan amounts. SBA's challenge is to ensure historical factors, such as changes in the subsidy rate, frequency of major disasters, and total dollar amount of loan approvals from prior years, are taken into account when developing the annual budget request for the disaster loan program.

Figure 2: Total Dollar Amount of Approved Disaster Loans



Source: National Centers for Environmental Information billion-dollar disaster database

When requesting future funding, we found that SBA's monthly reports to Congress did not include all the required components of 15 U.S. Code § 636k(a) and that the informal messages the agency initiated with Congress were insufficient to communicate the pending funding lapse.³ SBA's challenge is to 1) ensure its monthly reports comply with the statute and can be clearly interpreted and 2) provide formal notification to Congress and the Office of Management and Budget (OMB) that clearly states whether sufficient funds are available or if there is a need for supplemental funds as soon as the agency anticipates a funding shortfall.

Overseeing Lenders

SBA's Office of Credit Risk Management manages program credit risk on financial assistance portfolios of guaranteed loans that totaled about \$163 billion as of June 2025. The office monitors lender performance and enforces lending program requirements.

In 2023 and 2024, SBA made significant policy changes to its flagship 7(a) loan program to help expand access to capital for disadvantaged entrepreneurs. The agency lowered underwriting standards and granted mission-driven financial institutions access to the 7(a) loan program as Community Advantage Small Business Lending Companies. In 2025, SBA reversed many of these changes.⁸ The agency has recently issued a moratorium on the expansion of the program and will require existing lenders to meet prudent financial stability standards as a condition of further participation. SBA's challenge is to serve entrepreneurs while also mitigating increased risk to its 7(a) loan program. Many non-bank lenders are not regulated by other federal entities, which means they are primarily regulated and examined by SBA. The agency considered these lenders to be higher risk than those with federal regulators, so they required more oversight by SBA's Office of Credit Risk Management.⁴

OIG has conducted prior audit work related to third-party service providers in the 7(a) loan program. In FY 2025, we assessed the risk associated with non-bank lenders in the PPP, including financial technology companies and service providers.⁵ We found opportunities for SBA to enhance its oversight of non-bank lenders to promote program integrity and reduce financial loss. Specifically, non-bank PPP lenders made \$14.2 billion in suspected fraudulent loans at a rate more than five times higher than loans

⁸ SBA, News Release 25-51, "SBA Overhauls Reckless Biden-Era Lending Program" (May 19, 2025).



Example of Lender Service Provider Fraud

We helped prosecute a national criminal ring involving 1,300 PPP applications associated with \$600 million in fraud, leading to the convictions of the founders of a lender service provider, which facilitated over \$6 billion in PPP loans, itself benefitting from over \$300 million in lender fees. To date, this is our largest prosecuted pandemic assistance fraud scheme.

The investigation revealed two of the ringleaders co-founded a fintech in April 2020 purportedly to assist applicants in obtaining PPP loans. To obtain larger loans for certain applicants, they and other co-conspirators fabricated documents, including tax documentation. They charged borrowers kickbacks based on a percentage of the funds received. To obtain a greater volume of kickbacks from borrowers and a percentage of lender fees from SBA, they submitted PPP loan applications they knew contained false information.

U.S. Attorney's Office
Northern District of Texas,
June 23, 2025

August 11, 2025

made by traditional bank lenders. Over \$6.1 billion of the \$14.2 billion in suspected fraudulent non-bank PPP loans, or nearly 43 percent, were made by lenders categorized as fintechs and other state-regulated finance companies. Additionally, loans involving service providers had a suspected fraud rate more than three times higher than loans made without a service provider. In addition, we have investigative cases that reflect some of the effects non-bank lenders have had on the PPP.

SBA has taken steps to mitigate this challenge and significantly improved its tracking and monitoring of third-party providers in the traditional loan programs. We will continue to monitor compliance with SBA policies and procedures as well as corrective actions to address noncompliance. It is vital that the agency continues to:

- Enhance its oversight of program lenders;
- Enhance the oversight of third-party service providers, including loan agents who lenders place significant reliance on; and
- Address emerging issues in a timely manner to reduce risks.

Ensuring Retention of Loan and Award Records

SBA guarantees 50 percent or more of a business loan made by a participating lender to the small business borrower. Lenders maintain the loan files and service the loan until either the loan is paid in full or SBA purchases the guaranty and charges off any uncollectible balance.⁶ This means that most loan documents and data reside only with the participating lender, which could be problematic if that lender dissolves or ceases to service the loan.

If future programs were designed to capture and maintain applicant data, and if the data was shared with SBA, it would not be as difficult for the agency to conduct oversight of loans from lenders who ceased operating. In addition, if SBA were to acquire and maintain lender data, investigators would have access to the documentation needed to validate evidence of fraud. Retaining documentation and sufficient evidence to support loan decisions is consistent with federal standards for internal controls. These controls require managers to support their decisions and determinations with supporting documentation, which includes the rationale of how loan decisions were made. For this reason, it is important that all loan records are properly managed, maintained, and available.⁷

This was most evident in the PPP because of the massive number of loans, the extent of the fraud, and the forgiveness process on the back end. In the PPP, SBA only required that lenders enter general applicant information, such as name, address, email, and telephone number, into the agency's PPP systems. Applicants were not asked to provide their date of birth on the PPP application, which we found to be a critical element for Social Security number verification. In addition, SBA did not require lenders to submit borrower bank account details associated with the disbursement, Internet Protocol

addresses, or web log data associated with the electronic signature on the applications. If a lender were to go out of business, SBA could not capitalize on the information it obtained in its PPP systems by using data analytics technology, such as artificial intelligence and machine learning, which help identify noncompliance with program requirements and likely fraud.

Congress and the Administration took swift action to extend the statutes of limitations for prosecution of PPP and COVID-19 EIDLs from 5 to 10 years, but it will be difficult to prosecute bad actors if loan documents and data are not available. To correspond to the 10-year PPP fraud statute of limitations, SBA extended the records retention requirement for all PPP lenders to 10 years from the date of final disposition of each PPP loan.^c SBA's challenge is to continuously monitor and communicate with participating lenders to safeguard loan information and to share documents related to lending decisions, which is imperative in cases in which the lender dissolves or ceases to service the loan.

The statute of limitations for the Restaurant Revitalization Fund and Shuttered Venue Operators Grant program is 5 years from application or the reporting date. SBA only requires Restaurant Revitalization Fund recipients to retain their award records for 3 years. If program officials do not conduct reviews in a timely manner, or extend the record retention period, SBA could miss the opportunity to prosecute wrongdoers and recover funds that were incorrectly or fraudulently obtained.

OIG Highlighted Work

¹ *Ending Active Collections on Delinquent COVID-19 Economic Injury Disaster Loans* ([Report 23-16](#))

² *COVID-19 Economic Injury Disaster Loan Servicing Capability* ([Report 25-16](#))

³ *SBA's Processes to Forecast and Request Appropriation Dollars for its Disaster Loans Program Account* ([Report 25-24](#))

⁴ *Audit of SBA's Oversight of High-Risk Lenders* ([Report 20-03](#))

⁵ *SBA's Oversight of Non-Bank Lenders and Third-Party Service Providers Associated With PPP Loans* ([Report 25-04](#))

⁶ *SBA's Guaranty Purchases for Paycheck Protection Program Loans* ([Report 22-25](#))

^c 89 F.R. 68090 Business Loan Program Temporary Changes; PPP-Extension of Lender Records Retention Requirements, (August 2024).

⁷ *SBA's Eligibility and Forgiveness Review of PPP Loans Made to Borrowers with Treasury's Do Not Pay Data Matches (Report 24-06)*



Challenge 3: Measuring Performance and Monitoring SBA Programs

SBA manages programs to help support American entrepreneurs access grant funds and business counseling. It aids existing and prospective small businesses through a variety of counseling and training services offered by partner organizations. Among these partners are Small Business Development Centers (SBDC), the SCORE mentoring network, Women's Business Centers, and Veterans Business Outreach Centers. SBA's challenge is to improve the measures it uses to assess the effects of its programs and improve grantee oversight, better serving entrepreneurs and ensuring that every dollar spent delivers results.

Measuring Program Performance

Federal guidance requires SBA managers establish meaningful performance goals and measure progress, which provides proof of success and helps improve future programs. With over 33 million small businesses supporting the economy, having clearly defined program goals and targets are essential to achieving program objectives.

Our reviews of SBA's counseling and contracting certification programs have consistently found opportunities for SBA to improve its measures used to assess program goal accomplishments. In a recent review of an SBDC, we found SBA established performance goals and measures to monitor progress toward the goals.¹ However, improvements were needed to better align performance goals with the related funding and to track progress toward achieving those goals.

Monitoring Program Performance Results

Federal standards for internal controls require managers to use quality information to achieve their objectives. This requires that program officials ensure information is complete, accurate, accessible, and provided in a timely manner so that leaders can make informed decisions and evaluate performance. Without accurate and complete performance reporting and comprehensive reviews of performance reports, SBA grant programs may not achieve their intended results.

The agency can improve tracking and monitoring performance goals by coordinating with resource partners. We found this lack of coordination in our recent inspection of one SBDC. We highlighted the need to demonstrate performance goals were met by associating the center's financial data with

the program activities conducted. If not properly associated, the SBDC spends additional money toward meeting goals already funded, thereby increasing the operational cost of fulfilling program goals and activities. We plan to take a broader look at these issues in an upcoming audit of SBA's oversight of the SBDC program.

We also found in SBA's oversight of the Small Business Innovation Research (SBIR) and Small Business Technology Transfer (STTR) programs that there was limited assurance that small businesses met minimum performance standards.² These programs help entrepreneurs explore their technological potential and provide an incentive to profit from commercialization. Small businesses must meet minimum performance standards to compete for SBIR and STTR awards. Changes to the Small Business Act are needed to improve SBA's ability to monitor small businesses' compliance with performance standards, reducing risks because they may not have the ability to achieve program goals for commercialization as intended by the Act. SBA's challenge is to monitor grantee performance in the estimated number of new businesses started, tax revenue generated, and entity operational status.

Ensuring Funds Are Used as Intended

We identified systemic issues with SBA's oversight of grant recipients' use of federal funds. These issues included not enforcing financial reporting requirements, not detecting grant recipient budget reallocations, using weak financial review procedures, and missing supporting documentation. SBA's challenge is to improve its grant management processes and procedures to ensure funds are used for allocable, allowable, and reasonable expenditures.

In our recent review of an SBDC, we found opportunities for the center to improve its financial compliance when accounting for federal expenses, matching funds, and program income. SBA program officials are making changes to how it monitors use of funds to hold SBDCs accountable and ensure objectives are met.

Federal funds can greatly assist struggling small businesses during an economic crisis. For example, the Restaurant Revitalization Fund (RRF) and Shuttered Venue Operators Grant (SVOG) were intended to help businesses in the restaurant and venues industries struggling to stay in business during the pandemic.

In an audit of SBA's oversight of RRF recipients, we found program officials needed to obtain sufficient information to monitor the recipients to ensure funds were used as intended.³ RRF recipients were required to submit their final use of funds report to SBA by April 30, 2023. As of July 2025, 9.4 percent of all recipients, with awards totaling \$1.5 billion, had not yet filed the required report.

To oversee the RRF and SVOG programs, SBA selected samples of the award recipients to manually confirm eligibility, award calculation, and use of funds. We previously found the reviews for both programs were being conducted at a rate that would extend beyond the required timeframe for grantees to retain award records and the statute of limitations for prosecution of fraud or misuse.⁴ SBA's challenge is to prioritize the RRF and SVOG reviews to increase the opportunity to save taxpayer funds. Program managers stated they have increased the number of staff allocated to these reviews and are working to manage resources to complete the reviews within the timeframes.

In addition, we found program officials did not review all awards made to potentially fraudulent or ineligible recipients, as the agency had originally planned to do.⁵ We also found SBA needed to implement procedures for recipients to return unused or improperly awarded funds to Treasury. SBA management recently implemented a process for the SVOG program and plans to implement a process to recover improper payments for the RRF program in FY 2026.

SBA's challenge is to effectively manage its resources to meet the demands of monitoring awardee compliance with award requirements. Improving awardee oversight will help the agency to effectively measure and accurately report performance results and assess whether the federal assistance programs were effective and funds were used appropriately.

In our recent audit of SBA's oversight of SVOG recipients, we found SBA could improve its process to close out SVOG awards. The SVOG award close out process consisted of various activities to include determining if 1) recipients were eligible; 2) the award amount was correct, used in accordance with requirements, or recovered if applicable; and 3) the agency completed its review of submitted audit packages.

As of August 2025, SVOG officials closed out 1,515 of the 2,590 awards, with 1,075 awards totaling more than \$1.5 billion still open. SBA program officials paused the close-out process to focus on recovery efforts. While finalizing the process to recover funds is important, SBA should consider both the close out and record retention requirements. By not doing so, they could miss the opportunity to collect misused or unused taxpayer funds.

OIG Highlighted Work

¹ *New Jersey Small Business Development Center's Compliance With Cooperative Agreement Requirements* ([Report 25-17](#))

² *SBA's Implementation of the SBIR and STTR Extension Act of 2022* ([Report 24-14](#))

³ *SBA's Oversight of Restaurant Revitalization Fund Recipients* ([Report 23-15](#))

⁴ *SBA's Oversight of Shuttered Venue Operators Grant Recipients* ([Report 25-21](#)); *Improvements Needed in SBA's Shuttered Venue Operators Grant Post-Award Review Process* ([Report 24-21](#))

⁵ *SBA's Administrative Process to Address Potentially Fraudulent Restaurant Revitalization Fund Awards* ([Report 23-10](#))



Challenge 4: Financial Reporting and Managing Data

SBA is tasked with managing the data of small business owners through multiple interfaces and platforms while meeting government mandates for privacy and security. The agency has made it a priority to improve SBA technology, cybersecurity, and response time to customers, affirming that efficient data systems are integral to customer service.^A Agency leaders also plan to further integrate AI into agency data systems, which may generate new cybersecurity concerns requiring OIG oversight. By implementing best practices in data management, the agency will have a stronger foundation for identifying and preventing fraud schemes. Data reliability is also essential for SBA to manage taxpayer funds and accurately communicate its financial position to Congress, the President, and the American public. The agency has made satisfactorily completing a financial audit a priority, according to an SBA February 2025 news release. By improving data sharing practices, SBA can leverage information from federal partners to make more informed decisions, ultimately benefiting all Americans.

SBA will be prepared to mitigate fraud risks in future crises by implementing best practices in managing internal and external data.

Improving Internal Controls Through Financial Statements Audit Remediation

Our 2024 financial statements audit found a continuing challenge related to SBA's internal controls, which are integral for financial data reliability and accuracy.¹ Over the last 5 years, SBA has struggled with addressing long-standing internal control deficiencies due to challenges the agency faced with administering its pandemic relief programs. Starting in FY 2020, the agency received its first of five disclaimers of opinion, which means the auditors were unable to obtain sufficient audit evidence to support balances, so SBA has not obtained a clean audit opinion in 5 years.

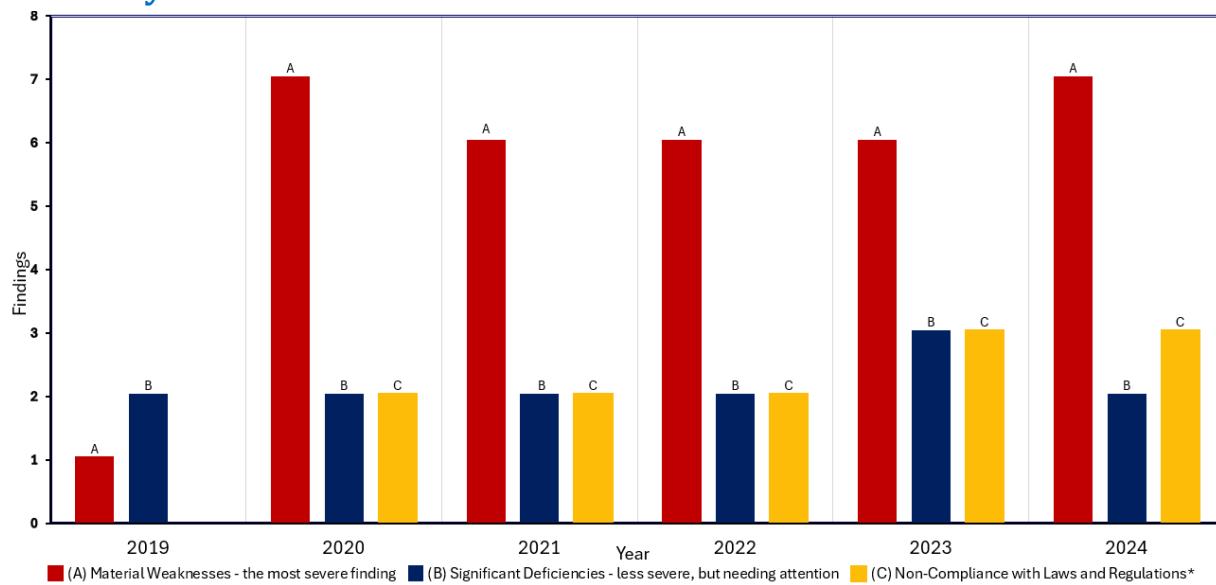
Since its first disclaimer, SBA's financial statements audits have been limited to the balance sheet, one of four principal financial statements. The remaining three statements — net cost, statement of changes in net position, and budgetary resources — have not been audited due to the unresolved

^A SBA, News Release 25-32, "SBA Administrator Loeffler Issues Memo on Day One Priorities" (February 24, 2025).

issues affecting the balance sheet. This is important because the other statements contain information about agency spending and how much funding was used during the fiscal year.

In each of these 5 years, the auditors have identified as many as seven material weaknesses, three significant deficiencies, and three issues of non-compliance with laws and regulations (see Figure 3).² A material weakness is a serious concern that an organization's financial reporting controls are not effective enough to detect major errors or fraud that could cause material misstatements in the financial statements. A significant deficiency is less severe but indicates control issues that could potentially lead to misstatements.

Figure 3: SBA Audit Deficiencies From Pre-Pandemic Through Pandemic Recovery



*Federal Managers' Financial Integrity Act of 1982, Federal Financial Management Improvement Act of 1996, Debt Collection Improvement Act of 1996.

Source: OIG analysis from SBA financial statements audit reports

OMB guidance states that correcting internal control deficiencies is a fundamental part of management accountability and must be prioritized.^B In this light, the agency developed a new and centralized Financial Statements Audit Remediation Strategy in January 2025 that set key targets to focus time and resources on, including:

^B OMB, M-16-17, "OMB Circular No. A-123, Management's Responsibility for Enterprise Risk Management and Internal Control," at 37 (July 15, 2016).

- Enhancing governance for the audit process;
- Developing accounting policies for the pandemic programs, such as COVID-19 EIDLs, the PPP, Restaurant Revitalization Fund, Shuttered Venue Operators Grants; and
- Writing a position paper for the auditors, explaining that SBA has identified loans with potential eligibility concerns through its verification process.^C

Although these are positive steps, SBA has the challenge of remediating the seven material weaknesses and producing a clean audit opinion for all four financial statements. SBA should strive to improve program oversight provided to the taxpayer, Congress, and the President and accurately report how taxpayer money was used during the fiscal year.

Beyond achieving a clean audit opinion, SBA must meet its statutory responsibility with the Federal Managers Financial Integrity Act of 1982, which requires annual assessments and certifications of internal controls to the Congress and President.^D Although the material weaknesses identified are largely related to pandemic relief programs that have ended, SBA can learn lessons from the crisis to better its internal control environment moving forward.

From FY 2020 to FY 2024, SBA did not substantially comply with the Federal Managers Financial Integrity Act of 1982. Building a more rigorous internal control environment will not only help SBA move toward compliance with the Act but will also help it to identify potential errors or fraud. SBA's challenge will be to effectively design an internal controls assessment plan that meets requirements, while building a team with expertise and capacity to strengthen its internal controls.

Authorized Data Sharing

During the pandemic recovery, leaders in the offices of inspector general analytics community demonstrated that government data sharing can lead to successful criminal and administrative investigations into PPP, EIDL, and unemployment insurance program fraud.^E

^C SBA, Office of Performance, Planning, and the Chief Financial Officer Financial Statement Audit Remediation Strategy, (January 8, 2025).

^D Federal Managers Financial Integrity Act of 1982. Pub. L. No. 97-255 (August 1982).

^E Pandemic Response Accountability Committee, *Blueprint for Enhanced Program Integrity, Chapter 4: Whole-of-Government Approach*, at 11-12 (April 2025).

A collaboration between SBA OIG and the U.S. Department of Labor OIG identified \$1.3 billion in potentially fraudulent unemployment insurance and EIDL payments were paid to the same likely fraudsters in both programs.³ We identified this issue through a data use agreement and a subsequent data sharing and matching project. Additionally, SBA OIG identified an additional \$1.4 billion in EIDL disbursements from a larger dataset not previously identified by Labor OIG or SBA OIG as potentially fraudulent.

Another example of effective data sharing between agencies would be if SBA pursues a legal framework to establish Social Security number verification data. The Pandemic Response Accountability Committee (PRAC) demonstrated how a memorandum of understanding with the Social Security Administration allowed its data scientists to verify Social Security numbers, names, and dates of birth from a random sampling of 662,000 identity records across the COVID-19 EIDL, PPP, and Labor's pandemic unemployment insurance program.⁴ Using those results, PRAC estimated that up to 1.4 million stolen or invalid Social Security numbers were used to obtain benefits from these programs. PRAC estimated that verifying Social Security information could have saved taxpayers up to \$79 billion in potentially fraudulent pandemic relief payments.

Given the volume of identity theft associated with SBA pandemic loan programs, Social Security number verification could have helped mitigate fraud. If statutory limitations prevent SBA from accessing this or other critical data assets, there are other opportunities for responsible data sharing that could strengthen fraud detection efforts.

The agency could undertake collaborative efforts to uncover fraud, waste, and abuse by implementing Do Not Pay data in all its



Example of Multi-Agency Data Sharing

Four Detroit residents pled guilty to conspiracy to commit wire fraud for their roles in a \$6 million pandemic relief fraud scheme. Between February 2020 and May 2021, the co-conspirators stole identity information and created fictitious businesses to then file fraudulent claims in various states for PPP loans, EIDLs, and pandemic unemployment assistance. The unemployment benefits were often deposited onto debit cards that were sent to addresses controlled by the co-conspirators.

This joint investigation was successful thanks to SBA OIG, Department of Labor OIG, and FBI data sharing and collaboration.

Office of Inspector General
U.S. Department of Labor
Eastern District of Michigan

³ PRAC, *Fraud Prevention Alert: Pre-Award Vetting Using Data Analytics Could Have Prevented Over \$79 Billion in Potentially Fraudulent Pandemic Relief Payments*, (June 2025).

programs. The agency could put agreements and systems in place to mitigate fraud, rather than chasing fraudsters after the funds have been disbursed.

PRAC continues to advocate for expanding agency access to information, such as tax data.⁶ We agree that expanding access to data using collaborative information sharing agreements will help identify fraud indicators so that federal agencies can better manage resources and protect taxpayer funds. SBA management stated they are currently making progress to secure sufficient and complete data sharing agreements with other federal agencies and ensure expired agreements are reestablished. As with Do Not Pay data sharing agreements with Treasury, the agency is undertaking additional collaborative efforts to uncover fraud, waste, and abuse during the application process for disaster assistance. These agreements can better help federal agencies verify applicant information and detect fraud.

OIG Highlighted Work

¹ *Independent Auditors' Report on SBA's FY 2024 Financial Statements* ([Report 25-05](#))

² *SBA's Controls to Address Financial Statements Audit Disclaimers and Material Weaknesses* ([Report 25-25](#))

³ *COVID-19: Data Sharing Project Finds Billions Paid to Same Likely Fraudsters Under Both the Unemployment Insurance and Economic Injury Disaster Loan Programs* ([Report 25-06](#))

⁶ PRAC, *Blueprint for Enhanced Program Integrity, Chapter 4: Whole-of-Government Approach*, at 11-12 (April 2025).



Challenge 5: Managing Risks in Information Technology Systems

SBA continues to share our concerns about its information technology (IT) and cybersecurity issues, citing these as top priorities in 2025.^A A strong IT governance framework enables the agency to achieve mission goals and objectives while safeguarding taxpayer funds. A governance framework is an integrated strategy that identifies, measures, and controls risk in IT investments, fraud, and AI (see Figure 4). These processes will help the agency better deliver SBA programs and services, particularly in times of crisis.

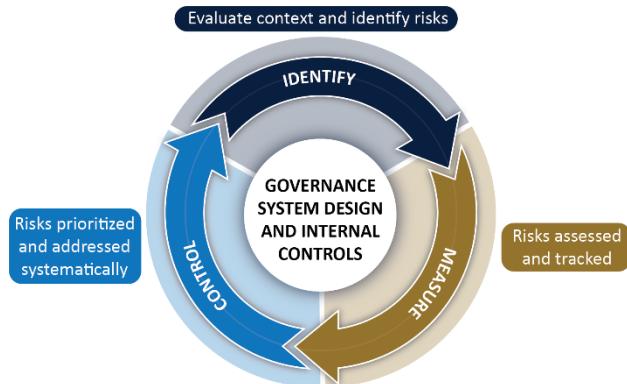
Improving Information Technology Systems Management

In March 2024, OIG determined SBA did not enforce IT management policies and procedures, and a new IT systems framework was not scheduled to be implemented until the second quarter of 2024.¹ The agency has had issues related to IT software investment governance, including:

- Lack of oversight from the governance board,
- Not identifying the intended purpose of software investments and their expected benefits,
- Lack of monitoring against performance measurement baselines.

An IT system is essential to mission delivery and enhances organizational performance. IT system management is on the U.S. Government Accountability Office's (GAO) high-risk list because IT purchases are often a large investment of taxpayer funds for mission critical functions.^B The agency has made updates to its management processes, including updating its process for IT investment

Figure 4: Risk Management Best Practices Strategy



Source: OIG generated from National Institute of Standards and Technology data

^A SBA, News Release 25-32, "SBA Administrator Loeffler Issues Memo on Day One Priorities" (February 24, 2025).

^B GAO, GAO-25-107743, High-Risk Series: Heightened Attention Could Save Billions More and Improve Government Efficiency and Effectiveness, at 153 (February 2025).

management to correspond with the requirements of the Clinger-Cohen Act, the Federal Acquisition Reform Act of 1995, OMB requirements, and OIG recommendations.

Preparing for Artificial Intelligence Challenges

SBA must consider budgetary constraints when implementing AI tech and keeping it secure from cyber criminals. Ever-evolving threats will make cutting-edge tools costly to maintain.

A 2025 executive order on AI calls upon agencies to develop and submit to the President an action plan to achieve policy goals of sustaining and improving America's AI use, promoting human advancement, economic competitiveness, and national security.^c OMB also called upon agencies to develop and publicly release an AI strategy that includes all its current and possible future uses of machine-learning technology. OMB directed agencies to promote the use of AI while also considering security threats and risk, particularly taking care

when the AI has a significant effect on decisions related to:

- Civil rights, liberties, or privacy;
- Critical government resources or services; and
- Access to education, housing, insurance, credit, employment, and other programs.^d

This is relevant for SBA because it could employ AI to decide on loan guaranties, award grants, or detect potentially fraudulent applications, while accessing private financial information and affecting applicants' credit records.

SBA faces several challenges in implementing AI according to the new OMB memo. First, IT leaders must consistently identify and classify any AI uses, particularly if they plan to leverage existing data and AI assets across the agency. SBA management stated they have formed a new AI working group and a board to guide and oversee agency integration of AI to improve business processes. As of November 2025, SBA had no AI use cases reported.

OMB also mandated SBA to:

- Designate a Chief AI Officer to promote AI innovation and governance. (A new officer was assigned as of August 2025);

^c Executive Office of the President, Executive Order 14179, "Removing Barriers to American Leadership in Artificial Intelligence" (January 23, 2025).

^d OMB, M-25-21, "Accelerating Federal Use of AI Through Innovation, Governance, and Public Trust," at 19 (April 3, 2025).

- Update internal policies on IT infrastructure, data, cybersecurity, and privacy. (SBA published a 2-year Open Data Plan in June 2025 addressing open data security and privacy; however, more internal guidance is needed); and
- Develop a generative AI policy. (Its last posted policy expired early 2025).^E

The agency must consider the budgetary costs and constraints of keeping AI systems and tools updated and protected from bad actors. Major tech players report skyrocketing costs to generative AI, leading to the cancellation or postponement of AI initiatives because of cost concerns.^F Cutting-edge tools can be costly to maintain, particularly with ever-evolving cyber threats. Some tech companies have recognized the need to address the cost and security concerns of AI use within government.^G SBA's risk management and need of transparency, in addition to the large amount of taxpayer resources at stake, is why this is a top management challenge for SBA in 2026.

Both GAO and OIG have drawn attention to a past case of SBA not being fully transparent regarding its use of AI.^H SBA had used a machine learning model, considered AI according to U.S. Code,^I that it did not include in its AI inventory. An SBA loan reviewer contractor developed a random forest machine learning model, an ensemble algorithm using multiple decision trees, to determine if loans required further analysis before being approved. The model developed its internal rules for making loan assessments based on risk indicators created by a legal and business research platform, which are numerical measurements or scores to indicate risk level for businesses. The model used other factors deemed relevant by the contractor but not clearly explained to GAO or OIG. The model was trained on a dataset of 20,000 manually reviewed loans, of which 275 had been marked as requiring further analysis before approval. This model was then used by SBA to assess 129,000 loans.

OIG plans to conduct audit oversight on the implementation of SBA's AI plans and strategies in the future. We look forward to working with the agency to ensure AI objectives are met with minimum risk and optimum return on investment.

^E "Artificial Intelligence." SBA Office of the Chief Information Officer. Internal SharePoint site.

^F Brodsky, Sascha. "The Hidden Costs of AI: How Generative Models are Reshaping Corporate Budgets." IBM Think. Accessed July 18, 2025. (October 14, 2024).

^G Wakeman, Nick. "OpenAI to Give Federal Agencies ChatGPT Access at \$1 Per year." NextGov/FCW. Accessed August 6, 2025. (August 6, 2025).

^H GAO, GAO-25-107267, *COVID-19 Relief Improved Controls Needed for Referring Likely Fraud in SBA's Pandemic Loan Programs*, (March 2025).

^I 15 U.S. Code §9401(3).

Deploying and Monitoring New Third-Party Systems

The agency relies on service providers for software and IT services. While these outside solutions are expedient, SBA's challenge is to implement robust due diligence and continuous monitoring to ensure data integrity is maintained throughout the processing cycle. Shortfalls in these processes have contributed to SBA having material weaknesses and disclaimers of financial reporting reliability going back to FY 2020.

Proper guidance on monitoring third-party systems can be found through System and Organization Controls 1 reviews. Our independent financial statements auditors identified material weaknesses related to insufficient technical support and inadequate system controls, possibly leading to operational inefficiencies and increased risk of errors. These reviews allow agencies to evaluate the effectiveness of their internal controls over financial reporting. In FY 2025, SBA revised its standard operating procedure to enhance oversight procedures of service providers.^J

SBA's development guidance requires that systems are designed with adequate controls to prevent unauthorized access and data breaches. As new systems are developed, the importance of robust technical support and continuous system monitoring is integral to data quality.

Cybersecurity and Modernization

Our evaluations of SBA's systems, policies, and procedures regarding the Federal Information Security Modernization Act (FISMA) show this area continues to be a challenge for the agency.² The agency's overall security program continues to be rated as "not effective" in accordance with federal guidance. Because of SBA's mission and the personally identifiable information it is required to collect to carry out that mission, the agency is susceptible to privacy and data breaches.

It is also critical that SBA plan for cybersecurity risks when modernizing its IT systems. This was an issue for SBA's Unified Certification Platform, which was intended to help streamline the process for small business owners to apply for contracting certification programs. GAO reported that when SBA transitioned to this new "one-stop" certification system, meant to consolidate multiple systems into one, the agency did not implement leading practices for risk management, cybersecurity, and IT governance over the investment.^K

^J SBA, SOP 20 33 1, Review and Assessment of System & Organization Controls Report(s), (July 10, 2025).

^K GAO, GAO-25-106963, *It Modernization: SBA Urgently Needs to Address Risks on Newly Deployed System*, (November 2024).

In addition to not developing a cybersecurity risk management plan, SBA also did not trace design elements of the new system to related cybersecurity requirements, which increases the risk of security vulnerabilities.

This problem continued with personally owned electronic devices allowed to access sensitive SBA systems. In late 2024, we identified a significant security vulnerability.³ The agency unknowingly allowed personally owned devices, such as smartphones, laptops, or tablet computers, to access, store, and transmit agency data with only a username and password. Devices could also access the network from foreign locations, which is prohibited by SBA IT policy. Personally owned devices can expose the agency to IT security risks, such as unauthorized access and theft of personally identifiable information, which can be exploited by cyber criminals and other bad actors. Cyber threats include, but are not limited to, disclosure of sensitive data, unauthorized changes, or backdoor access to other network resources.

SBA should have multifactor authentication enabled for users to access the agency's secure network. Multifactor authentication is a high security control that requires a username, password, and an identity card, unique security code, or biometrics to access a system. Relying on usernames and passwords alone greatly increases the risk of SBA data being accessed and exploited by cyber criminals.

SBA has taken corrective action by rolling out multifactor authentication for more than 6,000 users. The agency is also designing the Unified Certification Platform to improve processes for administering the contract certification programs. The challenge for SBA is to ensure cybersecurity risks are considered and mitigated as the agency continues to modernize and integrate AI technology, which will likely be a collaborative process with entities outside the agency.

OIG Highlighted Work

¹ *SBA's IT Investment Governance Framework* ([Report 24-10](#))

² *Fiscal year 2024 Federal Information Security Modernization Act* ([Report 25-13](#))

³ *Undetected Vulnerabilities From Personally Owned Devices* ([Report 25-11](#))

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