U.S. SMALL BUSINESS ADMINISTRATION OFFICE OF INSPECTOR GENERAL

Eligibility of PPP Loans Exceeding Maximum Size Standards

Evaluation Report

Report 25-14

May 1, 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.

Executive Summary

Eligibility of PPP Loans Exceeding Maximum Size Standards (Report 25-14)

What OIG Reviewed

This report presents the results of our evaluation of the U.S. Small Business Administration's (SBA) handling of Paycheck Protection Program (PPP) loans exceeding maximum size standards. This is a follow-up to our report, *Inspection of SBA's Implementation of the Paycheck Protection Program* (Report Number 21-07), which identified 355 PPP loans that likely exceeded the maximum size standard and may have been erroneously approved.

Subsequent to our prior report, we received corrected loan data, conducted further analysis, and removed those loans we concluded had data errors. Based on our updated data analysis, we identified that 79 of the 355 loans still appeared to exceed the maximum size standard. Our objective was to determine whether PPP loans were made in accordance with program size standards.

What OIG Found

Although SBA implemented controls designed to ensure borrowers met size standard eligibility requirements, the agency overrode these controls and did not always validate eligibility for borrowers flagged as potentially exceeding the size standard.

We reviewed 64 of the 79 loans identified as potentially exceeding size standards and determined SBA did not validate size standard eligibility requirements for 48 of the 64 loans (or 75 percent), totaling approximately $343 million. Of the 48 loans, 29 totaling $196.5 million were forgiven without completing the required manual reviews, using memoranda that were unrelated to size standard requirements; and 19 totaling $146 million were forgiven without sufficient documentation to support loan review decisions. This occurred because SBA's process changes allowed it to forgive loans flagged as potentially ineligible prior to conducting manual reviews to ensure borrowers met eligibility requirements, which fueled a pay-and-chase environment.

As a result, SBA did not have reasonable assurance that borrowers met size standard requirements, which increased the risk of improper payments and loss of taxpayer funds. Further, without properly evaluating compliance with size standard requirements for the 48 loans totaling about $343 million, SBA forgave PPP loans to potentially ineligible businesses.

What OIG Recommended

We recommended SBA obtain the documentation necessary to fully assess borrower size standard eligibility for the 48 loans to ensure eligibility requirements were met and, if not, seek repayment of forgiveness amounts granted to ineligible borrowers.

Agency Response

SBA management partially agreed with our recommendations. Management's planned actions for recommendation 1 satisfy the intent of the recommendation and it is resolved. However, management's proposed actions do not fully satisfy the intent of recommendation 2. OIG will seek resolution in accordance with our audit resolution policy.

OFFICE OF INSPECTOR GENERAL
U.S. SMALL BUSINESS ADMINISTRATION

MEMORANDUM

Date: May 1, 2025

To: Kelly Loeffler
Administrator

From: Sheldon Shoemaker
Deputy Inspector General

Subject: Eligibility of PPP Loans Exceeding Maximum Size Standards (Report 25-14)

This report presents the results of our audit of the Eligibility of PPP Loans Exceeding Maximum Size Standards. U.S. Small Business Administration management provided formal comments for the draft report, which we considered when preparing this final report. Management partially agreed with recommendations 1 and 2. Management's planned actions for recommendation 1 satisfy the intent of the recommendation and it is resolved. However, management's planned actions for recommendation 2 do not fully satisfy the intent of the recommendation and it is unresolved. We will seek resolution in accordance with our audit resolution policy.

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact me or Andrea Deadwyler, Assistant Inspector General for Audits, at (202) 205-6586.

cc: Wesley Coopersmith, Chief of Staff, Office of the Administrator
Ben Grayson, Deputy Chief of Staff, Office of the Administrator
Thomas Kimsey, Associate Administrator, Office of Capital Access
Dianna Seaborn, Deputy Associate Administrator, Office of Capital Access
Anna M. Calcagno, Director Office of Performance, Planning, and Chief Financial Officer
Nathan Davis, Chief Financial Officer and Chief Risk Officer of Performance, Planning and Chief Financial Officer
Deborah Chen, Deputy Chief Financial Officer, Office of Performance, Planning, and Chief Financial Officer
Robin Wright, Chief Operating Officer, Office of the Administrator
Wendell Davis, General Counsel, Office of General Counsel
Michael Simmons, Attorney Advisor, Office of General Counsel
Walter B. Hill, Jr., Financial Program Specialist, Office of Strategic Management and Enterprise Integrity
Peter Meyers, Senior Advisor, Office of Capital Access
Lance Ausing, Audit Liaison/Program Analyst, Office of Capital Access

Contents

Figures

Appendices

Introduction

This report presents the results of our evaluation of the U.S. Small Business Administration's (SBA) handling of Paycheck Protection Program (PPP) loans exceeding maximum size standards. This report is a follow-up to our report, *Inspection of SBA's Implementation of the Paycheck Protection Program* (Report Number 21-07), which reported businesses may have been erroneously approved for PPP loans because they appeared to exceed the maximum size standard according to SBA loan data.

Background

Congress enacted the Coronavirus Aid, Relief, and Economic Security (CARES) Act in 2020 to provide economic relief from the effects of the COVID-19 pandemic. Section 1102 of the CARES Act established the PPP under Section 7(a) of the Small Business Act, which provided fully guaranteed SBA loans for certain eligible borrowers that can be forgiven if loan proceeds are used as required by the law. Eligible expenses include payroll, rent, utility payments, and other authorized uses. Additional legislation increased total program funding to $813.7 billion.

Under the CARES Act, borrowers of First Draw PPP loans (those who had not received a PPP loan before) were generally required to have 500 or fewer employees or meet applicable SBA employee or revenue-based size standards as denoted by the borrower's North American Industry Classification System (NAICS) code for their primary industry, unless the entity was subject to the per location requirement. [1,2] According to the CARES Act, an employee is "a person employed on a full-time, part-time, or other basis" such as a temporary worker.[3] The number of employees for a non-seasonal business is determined by the average number of employees it has per pay period either over the 12 completed calendar months prior to the date of the loan application, or over the period used to calculate their loan amount.[4]

[1] The per location requirement allowed industries with NAICS code beginning with 72 to have up to 500 employees per physical location. Our review did not include any businesses with NAICS codes beginning with 72 or NAICS codes with revenue-based size standards.

[2] CARES Act §1102(a)(2), 15 U.S.C. §636(a)(36)(D)(i).

[3] CARES Act §1102(a)(2), 15 U.S.C. §636(a)(36)(D)(v).

[4] U.S. Small Bus. Admin., Paycheck Protection Program Loans, Frequently Asked Questions, Question #14 (as of March 3, 2021).

To determine the number of employees, the borrower is considered together with its affiliates, unless the borrower qualified for an affiliation waiver.[5] A business that exceeded the greater of 500 employees or SBA's employee-based size standards still could have qualified for a First Draw PPP loan under SBA's Alternative Size Standard, which provided that a business, together with its affiliates, was eligible for a PPP loan if, as of March 27, 2020, the business had:

- A maximum tangible net worth that did not exceed $15 million; and
- An average net income after federal income taxes (excluding any carry-over losses) for the 2 full fiscal years before the date of the application that did not exceed $5 million.[6]

Under the Economic Aid Act, a borrower is eligible for a Second Draw PPP loan (a borrower who had received a First Draw PPP loan) only if it had no more than 300 employees, unless the entity was subject to per location requirements.[7] Second Draw PPP loans do not allow the use of SBA employee-based size standards or SBA's Alternative Size Standard.

SBA staff and government contractors, under the supervision of SBA's Office of Capital Access, are responsible for the PPP loan review process. SBA's initial process consisted of automated and manual reviews of selected loans to test for compliance with program requirements and evaluate the accuracy of PPP borrowers' self-certifications and material representations prior to forgiveness of the loans. In 2021, SBA updated its process to review flagged loans after forgiveness.

Automated reviews were used, in part, to flag loans with hold codes that triggered consideration for a manual review, such as hold code 15 for potential ineligible business size. The purpose of SBA manual reviews was to determine all aspects of loan eligibility, including size standards, while contractor manual reviews focused primarily on resolving hold codes, including those related to potential ineligible business size, by reviewing loan data and documentation. When SBA selects a loan for manual review, it requests lenders to provide the relevant eligibility information, including documentation related to business size. SBA was required to maintain the review documentation in its forgiveness platform.

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[5] Under the CARES Act, affiliation rules were waived for (1) any business concern with not more than 500 employees that is assigned a NAICS code beginning with 72; (2) any business concern operating as a franchise that is assigned a franchise identifier code by the Administration; (3) any business concern that receives financial assistance from a company licensed under Section 301 of the Small Business Investment Act of 1958. The CARES Act was amended by the Economic Aid Act and the American Rescue Plan Act to expand the waiver of affiliation rules.

[6] U.S. Small Bus. Admin., Paycheck Protection Program Loans, Frequently Asked Questions, Question #2 (as of March 3, 2021).

[7] Economic Aid to Hard-Hit Small Businesses, Nonprofits, and Venues Act § 311(a), 15 U.S.C. §636(a)(37)(A)(iv)(I)(aa).

SBA's Interim Final Rules for PPP loans state that the review of borrower certifications and representations regarding the borrower's eligibility for a PPP loan and loan forgiveness is essential to ensuring loans are directed to the entities Congress intended. If SBA determined the borrower was ineligible, the borrower would not receive loan forgiveness.[8]

In our prior report, *Inspection of SBA's Implementation of the Paycheck Protection Program* (Report Number 21-07), based on SBA's loan data, we identified 355 loans that exceeded both the 500 employee threshold and the applicable employee-based size standard for the business industry. Through subsequent analysis of corrected loan data, we identified that 79 of the 355 loans still appeared to exceed the maximum size standard. Of the 79 loans, 78 were approved in 2020 under CARES Act criteria, while the remaining loan was approved in 2021 under Economic Aid Act criteria. We reviewed 64 of the 79 loans, totaling approximately $465 million.

Objective

Our objective was to determine whether PPP loans were made in accordance with program size standards.

Results

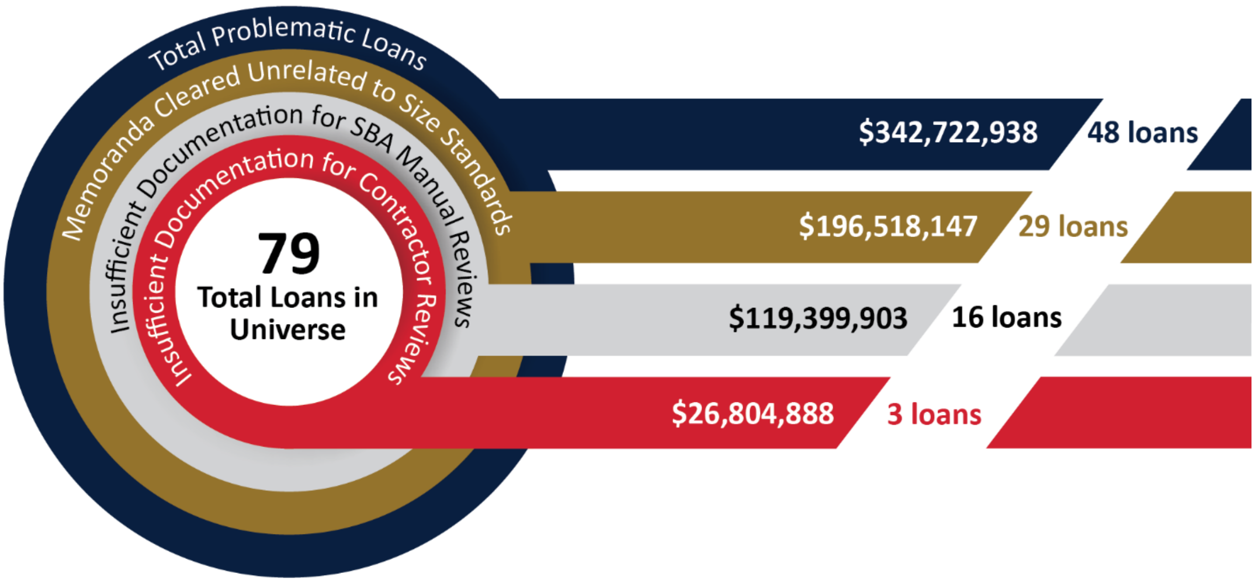
Although SBA implemented controls that were designed to ensure size standard eligibility requirements were met, it overrode these controls and did not always validate size standard eligibility for borrowers flagged as potentially exceeding the size standard. We reviewed 64 of 79 loans identified as potentially exceeding the size standards and found that SBA adequately determined that borrowers met program size standard requirements for 16 of 64 loans. However, SBA forgave the remaining 48 (or 75 percent), totaling approximately $343 million without ensuring borrowers met size standard eligibility requirements.

[8] Paycheck Protection Program—Loan Forgiveness Requirements and Loan Review Procedures as Amended by Economic Aid Act, 86 *Federal Register,* 8283, 8285-88 (Feb. 5, 2021).

Specifically, SBA forgave:

- Twenty-nine loans, totaling $196.5 million, by using memoranda unrelated to size standard requirements. These loans did not receive the required manual reviews.
- Nineteen loans, totaling $146 million, without conducting adequate manual reviews to ensure size standard eligibility requirements were met (see Figure 1).

Figure 1: Loans That Potentially Exceeded Size Standards



Source: Analysis of OIG results.

Because SBA incorrectly cleared loans based on unrelated memoranda and manual reviews did not include sufficient documentation, SBA did not have reasonable assurance that borrowers met size standard eligibility requirements. As a result, SBA forgave loans flagged as potentially ineligible for exceeding PPP size standard requirements, fueling a pay-and-chase environment and increasing the risk of improper payments and loss of taxpayer funds. Further, without appropriately evaluating the loans for compliance with borrower size standard requirements, SBA may have allowed businesses that did not qualify as small businesses to access program funds for which they were not eligible.

Finding 1: SBA Based Forgiveness Decisions Solely on Memoranda Unrelated to Size Standard Requirements

Based on our review of 64 of 79 loans, we found that SBA incorrectly cleared hold code 15, which related to potential ineligible business size, and forgave 29 of these loans, totaling $196.5 million, solely based on memoranda unrelated to size standard eligibility requirements. Specifically, SBA cleared the hold code for:

- Twenty-six loans using its *Transition to Review of Remaining Loans in the Manual Review Population Based on Risk-Priority* memorandum, dated June 7, 2021. This memorandum separated the manual review and forgiveness processes, automatically allowing SBA-designated low risk loans to be forgiven before completing the required manual reviews. We found that, on average, SBA forgave these loans within 3 days of clearing the hold code.
- Two loans using its *Implementing Options 1.b and 2.a* memorandum, dated May 19, 2021. This memorandum provided instructions for the disposition of certain loans identified as higher risk prior to completing the required manual reviews.
- One loan using its *Machine Learning and Flag Analysis* memorandum, dated March 26, 2021. This memorandum applied machine learning to certain PPP loans identified as low risk, which allowed them to be forgiven prior to completing the required manual reviews.

According to SBA officials, they applied a hold code 15 to PPP loans for businesses with an employee count of over 500. This was a control SBA put in place to identify and manually review potentially ineligible loans before remitting forgiveness payments to the lender. Although SBA had initially flagged the 29 loans with a hold code 15, neither SBA nor its contractor manually reviewed them to ensure size standard eligibility requirements were met prior to remitting forgiveness payments to the lenders.

SBA made process changes which allowed it to use memoranda unrelated to size standard requirements to clear hold codes before conducting manual reviews. Specifically, these changes included allowing SBA to disposition large batches of PPP loans with hold codes and forgive them prior to conducting manual reviews. SBA may review a loan at any time, including those with hold codes and those that have been forgiven and recover funds, as necessary.[9] During the

[9] Paycheck Protection Program, 85 *Federal Register* 20811, 20814 (April 15, 2020); Paycheck Protection Program—SBA Loan Review Procedures and Related Borrower and Lender Responsibilities, 85 *Federal Register* 33010, 33012 (June 5, 2020).

scope period of our review, we determined that SBA forgave the 29 loans but did not conduct subsequent reviews of the hold codes. These changes negated its implemented controls, which increased the risk of financial loss and continue to fuel a pay-and-chase environment.

OMB Circular A-123, Appendix C, effective fiscal year 2021, provided guidance to federal agencies to ensure they focused on identifying, assessing, prioritizing, and responding to payment integrity risks to prevent improper payments in the most appropriate manner. The circular provided that, to be effective, programs should prioritize efforts toward preventing improper payments from occurring to avoid operating in a pay-and-chase environment.[10]

We question costs on the 29 loans, totaling $196,518,147, because SBA cleared the size standard hold code and forgave these loans using memoranda unrelated to size standard requirements prior to completing the required manual reviews to ensure size standard eligibility requirements were met.

Finding 2: Manual Reviews Were Not Adequate to Ensure Size Standard Eligibility Requirements Were Met

We found that manual reviews for 19 of 64 loans, totaling approximately $146.2 million, were not adequate to ensure borrowers met size standard eligibility requirements. This is because supporting size standard documentation was not sufficient to substantiate that the borrower was eligible for the loan and SBA's subsequent decision to approve loan forgiveness. Of the 19 loans, SBA personnel reviewed and forgave 16, totaling $119.4 million, while SBA's contractor reviewed, and SBA then forgave, the remaining 3, totaling $26.8 million. As a result, SBA did not have reasonable assurance that borrowers met size standard eligibility requirements, which increased the risk of improper payments and loss of taxpayer funds.

At the onset of the PPP, borrowers were required to submit supporting payroll documents as part of their loan application.[11] We found that SBA was missing supporting documentation, such as payroll records and tax documents, that was needed to determine employee counts for the borrower and/or its affiliates. Specifically, we found that 18 of the 19 loans were forgiven without adequate reviews as they were missing either some or all documents needed to validate whether the borrower met program size standards. For the remaining loan, SBA did not properly apply the size standard criteria for the borrower's Second Draw PPP loan.

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[10] OMB Circular A-123, Appendix C, effective fiscal year 2021.
[11] U.S. Small Bus. Admin., SBA Form 2483, Paycheck Protection Program Borrower Application Form (April 2020).

Based on our review of available documents, which included assessing whether borrowers were subject to per physical location requirements or qualified for an affiliation waiver, we determined the borrowers exceeded 500 employees and the applicable employee-based size standard for the business industry. We then analyzed the loans to determine if borrowers qualified using the alternative size standard which allowed them to document their tangible net worth and average net income after federal income taxes using tax forms or business financials to justify their financial position. Although we found borrowers provided tax documents for some loans, they did not provide similar documents for their affiliates; therefore, we could not fully assess the alternative size standard for any of these loans.

For example, for one of 18 loans reviewed, a borrower who reported numerous affiliates did not provide supporting documentation for SBA to assess their number of employees or to support most of their affiliates' employee counts either. Although the borrower did not provide this supporting documentation, SBA approved forgiveness for the full loan amount totaling over $10 million with interest.

In another example, we identified a borrower who was a parent company with multiple subsidiaries and did not provide the financial information needed to analyze the alternative size standard. Without the financial information for the borrower and its affiliates, SBA did not have the necessary documentation to determine eligibility under the alternative size standard. Although the borrower did not provide the required documentation, SBA approved forgiveness in full totaling over $5 million with interest.

Regarding the loan for which we determined SBA did not properly apply the size standard criteria for the borrower's Second Draw PPP loan, we found that the loan documentation identified the borrower had over 1,000 employees at the time of application. We determined the borrower had affiliates; however, the documentation did not support the affiliates' number of employees. Accordingly, we determined the borrower exceeded the maximum size standard of 300 employees for Second Draw PPP loans.

The Economic Aid Act states that a borrower is eligible for a Second Draw PPP loan only if it employed 300 or fewer employees.[12] After issuance of this Act, SBA clarified that Second Draw PPP loans did not allow the use of the SBA employee-based or alternative size standards;[13] however, SBA determined the business was eligible for a 'per physical location' exemption. Applicable program requirements stated the exemption was limited to applicants with NAICS

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[12] Economic Aid to Hard-Hit Small Businesses, Nonprofits, and Venues Act §311(a), 15 U.S.C.§636(a)(37)(A)(iv)(I)(aa).
[13] U.S Small Bus. Admin., Paycheck Protection Program Loans, Frequently Asked Questions, Question #63 (as of March 3, 2021).

codes beginning with prefix 72, or businesses with other specific industry prefixes that employed 300 or fewer employees per location.[14]

Based on our review, we identified the business did not have a NAICS code that qualified for the per location exemption, therefore we concluded the borrower exceeded the size standard and was ineligible under Second Draw PPP loan size requirements. Notwithstanding, SBA approved forgiveness for the full loan amount totaling over $2 million with interest.

We question costs for the 19 loans totaling $146,204,791 because SBA did not have sufficient documentation to ensure borrowers met size standard eligibility requirements to support its loan review decisions.

Recommendations

To address the potentially ineligible loans, we recommend the Administrator direct the Associate Administrator of the Office of Capital Access to:

Recommendation 1: Obtain the documentation necessary to fully assess the borrower's size standard eligibility for the 29 loans, totaling $196.5 million, that were cleared solely by memoranda unrelated to size standard eligibility requirements to ensure only eligible borrowers received funds and, if not, seek repayment of forgiveness amounts on all loans deemed ineligible.

Recommendation 2: Obtain the documentation necessary to fully assess whether size standard eligibility requirements were met for the 19 loans, totaling $146.2 million and, if not, seek repayment of forgiveness amounts for all loans deemed ineligible.

[14] U.S. Small Bus. Admin., Paycheck Protection Program Loans, Frequently Asked Questions, Question #63 (as of March 3, 2021).

Evaluation of Agency Response

SBA management provided formal comments on the draft report, which we considered when preparing this final report. Management partially agreed with recommendations 1 and 2.

Management's planned actions for recommendation 1 satisfy the intent of the recommendation and it is resolved. However, management's planned actions for recommendation 2 do not fully satisfy the intent of the recommendation and it is unresolved. We will seek resolution in accordance with our audit resolution policy.

In their response, management stated that OIG is inaccurate regarding its statement that SBA incorrectly resolved and forgave 29 loans. They stated that SBA cleared the flags for these loans using a risk-responsive, data-driven approach, resulting in expedited batch disposition without manual review.

Additionally, management stated they re-examined the 19 loans for which OIG determined manual reviews were not adequate to ensure borrowers met size standard eligibility requirements. Management stated that they found 9 of 19 loans had sufficient documentation to assess whether size standard eligibility requirements were met, and forgiveness was properly awarded. Six borrowers qualified for an affiliation waiver because their businesses operated as franchises and had SBA-assigned franchise identifier codes. Three borrowers qualified by meeting applicable employee-based size standard for their primary industry. Management stated that they provided this information to OIG.

Of the remaining 10 loans, SBA implicitly acknowledged that it did not contain sufficient documentation. SBA is currently reviewing one loan and stated that it will immediately flag the remaining 9 for post-payment reviews.

We disagree with management's assertion that SBA was not required to conduct manual reviews for the 29 loans. Specifically, SBA's review plan stated it would manually review loans identified by its automated screening process including loans flagged with attributes that may indicate the business was not eligible. The plan also stated that SBA would manually review loans referred by OIG. Subsequent to our prior report, *Inspection of SBA's Implementation of the Paycheck Protection Program* (Report Number 21-07), we referred to SBA 355 PPP loans, including these 29 loans, that appeared to exceed maximum size standards. Therefore, based on our understanding of SBA's loan selection criteria, we believe the agency was required to manually review the 29 loans that our office referred.

Regarding the 9 of 19 loans in question, we analyzed the information management provided. Based on our analysis, for the 6 borrowers that SBA stated qualified for an affiliation waiver, we noted the franchises were not separate legal entities but were instead owned by one singular business entity that employed individuals to operate the franchises. Therefore, these employees would contribute to the total employee count for the singular business entity when determining the number of employees for size standard purposes. For example, one borrower identified over 500 employees in their tax documentation. The borrower operated multiple franchises with multiple locations for each franchise under one legal entity (the borrower). The borrower's employee count exceeded the employee-based size standard and would need to qualify using the alternative size standard; however, the loan file did not have sufficient documentation to determine if the borrower qualified for the alternative size standard.

For the remaining 3 borrowers that management stated qualified by meeting applicable employee-based size standard, we maintain our position that SBA did not have sufficient documentation to determine size standard eligibility prior to the loan being forgiven or to support its loan review decisions.

See Appendix 3 for management's comments in their entirety.

Summary of Actions Necessary to Close the Recommendation(s)

The following section summarizes the status of our recommendations and the actions necessary to close them.

Recommendation 1

Obtain the documentation necessary to fully assess the borrower's size standard eligibility for the 29 loans, totaling $196.5 million, that were cleared solely by memoranda unrelated to size standard eligibility requirements to ensure only eligible borrowers received funds and, if not, seek repayment of forgiveness amounts on all loans deemed ineligible.

Status: Resolved

Management partially agreed with this recommendation, stating that SBA's review process did not require them to review the loans, and they do not believe they failed to properly implement policies and procedures. However, management agreed to review the 29 loans to ensure the borrower's eligibility. In follow-up correspondence, management stated they plan to complete the reviews by March 31, 2026.

Management's proposed action satisfies the intent of the recommendation. Management plans to review the loans to ensure eligibility requirements were met. This recommendation can be closed when management provides evidence that they completed the manual reviews and obtained the documentation necessary to fully assess the borrower's size standard eligibility for the 29 loans and are seeking recovery of all ineligible loans.

Recommendation 2

Obtain the documentation necessary to fully assess whether size standard eligibility requirements were met for the 19 loans, totaling $146.2 million and, if not, seek repayment of forgiveness amounts for all loans deemed ineligible.

Status: Unresolved

Management partially agreed with the recommendation, stating that they examined the 19 loans and found that 9 loans contained sufficient documentation to confirm size, and the forgiveness decisions were appropriate. One of the remaining 10 loans is currently undergoing a post-payment review, and SBA will immediately flag the remaining 9 loans for post-payment review. SBA will follow the agency's recovery plan in effect at completion of the reviews if any issues are found.

This recommendation is unresolved. As stated above in our evaluation of the Agency's response, and based on our review of the documentation provided, we disagree with SBA's determination that borrowers for 9 of the 19 loans met eligibility requirements. However, we will attempt to resolve these recommendations with SBA management in accordance with our audit follow-up policy.

Appendix 1: Scope and Methodology

The scope of our review covered Paycheck Protection Program (PPP) loans disbursed in fiscal years 2020 and 2021 and forgiven as of May 2022. To gain an understanding of size standard requirements for the PPP and the various changes over time, we conducted extensive research on the statutes, regulations, forms, FAQs, and other guidance published from the beginning of the program (March 27, 2020) through May 2022. We interviewed U.S. Small Business Administration (SBA) personnel and SBA's contractor to gain an understanding of the loan review process related to size standard eligibility. We developed a loan review checklist to analyze and assess the appropriateness of SBA and contractor manual review decisions regarding size standard eligibility requirements for loans in our sample that were manually reviewed.

To ensure that our final sample would include only loans exceeding the size standard, we refined the data using the 355 potentially ineligible loans from SBA Office of Inspector General Report Number 21-07 as a reference point as data analysis showed they exceeded both 500 employees and the employee-based size standard for their business industry. To begin, we removed loans which would not fall under the scope of this review (i.e., revenue-based North American Industry Classification System (NAICS), NAICS beginning with 72, NAICS codes that changed from origination to forgiveness, or the number of employees listed in the data was fewer than 500). We further refined our universe based on our scope period. We identified 178 loans that still exceeded the employee-based size standard after forgiveness, which included a small number of loans that were not part of the original universe of 355.

After noticing anomalies in some of the critical data fields, we performed additional analyses. Specific tests included removing loans where (1) employee counts were not reasonable based on a calculation of the borrower's payroll dollar amount per employee, (2) employee count fields contained an extra zero, and (3) the employee count fields matched the loan amount or the borrower's ZIP Code. Based on our analyses and data refinement, we identified 79 PPP loans, totaling approximately $570 million, that potentially exceeded the employee-based size standard. We reviewed 64 of 79 loans, totaling approximately $465 million, as described below.

At the time of our review, 29 of the 79 loans in our final universe received only an automated review. We reviewed the loans that only received automated reviews and analyzed forgiveness data to determine if the loans were cleared by memoranda prior to the completion of a manual review. For the remaining 50 loans, SBA conducted in-depth reviews for 27 and its contractor manually reviewed 23 in order to clear the size standard hold code. We reviewed all 27 loans that SBA manually reviewed to determine if they were eligible under PPP size standard requirements and judgmentally selected 8 of the 23 loans manually reviewed by a contractor to determine if those loans were eligible under PPP size standard requirements.

We conducted this evaluation in accordance with the Council of the Inspectors General on Integrity and Efficiency's *Quality Standards for Inspection and Evaluation*. These standards require that we adequately plan and perform the evaluation to obtain sufficient and appropriate evidence to provide a reasonable basis for our findings and conclusions based on our objective. We believe that the evidence provides a reasonable basis for our conclusions based on our objective.

Use of Computer-Processed Data

We relied on information from SBA's Loan Accounting System, E-Tran, Forgiveness Platform to conduct our analyses. We conducted numerous analyses of PPP data to determine if SBA's reported data were reliable. We performed reliability testing for fields that we used in the data which were critical to our review, such as the NAICS code and number of employee fields. To provide further confidence in the data we used for this report, we validated the NAICS and employee counts on a loan-by-loan basis by reviewing source documents, when possible. In many instances, loans did not have a source document for comparison purposes that contained the needed data. With further validation on a loan-by-loan basis we were able to use conclusions from other documentation, such as payroll documents, tax information, and other loan documentation to provide confidence in our results. Through specific data reliability testing as well as conducting further validations on specific data elements and reviews of additional documentation, we believe the data elements used in this report are sufficiently reliable to support our report conclusions.

Prior Audit Coverage

The following lists OIG's previous audit coverage related to the objective of this report:

Report Number	Report Title	Report Date
Report 21-07	*Inspection of SBA's Implementation of the Paycheck Protection Program*	January 14, 2021
Report 22-09	*SBA's Paycheck Protection Program Loan Review Processes*	February 28, 2022

Appendix 2: Monetary Impact

Monetary impact identified in this report is categorized as questioned costs. Questioned costs are expenses not supported by adequate documentation at the time of the audit, or which otherwise do not comply with legal, regulatory, or contractual requirements.

Table 2: OIG Schedule of Monetary Impact (Questioned Cost)

Description	Amount (Dollars)	Explanation
Unsupported Costs	$196,518,147	We found that SBA forgave 29 loans by incorrectly using memoranda that were unrelated to size standard requirements, without conducting the required manual review.
Unsupported Costs	$146,204,791	We found that SBA or its contractor did not conduct adequate manual reviews on 19 loans to ensure size standard eligibility requirements were met.
Total Overall Questioned Cost	**$342,722,938**	

Source: OIG analysis of loan data.

Appendix 3: Agency Response

U.S. SMALL BUSINESS ADMINISTRATION
WASHINGTON, DC 20416

To: Sheldon Shoemaker
Deputy Inspector General
U.S. Small Business Administration

From: Jihoon Kim, Director, Office of Financial Program Operations, OCA
JI KIM Digitally signed by JI KIM Date: 2025.03.27 11:35:16 -04'00'

Date: March 28th, 2025

Subject: Response to OIG Draft Report – Eligibility of PPP Loans Exceeding Maximum Size Standards (Project 22015)

We appreciate the role the Office of Inspector General (OIG) plays in working with management in ensuring that our programs are effectively managed, and for the feedback provided in this draft report. We offer the following comments to the draft and Recommendations:

OIG inaccurately states that SBA incorrectly resolved and forgave 29 loans, totaling $196.5 million, that were flagged for potential ineligible business size. In fact, the loans did not require a manual review under SBA's procedures. SBA cleared the flags using a risk responsive, data driven approach in which specific categories of flagged loans that presented minimal risk of noncompliance with eligibility requirements, fraud, or abuse, for expedited batch-disposition without manual review. This was necessitated by the challenges posed by the volume of PPP loans and the statutory timeframe for reviews.

OIG states in this report that manual reviews for 19 of 64 loans, totaling approximately $146.2 million, were not adequate to ensure borrowers met size standard eligibility requirements because supporting size standard documentation was not sufficient to substantiate that the borrower was eligible for the loan. SBA re-reviewed the 19 loans and found that for 9 loans, sufficient documentation exists in the file to assess whether size standard eligibility requirements were met, and forgiveness was properly awarded. Six borrowers qualified for an affiliation waiver based on the fact that the business operated as a franchise that was assigned a franchise identifier code by the Agency. Three borrowers qualified by meeting the applicable employee-based size standard corresponding to its primary industry NAICS code.

SBA previously provided OIG with a list of the 9 loans totaling $75,284,095 which we believe contained sufficient documentation in the file at the time of manual review to confirm size standard eligibility. OIG disagreed with SBA's determination and requested additional information during this 30-day comment period. SBA subsequently provided the OIG with a detailed spreadsheet outlining its findings as well as citing the specific docs within the loan files that confirm the eligibility of the 9 loans.

Recommendation 1: Obtain the documentation necessary to fully assess the borrower's size standard eligibility for the 29 loans, totaling $196.5 million, that were cleared solely by memoranda unrelated to size standard eligibility requirements to ensure only eligible borrowers received funds and, if not, seek repayment of forgiveness amounts on all loans deemed ineligible.

SBA Response: SBA partially agrees. While our review processes did not require us to look at these loans when they were originally forgiven and SBA does not believe it failed to properly implement its policies and procedures, we do agree to move forward with conducting the 29 reviews to ensure that the borrower was an eligible size at the time the loan was made.

Recommendation 2: Obtain the documentation necessary to fully assess whether size standard eligibility requirements were met for the 19 loans, totaling $146.2 million and, if not, seek repayment of forgiveness amounts for all loans deemed ineligible.

SBA Response: SBA partially agrees. SBA re-examined the 19 loans and found that 9 loans contained sufficient documentation to confirm size, and the forgiveness decisions were appropriate. Of the remaining 10 loans, one is currently undergoing a post payment review, and SBA will immediately flag the remaining 9 loans for post payment reviews. SBA will follow the Agency's recovery plan in effect at the time of completion of the reviews if any issues are found with the remaining loans.