

U.S. SMALL BUSINESS ADMINISTRATION

OFFICE OF INSPECTOR GENERAL

# **SBA's Restaurant Revitalization Fund Program Award Practices**



**Audit Report**

**Report 24-09**

**March 26, 2024**



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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](mailto: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.



# U.S. Small Business Administration Office of Inspector General

## EXECUTIVE SUMMARY

### SBA's Revitalization Fund Program Award Practices (Report 24-09)

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#### What OIG Reviewed

We reviewed the U.S. Small Business Administration's (SBA) Restaurant Revitalization Fund (RRF) application review and approval process. The American Rescue Plan Act of 2021 established the RRF to help small businesses in the food service industry adversely affected by the Coronavirus Disease 2019 pandemic. Beginning in May 2021, SBA received 278,300 RRF applications requesting \$72.2 billion in relief payments. SBA approved approximately 101,000 applications and disbursed all \$28.6 billion authorized for the program.

The objective of this review was to determine whether the controls SBA implemented to award RRF program funds in accordance with the Act and other applicable guidance were effective.

#### What OIG Found

SBA developed an implementation plan including a risk framework that was intended to reduce the risk of making improper payments and awarding RRF funds to ineligible recipients. However, the plan did not include all program requirements and SBA did not always adhere to the plan or have sufficient controls to ensure program and statutory requirements were met by RRF applicants. As a result, we determined SBA awarded:

- \$552 million of improper payments to applicants with a history of "likely fraud" by not effectively leveraging fraud indicators available in Paycheck Protection Program (PPP) loan data as planned;

- \$6.0 billion to applicants without verifying historical data as planned;
- \$377 million to applicants that claimed to operate as an inn or brewery, through automated approval and without program eligibility review; and
- \$55 million to affiliate groups that collectively received amounts in excess of the statutory limit.

After accounting for award amounts that we questioned for more than one eligibility requirement, we determined that SBA disbursed nearly \$6.7 billion to applicants without sufficiently verifying they were eligible for award.

#### What OIG Recommended

We made five recommendations for SBA to improve the use of data to reduce risks of making improper payments, and to review and recover funds awarded to applicants that did not meet eligibility requirements or received funds that exceeded statutory limits.

#### Agency Response

SBA management agreed or partially agreed with all five recommendations. Management's planned actions resolve recommendations 1 and 4. Management plans to develop a fraud risk framework to reduce improper payment risks in SBA programs and recover funds paid to affiliated business groups that exceed statutory limits. We did not reach resolution on recommendations 2, 3, and 5. OIG will seek resolution in accordance with our audit resolution policies and procedures.




**OFFICE OF INSPECTOR GENERAL  
U.S. SMALL BUSINESS ADMINISTRATION**

**MEMORANDUM**

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**Date:** March 26, 2024

**To:** Isabella Casillas Guzman  
Administrator

**From:** Hannibal "Mike" Ware   
Inspector General

**Subject:** Audit of SBA's Restaurant Revitalization Fund Award Practices (Report 24-09)

This report presents the results of our audit of *SBA's Restaurant Revitalization Fund Award Practices*. We considered management comments on the draft of this report when preparing the final report. SBA management agreed with two recommendations and partially agreed with three recommendations. Three recommendations are pending resolution.

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

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# Introduction

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The American Rescue Plan Act of 2021 (the Act) established the Restaurant Revitalization Fund (RRF) program with \$28.6 billion to help small businesses in the food service industry adversely affected by the Coronavirus Disease 2019 (COVID-19) pandemic.<sup>1</sup>

The program opened for applications in May 2021. The U.S. Small Business Administration (SBA) received 278,000 RRF applications requesting \$72.2 billion in relief payments. SBA approved approximately 101,000 applications and disbursed \$28.6 billion in funds authorized for the program. These included awards made in November 2022 using \$83.4 million of remaining funds from awards returned from RRF applicants, unused funds set-aside for RRF litigation purposes, and other sources of funds not previously disbursed.

This report presents the results of our audit of SBA's procedures for ensuring that RRF program funds were properly awarded to eligible businesses.

## Eligibility Requirements

Eligible entities are businesses that were not permanently closed at the time of application, and include those where the public or patrons assemble for the primary purpose of being served food or drink, such as restaurants, bars, caterers, and food trucks.<sup>2</sup> Establishments such as inns, bakeries, wineries, distilleries, and breweries (hereafter referred to as "breweries or inns") were required to provide proof that at least 33 percent of gross receipts were derived from onsite food or beverage sales to the public. State or local government-operated entities, entities that owned over twenty business locations (with affiliates), and publicly traded companies were not eligible.

The Act permitted applicants to self-certify that they (1) needed the funds to support operations due to current economic uncertainty; and (2) did not have a pending application for or receive funds from the Shuttered Venue Operators Grant program.

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<sup>1</sup> American Rescue Plan Act of 2021. Pub. L. No. 117-2, § 5003(a)(4) and § 5003(c)(6) (March 11, 2021).

<sup>2</sup> American Rescue Plan Act of 2021. Pub. L. No. 117-2, § 5003(a)(4) (March 11, 2021).

## Program Design

In accordance with the Office of Management Budget guidance, SBA submitted an RRF program implementation plan for approval.<sup>3</sup> The RRF implementation plan was designed primarily in response to shortcomings in internal controls identified in the implementation of the Paycheck Protection Program (PPP).<sup>4</sup> To address those concerns, SBA followed the Government Accountability Office's (GAO) guidance on fraud risk management to better prevent, respond, and detect fraud for the RRF program.<sup>5</sup> SBA designed a process for approving applications based on high or low risks associated with the applications' type and traits prior to submission for automated or manual review. To assess some of these traits, all applications were screened against six pre-award controls:

- Validate address;
- Verify bank account info;
- Cross-check franchise info;
- Verify signatures;
- Platform data evaluation for fraud and anomalies such as an applicant's IP address, bank account changes, etc.; and
- Documents were scanned for viruses and flagged for empty documents.

SBA also planned to validate applications against private and public data sources, including SBA's PPP loan data, the Department of Treasury's Do Not Pay list, Internal Revenue Service (IRS) tax data, and fee-based data analytic providers as part of the automated and manual review process.

## RRF Application Risk Framework

To implement the RRF program plan, SBA designed a framework to assign applications into four different risk tiers. SBA planned for the framework to have four tiers, starting with Tier 1 for applicants with the lowest risk and increasing through Tier 4 for applicants with the highest risk.

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<sup>3</sup> Office of Management and Budget, Circular M-21-20, "Promoting Public Trust in the Federal Government through Effective Implementation of the American Rescue Plan Act and Stewardship of the Taxpayer Resources" (March 19, 2021).

<sup>4</sup> SBA, 2 CFR Implementation Plan Template for New Programs Authorized by the American Rescue Plan (April 2021).

<sup>5</sup> U.S. Government Accountability Office, GAO-15-593SP, *A Framework for Managing Fraud Risks in Federal Programs* (July 2022).



Program officials informed us they later added a tier to escalate applications flagged for unanticipated issues that emerged during the payment disbursement process. The review was limited to address the reason why the award failed to be disbursed after approval.

SBA assigned applications to different risk tiers based on dollar amount of award and existing data known about the applicant. For example, if an RRF applicant also received a PPP loan, SBA attributed the applicant to be of lower risk because SBA now had the applicant’s loan data from the agency’s systems.

**Table 1: Risk Framework SBA Used to Process RRF Applications**

<b>Tier</b>	<b>Risk</b>	<b>Review Type</b>	<b>Requirement for Tier</b>	<b>Application Distribution</b>	<b>Awards Disbursed (in billions)</b>
Tier 1	Low	Automated	Submitted through Point-of-Sale (POS) Partner	7%	\$1.1
Tier 2*	Low	Automated	PPP data validated. No PPP Flags or Holds Award < \$360,000	63%	\$8.0
Tier 3	High	Manual	PPP data validated. No PPP Flags or Holds Award > \$360,000	8%	\$7.8
Tier 4	High	Manual	No PPP history available Award in any amount	18%	\$9.8
Escalated Tier	Varied	Manual	Escalated applications flagged after approval but before disbursement	5%	\$1.8
<b>Total</b>	-	-	-	<b>100%</b>	<b>\$28.5</b>

\*Note: Tier 2 application count includes applications that met the Tier 2 requirements but did not have a tier assignment in the RRF platform (see Finding 2 for additional details).

Source: OIG analysis based on RRF program plan, application data, and awards disbursed as of May 23, 2022.

According to the risk framework, SBA assessed risk as low for applications assigned to Tier 1, and designated Tier 1 for applications that were in partnership with point-of-sale partners whose key controls SBA relied on for verifying gross sales. Tier 2 was for all applications requesting less than \$360,000. Applications processed through Tiers 1 and 2 went through an automated review process. By contrast, applicants assigned to Tiers 3 and 4 went through a manual review process by SBA personnel. In a manual review for Tiers 3 and 4, the reviewer’s primary task was to perform a cursory review of the required documentation to verify the award calculation.

## Prior Audit Work

In FY 2023, OIG also performed reviews of SBA's oversight of RRF award recipients and of SBA's inaction on reviewing potentially fraudulent RRF awards referred to SBA by a point-of-sale partner.<sup>6</sup> The OIG's concerns were consistent with SBA's independent auditor reporting that SBA could not demonstrate that its treatment of RRF transactions were consistent with sound accounting practices.<sup>7</sup>

GAO issued a report in FY 2022 year on how SBA established a process to detect fraudulent or ineligible applicants but raised concerns about the effectiveness of the procedures.<sup>8</sup>

## Objective

To determine whether the controls SBA implemented to award RRF program funds in accordance with the American Rescue Plan Act of 2021 and other applicable guidance were effective.

## Results

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Program officials used lessons learned from other SBA COVID-19 pandemic relief programs to develop an implementation plan designed to reduce the risk of making improper payments and awarding RRF funds to ineligible recipients. However, SBA did not consider all eligibility requirements established in the authorizing legislation as a measure for the risk framework. SBA implemented the RRF application process by automating most of the verification procedures to expedite making awards but did not have sufficient controls to reduce risks of making improper payments or distributing money to ineligible applicants.

SBA disbursed nearly \$6.7 billion to potentially ineligible recipients due to not following planned review procedures, system design flaws, human intervention, and reliance on self-certification.

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<sup>6</sup> SBA Office of Inspector General, 23-10, *SBA's Administrative Process to Address Potentially Fraudulent Restaurant Revitalization Funds Award* (July 5, 2023) and 23-15, *SBA's Oversight of Restaurant Revitalization Fund Recipients* (September 29, 2023).

<sup>7</sup> SBA Office of Inspector General, 23-02, *Independent Auditor's Report on SBA's FY 2021 Financial Statements* (November 15, 2022).

<sup>8</sup> U.S. Government Accountability Office, GAO-22-105442, *Restaurant Revitalization Fund, Opportunities Exist to Improve Oversight* (July 2022).

Specifically, despite plans to verify PPP loan hold codes for RRF applications, SBA did not establish procedures to detect the flagged files. We identified 901 applications that had active hold codes on their PPP loan files as of May 3, 2021, that SBA did not take into consideration before awarding \$552 million in RRF funds to applicants. We also found SBA did not evaluate PPP data or the results of the IRS validation to confirm historical sales data as planned for 47,565 applicants awarded \$6 billion in RRF funds.

In addition, SBA did not align RRF automated processes to enable verification that recipients met key eligibility requirements. Of the 4,724 applicants that self-certified that their breweries or inns had at least 33 percent of gross receipts from onsite sales to the public, 73 percent of them were processed automatically without any review of supporting documentation. These entities were required to provide documentation that at least 33 percent of gross receipts were comprised of onsite food or beverage sales to the public. As such, SBA did not ensure that it awarded nearly \$377 million in RRF funds to business owners who significantly relied on onsite food and beverage sales.

We also found that SBA did not have proper controls to ensure RRF applicants, who disclosed having at least one affiliated business, did not exceed the limit of \$10 million to any one group. We identified 14 business affiliate groups that collectively received \$55 million more than the statutory limit allowed per affiliate group.

## **Finding 1: Critical Data Not Used as Planned to Prevent Awarding Funds to Ineligible Recipients**

Based on lessons learned from the PPP loan program, SBA developed its risk tier approach for reviewing RRF applications using GAO's *Fraud Risk Management Framework*. A core tenet of the framework advised agencies to mine the data to identify suspicious activities and transactions, including any anomalies, outliers, and other red flags.<sup>9</sup>

SBA used a variety of public and private data resources to validate the information contained in the application, which included using the PPP loan data. Nearly 90 percent of the RRF award recipients had an associated PPP loan. According to the RRF program implementation plan, using PPP loan data was supposed to allow SBA to leverage a significant amount of information

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<sup>9</sup> U.S. Government Accountability Office, GAO-15-5935SP, *A Framework for Managing Fraud Risks in Federal Programs* (July 2015). <https://www.gao.gov/assets/gao-15-593sp.pdf>.

available to prevent making potentially improper payments. Moreover, SBA's framework stipulated that tiers 2 and 3 were only for applicants with clean PPP data.

When SBA launched the RRF program, it only factored in the existence of a PPP loan file to justify assigning the application to a low-risk tier for the RRF program. SBA did not leverage the information available in the PPP loan file such as historical sales data, bank accounts, business addresses, affiliated entities, system generated warnings, or eligibility concerns noted in the application as planned. According to program officials, SBA did not have access to this information because the lenders maintained the loan files. SBA merely used the PPP data to subtract the PPP loan value from the RRF request to reduce the award amount. SBA's deviation from its plan to use known and available evidence of potential fraud in the PPP loan portfolio resulted in awarding 901 applications over \$552 million in RRF funds to potentially ineligible recipients.

SBA will conduct post award reviews of all RRF award recipients currently marked in the PPP loan data as potentially fraudulent or ineligible to implement a recommendation we made in our *Audit of SBA's Oversight of Restaurant Revitalization Fund Recipients* (Report 23-15). Although SBA has finished making awards for the RRF program, SBA owns the software license and related intellectual properties for the PPP and RRF platforms and plans to continue using these platforms for future programs.

## Recommendation

We recommend the Administrator direct the Associate Administrator of the Office of Performance, Planning, and the Chief Financial Officer to:

**Recommendation 1:** Develop a plan for future similar programs to leverage applicable existing SBA data sources when determining eligibility and monitoring awards. The plan should include requirements to evaluate effectiveness of the use of the data as controls to reduce risk of improper payments.

## Finding 2: Historical Sales for All RRF Applicants Not Validated as Planned When Determining Eligibility

The Act required that the award amount be equal to the entity's pandemic-related revenue loss. All applicants were required to complete IRS Form 4506-T for verification of tax information and provide documentation of gross receipts in support of their application. SBA's implementation

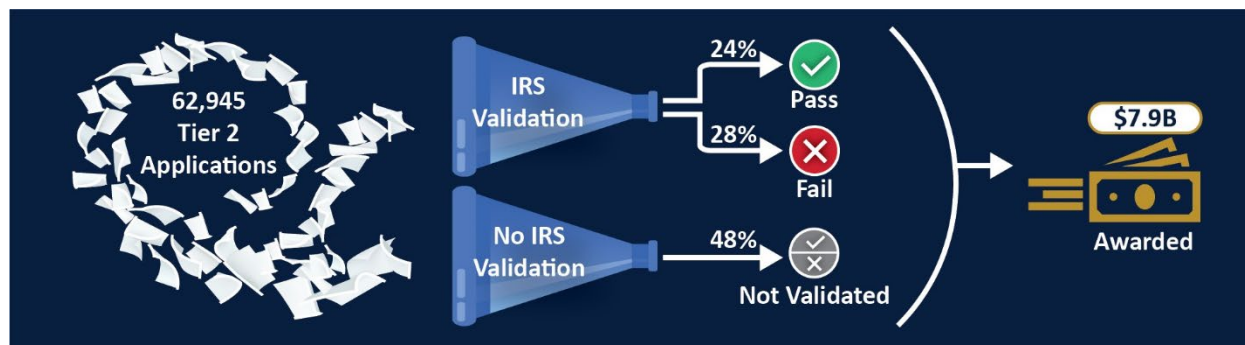
plan stated that an applicant’s historical sales would be validated against at least one of the following sources: POS partner data, prior PPP loan submission data, or IRS data.

For Tier 2 applications, SBA planned to use PPP loan data to validate historical sales information. SBA also included an automated step for Tier 2 applications to route through the IRS for validation when the RRF platform software was launched.

SBA approved 46,297 Tier 2 applications, and 16,648 applications that were manually adjusted due to the system not assigning a tier but met the risk framework requirements for a Tier 2 designation.

Although program officials planned to use PPP data to validate sales, upon execution, only the value of the PPP loan amount was used to reduce the award amount authorized for the RRF program. PPP data was not used to validate any information within the award application, including historical sales. Given these facts, the IRS tax validation was the only other control that could have validated historical sales on Tier 2 applications.

**Figure 1: SBA’s System Design Flaw on Validating Historical Sales Against IRS Data for Tier 2 Applications**



Note: The total number of Tier 2 applications includes both Tier 2 and Tier 2-like categories

Source: OIG generated from data provided by SBA

All applications approved using Tier 2 automated process, representing \$7.9 billion in awards, were automatically approved regardless of whether tax information associated with the applicant was cleared, problematic, or null. Of the 62,945 applications awarded using the Tier 2 automated process, 24 percent passed the IRS validation; 28 percent failed the validation; and 48 percent were not validated at all (see Figure 1).

SBA did not follow its original plan to use PPP data to validate historical sales and the IRS tax validation results were ignored. We found that 47,565 of Tier 2 awards, or 76 percent, valued at more than \$6.0 billion were unsupported due to unverified historical sales (see Appendix 2).

## Recommendation

We recommend the Administrator direct the Associate Administrator of the Office of Capital Access to:

**Recommendation 2:** Validate historical sales for 47,565 awards designated or treated as Tier 2 that failed or did not receive IRS validation. Recover any excess funds paid that are attributable to unverified historical sales data.

### **Finding 3: Verification that Certain Types of Businesses Met Eligibility Requirements**

Applicants who claimed to operate as a brewery or inn type of business were required to provide documentation that at least 33 percent of gross receipts were comprised of onsite food or beverage sales to the public.<sup>10</sup> We found SBA did not have controls to ensure applicants assigned to Tiers 1 and 2 provided the required documentation and did not have a process to review submitted documents to assess whether the gross receipts criteria were met. SBA's automated process for Tiers 1 and 2 approved 3,443 of the 4,724 RRF award recipients that claimed to operate as a brewery or inn type of business, or 73 percent. The remaining 1,281 brewery and inn type of business applicants were processed as Tiers 3 and 4, or 27 percent of the overall awards for this type of business.

For the awards that were processed through Tiers 3 and 4, program officials manually verified that the applicants' sales met the requirement that 33 percent of gross receipts were comprised of onsite food or beverages to the public.

For Tiers 1 and 2, SBA allowed applicants to self-certify that they conducted business as a brewery or inn. SBA's application process also allowed them to self-certify that 33 percent of sales were from food and drink sales to the public. While program rules required applicants to provide supporting documents to substantiate the 33 percent assertion, Tiers 1 and 2 were approved automatically without any review of the supporting documentation provided. In total, the lack of controls resulted in automatically approving almost \$377 million in award funds without review of required documentation.

The Act authorized SBA to allow applicants to self-certify their priority status. However, program officials widely accepted self-certification in other areas for eligibility, and in this case, on the

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<sup>10</sup> SBA, *Restaurant Revitalization Fund Program Guide* (April 28, 2021).

claim that the applicant met the definition of an eligible entity. As a result, program officials did not ensure that nearly \$377 million in RRF funds were awarded to business owners who significantly relied on onsite food and beverage sales, consistent with the restaurant industry the program was targeted to help.

## Recommendation

We recommend the Administrator direct the Associate Administrator of the Office of Capital Access to:

**Recommendation 3:** Review the 3,443 applicants awarded funds totaling \$376,583,100 that self-certified as a brewery or inn, to determine if they met the 33 percent onsite sales eligibility requirement and recover any funds from applicants that did not meet the requirement.

## Finding 4: Controls to Ensure Affiliated Businesses Complied with the Act's Requirements

The Act required that the amount awarded to affiliated businesses shall not exceed \$10 million in total and shall be limited to \$5 million per physical location. In addition, businesses were not eligible if there were more than 20 locations amongst all the affiliates.<sup>11</sup> Program officials disbursed \$7.7 billion (27 percent of all RRF funds) to 16,345 applicants who disclosed having at least one affiliate without any controls to limit the maximum award amount for affiliated business groups. For example, one affiliated group was awarded \$37.5 million — \$27.5 million more than the maximum award amount authorized.

SBA relied on applicants to:

- Self-disclose affiliated business relationships;
- Self-monitor to ensure that total awards did not exceed the \$10 million limit; and
- Self-certify an applicant and its affiliates had no more than 20 locations combined.

Since SBA allowed applicants to self-certify their affiliated status, they were able to request and receive more than \$10 million by submitting applications for multiple affiliates. On the application form, SBA instructed applicants to adjust award requests to stay below the \$10 million total limit. However, as there were no controls in place to monitor or connect the

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<sup>11</sup>American Rescue Plan Act of 2021. Pub. L. No. 117-2, §5003 (a)(2) and §5003 (c)(4)(A).

submissions, we found that applicants submitted applications for multiple affiliated businesses that, in total, exceeded the limit.

Although SBA asked if an applicant had affiliates, the intake design allowed applicants to answer “Yes,” without requiring applicants to provide additional information in the following text field intended to capture affiliate details. We found 1,431 applicants, who received \$694 million in RRF payments, indicated “Yes” but did not provide sufficient information to reliably identify the affiliated businesses. When applicants did choose to provide affiliate information, the method of capturing information (such as the Employer Identification Number) was not standardized to effectively segregate, cross-check and to connect the affiliated groups. Although the 16,345 applicants who indicated they had affiliations provided at least one affiliated business by name or other identifier, SBA did not establish a process to effectively capture the information necessary to determine whether affiliated businesses received RRF funds under a separate application.

We identified 14 affiliated business groups that collectively received \$195.1 million, which was \$55.1 million more than the statutory limit of \$140 million, with \$10 million allowed per group. Program officials had the duty to implement controls to enforce rules established by the Act. Consequently, there is no assurance that SBA awarded RRF funds within the statutory limit of \$10 million for affiliated businesses.

## Recommendations

We recommend the Administrator direct the Associate Administrator of the Office of Capital Access to:

**Recommendation 4:** In accordance with Public Law 117-2, § 5003(a)(4)(A)(i) take immediate action to review and recover improper payments from the 14 affiliated business groups disclosed by RRF applicants for a total of \$55,067,326 in excess funds paid, beyond the \$10 million limit per affiliated group.

**Recommendation 5:** Review the 16,345 applicants that disclosed having an affiliated business to determine if the amounts collectively awarded to the applicant and affiliates exceeded the \$10 million maximum and recover any excess awards.



## **Other Matters: SBA Paid Out Remaining and Unused RRF Funds**

During our engagement, we reviewed SBA's methodology to disburse \$83.4 million of remaining and unused RRF funds in November 2022. Program officials disbursed these funds to 169 applicants who had been previously approved for an award but had not received funds due to the funds authorized for the program being exhausted as of July 2, 2021. We verified SBA officials disbursed these funds to applications that were "fully approved" in the RRF platform by order of the date the application was submitted, like a "first in-first out" approach.

## **Evaluation of Agency Response**

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SBA management provided formal comments that are included in their entirety in Appendix 3. In their written response, management agreed with recommendation 1, partially agreed with recommendations 2, 3, and 5, and did not state a position on recommendation 4. However, subsequent to receiving management's written response, we followed up with program officials to clarify that they agreed with recommendation 4 and obtained final action dates for four of the five recommendations. We found the agency's planned actions are sufficient to resolve recommendations 1 and 4.

However, management's proposed corrective actions did not address recommendations 2, 3, and 5; therefore, these recommendations are unresolved. In accordance with our audit follow-up policy, we will attempt to reach agreement with SBA management on the unresolved recommendations within 60 days after the date of this final report. If we do not reach agreement, OIG will notify the audit follow-up official.

SBA management acknowledged the importance of recovering funds awarded to businesses that did not meet program or statutory eligibility requirements or received funds that exceeded statutory limits. Management stated the implementation of RRF was expedited per congressional mandate to quickly provide support to eligible entities that suffered revenue losses related to the COVID-19 pandemic. Management also stated they used a risk management framework consisting of automated, pre-award controls, supplemented by manual reviews of selected applications to expedite program delivery. Notwithstanding, we maintain our position that SBA's plan did not include all program requirements, nor did SBA always adhere to the plan or have sufficient controls to ensure program and statutory requirements were met by RRF applicants.

## **Summary of Actions Necessary to Close the Recommendations**

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

### **Recommendation 1**

We recommend the Administrator direct the Associate Administrator of the Office of Performance, Planning, and the Chief Financial Officer to develop a plan for future similar programs to leverage applicable and existing SBA data sources when determining eligibility and monitoring awards. The plan should include requirements to evaluate effectiveness of the use of the data as controls to reduce risk of improper payments.

#### **Status: Resolved**

SBA management agreed with the recommendation and stated that SBA's Fraud Risk Management Board is currently developing a standardized fraud risk framework for SBA in coordination with Office of Performance Systems Management and other SBA programs. Management plans to leverage the framework for future programs to evaluate available data to determine effectiveness and applicability to eligibility requirements. We will work with management to establish a target date for implementing corrective actions through the audit follow-up process.

This recommendation can be closed when management provides evidence that the program office adopted the fraud risk framework developed by SBA's Fraud Risk Management Board that will reduce risks of making improper payments in future similar programs.

### **Recommendation 2**

We recommend the Administrator direct the Associate Administrator of the Office of Capital Access to validate historical sales for 47,565 awards designated or treated as Tier 2 that failed or did not receive IRS validation. Recover any excess funds paid that are attributable to unverified historical sales data.

#### **Status: Unresolved**

SBA management partially agreed with our recommendation stating SBA is currently reviewing 10 percent of total RRF awards (10,050 awards) for potential fraud or misused program funds, including funds paid that are attributable to unverified historical sales data. Management plans to seek recovery of any excess funds paid and complete final action by May 30, 2025.

We maintain our position that SBA should specifically validate historical sales for the 47,565 awards we identified and recover any excess funds paid. As stated earlier, SBA calculated the award amount based on the applicant's sales data. Managements' plans to review 10 percent of the total RRF awards (10,050 awards) will not include all, if any, of the 47,565 applicants that SBA paid more than \$6.0 billion without adequate support for the amount awarded.

This recommendation can be closed when program officials provide evidence that they validated historical sales for the 47,565 awards we identified and recovered any excess funds paid.

### **Recommendation 3**

We recommend the Administrator direct the Associate Administrator of the Office of Capital Access to review the 3,443 applicants awarded funds totaling \$376,583,100 who self-certified as a brewery or inn, to determine if they met the 33 percent onsite sales eligibility requirement and recover any funds from applicants that did not meet the requirement.

#### **Status: Unresolved**

SBA management partially agreed with our recommendation. SBA management stated that the implementation plan did not require a manual review of all awards to recipients who self-certified as a brewery or an inn to determine if they met the 33 percent onsite sales requirement. SBA is currently reviewing 10 percent of the total RRF awards (10,050 awards) to address potential fraud or misused program funds, including funds paid without determining whether applicants met the minimum onsite sales requirement. Management plans to seek recovery of any excess funds paid to ineligible recipients and complete final action by May 30, 2025.

We maintain our position that program officials should specifically review the 3,443 applicants awarded funds totaling \$376,583,100 that self-certified as a brewery or an inn and determine if they met the 33 percent onsite sales eligibility requirement. Program officials should recover any funds from applicants that did not meet this requirement. Management's planned post-award review of 10 percent of the total award population does not guarantee they will review the 3,443 awards we identified in our audit.

This recommendation can be closed when program officials provide evidence that they determined whether the 3,443 applicants met the 33 percent onsite sales eligibility requirement and recovered funds from any ineligible award recipients.

#### **Recommendation 4**

We recommend the Administrator direct the Associate Administrator of the Office of Capital Access to, in accordance with Public Law 117-2, § 5003(a)(4)(A)(i), take immediate action to recover improper payments from the 14 affiliated business groups disclosed by RRF applicants for a total of \$55,067,326 in excess funds paid, beyond the \$10 million limit per affiliated group.

#### **Status: Resolved**

SBA management agreed with the recommendation. Management stated they are currently analyzing the data OIG provided and agreed to seek recovery of any excess funds paid to affiliated groups beyond the \$10 million limit. Management plans to seek recovery of any excess funds paid to affiliated groups and complete final action by May 30, 2025.

This recommendation can be closed when program officials provide evidence that they reviewed the 14 RRF applicants with an affiliated business and recovered improper payments for amounts paid that exceeded the statutory limit.

#### **Recommendation 5**

We recommend the Administrator direct the Associate Administrator of the Office of Capital Access to review the 16,345 applicants that disclosed having an affiliated business to determine if the amounts collectively awarded to the applicant and affiliates exceeded the \$10 million maximum and recover any excess awards.

#### **Status: Unresolved**

SBA management partially agreed with our recommendation stating that SBA is currently reviewing 10 percent of the total RRF awards (10,050 awards) to address potential fraud or misused program funds, including excess funds paid to applicants and affiliates that exceeded the \$10 million maximum limit. Management plans to seek recovery of any excess funds paid to ineligible recipients and complete final action by May 30, 2025.

Management's proposed actions do not satisfy the intent of this recommendation because SBA's planned post-award reviews of 10 percent of the total award population does not guarantee any review of the 16,345 applicants we identified. This recommendation can be closed when program officials provide evidence that they determined the 16,345 applicants who disclosed having an affiliated business were not collectively awarded more than \$10 million as an affiliated group and recovered any excess funds.

## Appendix 1: Scope and Methodology

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The scope of the audit focused on SBA's Restaurant Revitalization Fund (RRF) award practices used to review, approve, and fund approximately 101,000 applications totaling \$28.6 billion from May 3, 2021, to December 31, 2022.

To meet our audit objective, we reviewed the American Rescue Plan Act of 2021, SBA's Implementation Plan and Application Risk Framework for the RRF program, U.S. Government Accountability Office's (GAO) *A Framework for Managing Fraud Risks in Federal Programs*, and other applicable public laws, federal regulations, and agency guidance related to SBA's implementation of the RRF program and its award practices. We interviewed SBA program officials and RRF platform contractors to understand award practices and to obtain documentation that support those practices.

We analyzed the information in the applications for all 101,000 RRF award recipients to identify the following:

- Number of RRF applicants that had associated Paycheck Protection Program (PPP) loan hold codes at the time of application;
- Outcomes of Internal Revenue Service (IRS) validation for RRF applications;
- Number of RRF applicants in Tiers 2 and 3 that identified as a business type requiring proof of onsite sales of at least 33 percent;
- Number of RRF applicants with affiliated businesses; and
- Information collected in the RRF application text boxes and those applicants who provided at least one Employer Identification Number, to identify affiliate groups that received RRF funds.

We conducted this performance audit in accordance with GAO's *Generally Accepted Government Auditing Standards*. These standards require that we plan and perform audits to obtain sufficient and appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions.

## Use of Computer-Processed Data

We relied on computer-processed data in SBA’s RRF online application platform and E-Tran, SBA’s payment disbursement database. We obtained access to the RRF online application platform and retrieved applications, award information, and SBA’s evaluation record for all RRF applicants. We generated a report of all RRF applications' information from SBA’s online application platform and award information as of May 9, 2022. We tested the reliability of computer-processed data in the RRF online application platform and E-Tran database by comparing reports generated by program officials of application and award information. We tested the reliability of the data by comparing data received from the RRF online application platform and E-Tran to SBA’s PPP loan database and source documents such as IRS tax returns, income statements and bank statements. We believe the computer-processed information is reliable for the purposes of this audit.

## Assessment of Internal Controls

For this audit, we identified the following internal control components and underlying internal control principles (Table 2) as being significant to the audit objectives.

**Table 2: Internal controls assessed**

Internal Control Component	Internal Control Principle
Control Environment	<ul style="list-style-type: none"><li>• Tone at the Top.</li><li>• Establish structure, assign responsibility, and delegate to achieve the entity’s objective.</li></ul>
Risk Assessment	<ul style="list-style-type: none"><li>• Identify, analyze, and respond to risk.</li></ul>
Control Activities	<ul style="list-style-type: none"><li>• Management should design control activities to achieve objectives and respond to risk.</li><li>• Management should implement control activities through policies.</li></ul>
Information and Communication	<ul style="list-style-type: none"><li>• Management should use quality information to achieve the entity’s objectives.</li></ul>

## Prior Audit Coverage

The following OIG and GAO previous audit coverage related to the objective of this report:

Report Number	Report Title	Report Date
<a href="#">SBA OIG Report 23-02</a>	<i>Independent Auditor's Report on SBA's Fiscal Year 2022 Financial Statements</i>	November 15, 2022
<a href="#">SBA OIG Report 23-09</a>	<i>COVID-19 Pandemic EIDL and PPP Loan Fraud Landscape</i>	June 27, 2023
<a href="#">SBA OIG Report 23-10</a>	<i>SBA's Administrative Process to Address Potentially Fraudulent Restaurant Revitalization Fund Awards</i>	July 5, 2023
<a href="#">GAO-22-105442</a>	<i>Restaurant Revitalization Fund Opportunities Exist to Improve Oversight</i>	July 14, 2022
<a href="#">SBA OIG Report 23-15</a>	<i>SBA's Oversight of Restaurant Revitalization Fund Recipients</i>	September 29, 2023

## 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 2-1. OIG Schedule of Monetary Impact of SBA’s Restaurant Revitalization Fund Program Award Practices at the Time of Audit**

Description	Amount (Dollars)	Explanation
Ineligible Costs	\$552,139,455*	Funds paid on 901 applications that were not reviewed in accordance with SBA program implementation plans for consideration of PPP flags and codes.
Unsupported Costs	6,033,837,878	Awards made without historical sales validated via PPP data or IRS validation.
Unsupported Costs	376,583,100	Awards made without support for meeting eligibility requirements for 33 percent of onsite sales.
Ineligible Costs	55,067,326	Funds paid more than the allowable limit for affiliated business groups in accordance with Section 5003(A) of the American Rescue Plan Act of 2021.
Total Questioned Costs	\$7,017,627,759	-
Less: Duplicate Costs Removed for Overlap Across Multiple Eligibility Criteria	(339,952,607)	Questioned costs removed due to being questioned based on multiple eligibility criteria for the RRF program.
Net Questioned Costs	<b>\$6,677,675,152</b>	-

\*Note: SBA will conduct post award reviews of all RRF award recipients currently marked in the PPP loan data as potentially fraudulent or ineligible to implement a recommendation we made in our *Audit of SBA’s Oversight of Restaurant Revitalization Fund Recipients* (Report 23-15), recommendation 2. We will track questioned costs and monitor SBA’s actions to review the awards and recover funds to any ineligible recipients through the audit follow-up process for that report.

Source: OIG analysis of RRF award data.



## **Appendix 3: Agency Response**

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SBA RESPONSE TO THE AUDIT REPORT



U.S. SMALL BUSINESS ADMINISTRATION  
WASHINGTON, DC 20416

**To:** Hannibal “Mike” Ware  
Inspector General  
U.S. Small Business Administration

**From:** Jihoon Kim  
Director  
Office of Financial Program Operations  
Office of Capital Access

3/1/2024

**X** Jihoon Kim

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Jihoon Kim  
Director, OFPO  
Signed by: JI KIM

**Date:** March 1, 2024

**Subject:** Response to OIG Draft Report - SBA’s Restaurant Revitalization Fund Program Award Practices - Project 23001

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. The SBA team reviewed the OIG Draft Report. SBA acknowledges the importance of recovering funds awarded to businesses that did not meet program or statutory eligibility requirements or received funds that exceeded statutory limits.

The implementation of RRF was expedited per congressional mandate to quickly provide support to eligible entities that suffered revenue losses related to the COVID-19 pandemic. To comply with the Congressional mandate to expedite delivery of RRF funds while balancing the need to protect against fraud and ineligibility, SBA implemented a risk management framework consisting of automated, pre-award controls, supplemented by manual reviews of selected applications, in accordance with leading practices prescribed in GAO’s fraud risk framework.

Additionally, SBA designed its post-award review process to maximize program integrity and optimize use of SBA's limited resources and will perform manual post-award reviews of 10 percent of the total award population for potential fraud or misuse of program funds.

**Recommendation 1** – We recommend the Administrator direct the Associate Administrator of the Office of Performance, Planning, and the Chief Financial Officer (OPPCFO) to develop a plan for future similar programs to leverage applicable existing SBA data sources when determining eligibility and monitoring awards. The plan should include requirements to evaluate effectiveness of the use of the data as controls to reduce risk of improper payments.

**SBA Response:** SBA agrees. SBA's Fraud Risk Management Board (FRMB) is currently developing a standardized fraud risk framework for SBA in coordination with OPSM and other SBA programs. This framework will be leveraged by future programs to evaluate available data to determine its effectiveness and applicability to eligibility requirements of SBA programs administered through the platform.

**Recommendation 2** – We recommend the Administrator direct the Associate Administrator of the Office of Capital Access to validate historical sales for 47,565 awards designated or treated as Tier 2 that failed or did not receive IRS validation. Recover any excess funds paid that are attributable to unverified historical sales data.

**SBA Response:** SBA partially agrees. SBA is performing manual post-award reviews of 10 percent of the total award population for potential fraud or misuse of program funds, including funds paid that are attributable to unverified historical sales data. SBA plans to seek recovery of any excess funds paid to ineligible recipients.

**Recommendation 3** – We recommend the Administrator direct the Associate Administrator of the Office of Capital Access to review the 3,443 applicants awarded funds totaling \$376,583,100 that self-certified as a brewery or inn, to determine if they met the 33 percent onsite sales eligibility requirement and recover any funds from applicants that did not meet the requirement.

**SBA Response:** SBA partially agrees. The implementation plan did not require a manual review of all awards to recipients that self-certified as a brewery or inn to determine if they met the 33 percent onsite sales requirement. SBA is performing manual post-award reviews of 10 percent of the total award population for potential fraud or misuse of program funds, including applicants that self-certified as a brewery or inn to determine if they met the 33 percent onsite sales requirement. SBA plans to seek recovery of any excess funds paid to ineligible recipients.

**Recommendation 4** – We recommend the Administrator direct the Associate Administrator of the Office of Capital Access to, in accordance with Public Law 117-2, § 5003(a)(4)(A)(i), take immediate action to recover improper payments from the 14 affiliated business groups disclosed by RRF applicants for a total of \$55,067,326 in excess funds paid, beyond the \$10 million limit per affiliated group.

**SBA Response:** SBA requested specific data from OIG to assist us in analyzing this finding. We received that data but are still analyzing OIG's findings. If our analysis of the data confirms that the affiliated groups received funds beyond the \$10 million limit, we agree to seek recovery of any excess funds.

**Recommendation 5** – We recommend the Administrator direct the Associate Administrator of the Office of Capital Access to review the 16,345 applicants that disclosed having an affiliated business to determine if the amounts collectively awarded to the applicant and affiliates exceeded the \$10 million maximum and recover any excess awards.

**SBA Response:** SBA partially agrees. SBA is performing manual post-award reviews of 10 percent of the total award population for potential fraud or misuse of program funds, including excess funds paid to applicants and affiliates that exceeded the \$10 million maximum limit. SBA plans to seek recovery of any excess funds paid to ineligible recipients.