



October 2022

COVID RELIEF

SBA Could Improve Communications and Fraud Risk Monitoring for Its Arts and Entertainment Venues Grant Program

Accessible Version

GAO Highlights

Highlights of [GAO-23-105199](#), a report to congressional committees

Why GAO Did This Study

Between April 2021 and July 2022, SBA awarded \$14.6 billion in grants to help arts and entertainment businesses adversely affected by the pandemic. Grantees can use the awards to pay for operating expenses such as payroll, rent or mortgage, and utilities.

The CARES Act includes a provision for GAO to monitor funds provided for the COVID-19 pandemic. Among its objectives, this report examines characteristics of grant applicants and recipients as of December 31, 2021; applicant views of SBA communications; and steps SBA took to identify ineligible and fraudulent applications and manage fraud risks and the extent to which these reflect selected leading practices.

GAO reviewed documents from SBA and analyzed program data as of December 31, 2021 (the most recent grant-level data available at the time of GAO's analysis). GAO surveyed a generalizable sample of grant applicants, and interviewed staff from SBA and six business associations. GAO also tested program eligibility and fraud controls.

What GAO Recommends

GAO recommends that SBA (1) develop a comprehensive strategy for communicating with applicants of future emergency assistance programs, and (2) ensure that post-award monitoring procedures for its Shuttered Venue program specifically address risks the agency identified. SBA partially agreed with the recommendations. GAO continues to maintain that both recommendations are valid.

View [GAO-23-105199](#). For more information, contact William B. Shear at (202) 512-8678 or ShearW@gao.gov.

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SBA Could Improve Communications and Fraud Risk Monitoring for Its Arts and Entertainment Venues Grant Program

What GAO Found

The Shuttered Venue Operators Grant program was created to financially assist businesses in the performing arts and entertainment industries hard hit by the COVID-19 pandemic. The Small Business Administration (SBA) approved 73 percent of the 17,328 applications it received for the program as of December 31, 2021. Smaller businesses (those with 50 or fewer employees) represented over 90 percent of award recipients. Of the six types of eligible businesses, movie theaters had the highest median award amount (see figure).

Shuttered Venue Operators Grant Recipients and Median Awards, by Eligible Business Type, as of December 31, 2021

Venues and promoters	Performing arts	Talent representatives	Movie theaters	Theatrical producers	Museums	
						
Grantees	4,713	3,295	1,360	1,591	936	804
Median award	\$376,000	\$158,000	\$170,000	\$553,000	\$192,000	\$365,000

Source: GAO analysis of Small Business Administration data. | GAO-23-105199

Accessible Data for Shuttered Venue Operators Grant Recipients and Median Awards, by Eligible Business Type, as of December 31, 2021

	Venues and promoters	Performing arts	Talent representatives	Movie theaters	Theatrical producers	Museums
Grantees	4713	3295	1360	1591	936	804
Median award (dollars)	376000	158000	170000	553000	192000	365000

Most applicants viewed SBA's Shuttered Venue program communications negatively, according to a GAO survey. The agency changed program guidance frequently and the survey estimates that 85 percent of applicants found these changes to be challenging. Customer service was hard to access and did not provide applicant-specific assistance, most survey respondents reported. SBA's existing plans for program communication during emergencies focus on regional loan programs serving all businesses, so they were not well-suited for the Shuttered Venue program, which is a grant program that is national in scope but industry-specific. A more comprehensive communications strategy would better position SBA for future emergency assistance programs, particularly those that may differ from its existing programs.

SBA controls for the application process (pre-award controls to verify identity and eligibility) reflected some leading practices for fraud risk management. For example, SBA designed controls to check applicant information against third-party databases. SBA periodically assessed risks to the program, including fraud risks. The most recent assessment described eight fraud risks, including identity

theft. In July 2022, SBA provided GAO with draft procedures for monitoring suspected fraud among Shuttered Venue grant recipients. However, the draft procedures do not specifically discuss all risks identified in SBA's fraud-risk assessments. GAO's fraud risk framework underscores the importance of focusing monitoring resources on identified risks. By ensuring that the program's monitoring efforts are appropriately targeted, SBA would be better positioned to detect and respond to fraud.

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Abbreviations

EIDL	Economic Injury Disaster Loan
FAQ	frequently asked questions
IRS	Internal Revenue Service
NAICS	North American Industry Classification System

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OIG	Office of Inspector General
OMB	Office of Management and Budget
PPP	Paycheck Protection Program
RRF	Restaurant Revitalization Fund
SBA	Small Business Administration
SVOG	Shuttered Venue Operators Grant



October 11, 2022

Congressional Committees

The COVID-19 pandemic created economic hardships for businesses in the arts and entertainment industries, such as museums, performing arts and live music venues, and movie theaters.¹ Revenue declines at these businesses threatened their viability and resulted in job losses. For example, according to the Bureau of Labor Statistics, the unemployment rate for the arts, entertainment, and recreation industry reached 47 percent in April 2020—over 1.2 million job losses since March 2020—and it remained elevated into 2021.

To assist these businesses, the Consolidated Appropriations Act, 2021, enacted in December 2020, authorized the Shuttered Venue Operators Grant (SVOG) program and appropriated \$15 billion to the Small Business Administration (SBA) to implement it. The American Rescue Plan Act of 2021, enacted in March 2021, appropriated an additional \$1.25 billion for the program.

The CARES Act includes a provision for us to monitor and oversee the federal government's efforts to prepare for, respond to, and recover from COVID-19.² In October 2021, we reported on SBA awarding of SVOG funds, and challenges it faced implementing the program.³ In this report, we examine (1) how applicants viewed SVOG communications and the application process; (2) characteristics of SVOG applicants and recipients; (3) steps SBA took to identify ineligible and fraudulent applications and manage fraud risks, and the extent to which SBA's control activities reflect selected leading practices; and (4) how SBA measures SVOG program performance.

For the first objective, we surveyed a generalizable sample of 998 SVOG applicants, stratified by award status and business size. We conducted the survey between February 2022 and April 2022. We received 504

¹In this report, we refer to all entities in the arts and entertainment industry, including nonprofits, as businesses.

²Pub. L. No. 116-136, § 19010(b), 134 Stat. 281, 580 (2020). All of GAO's reports related to the COVID-19 pandemic are available on GAO's website at <https://www.gao.gov/coronavirus>.

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

responses and obtained a weighted response rate of 60 percent.⁴ We reviewed application guidance and analyzed changes to guidance over time. In addition, we reviewed SBA's Strategic Plan for Fiscal Years 2022–2026. We interviewed officials from SBA's Office of Disaster Assistance, which administers the SVOG program, and trade groups that represented SVOG-eligible businesses, such as performing arts organizations, theatrical producers, movie theaters, and museums.

For the second objective, we analyzed application-level data from SBA as of December 31, 2021—the most recent grant-level data available at the time of our analysis. We assessed the reliability of SVOG data by reviewing related documentation, conducting data testing to check for outliers and errors, and interviewing agency officials. We determined that the data were sufficiently reliable for describing the characteristics of applicants and recipients by business size, type, and location. Using the applicant-level data, we also developed multivariate regression models to determine how different applicant characteristics (such as geography) affected the likelihood of a business being approved for an award. We also used the results of our survey to estimate the number of applicants who appealed their award decision. To estimate the proportion of potentially eligible businesses that received SVOG awards, we analyzed the Bureau of the Census' 2019 County Business Patterns dataset, which provides data by geography, industry, and employment size.

For the third objective, we reviewed agency documents on internal control procedures and interviewed agency officials. These documents included SBA's guidance to application reviewers, procedures for reviewing and referring applications with potential fraud issues to SBA's Office of Inspector General, and plans to monitor SVOG grantees for potential fraud and improper payment issues. We compared documentation of SBA's control-related activities against federal internal control standards and leading practices in GAO's Fraud Risk Framework for designing and implementing an antifraud strategy.⁵ We conducted limited testing of SBA's controls by applying for an SVOG award using three fictitious businesses we created. We also conducted limited comparisons of SVOG data with data for other COVID-19 relief programs administered by SBA

⁴We used a weighted response rate because our survey sample incorporated strata with different probabilities of selection. A weighted response rate may more accurately reflect the level of participation. For example, units from large strata that contribute relatively more to the estimate of a total would have a larger "weight" on the response rate.

⁵GAO, *Standards for Internal Control in the Federal Government*, [GAO-14-704G](#) (Washington, D.C.: Sept. 10, 2014); and *A Framework for Managing Fraud Risk in Federal Programs*, [GAO-15-593SP](#) (Washington, D.C.: July 28, 2015).

and with the U.S. Postal Service address matching system to test implementation of controls.

For the fourth objective, we reviewed agency documents, such as SBA's fiscal year 2023 Congressional Budget Justification and its performance framework. We also interviewed officials from SBA's Office of Disaster Assistance and Office of Inspector General (OIG). For more information about our scope and methodology, see appendix I.

We conducted this performance audit from April 2021 to October 2022 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. We conducted our related investigative work in accordance with standards prescribed by the Council of the Inspectors General on Integrity and Efficiency.

Background

Overview of Shuttered Venue Operators Grant Program

The SVOG program is administered by SBA's Office of Disaster Assistance, which collected grant applications through an online portal. The portal opened on April 8, 2021, but shut down the same day because of a software problem, reopening on April 26, 2021.⁶ SBA closed the program to new applicants on August 20, 2021, but continued to issue supplemental awards and modifications to award amounts.

Eligibility requirements and funding conditions. SVOG terms and conditions include restrictions on the types of eligible businesses, amount of grants, and awards from other SBA programs (see table 1).⁷ Eligible businesses include live entertainment producers, organizations, and

⁶For additional information, see [GAO-22-105051](#).

⁷Uniform administrative requirements, cost principles, and audit requirements for federal awards, including grants, to nonfederal entities are established in 2 C.F.R. part 200. Nonfederal entities do not include for-profit entities, although federal agencies may nevertheless chose to apply the requirements of 2 C.F.R. part 200 to their for-profit grant recipients. 2 C.F.R. § 200.101(a)(2). In its Notice of Funding Opportunity, SBA cited 2 C.F.R. part 200 as applicable to the SVOG program. 86 Fed. 16270 (Mar. 26, 2021). Many SVOG grantees are for-profit entities.

venues. SVOG awards are to be used for expenses such as payroll and rent. To be eligible for SVOG, businesses had to have been in operation as of February 29, 2020, and lost at least 25 percent of their gross earned revenue during at least one quarter of 2020 (compared to the same quarter in 2019). To be eligible for supplemental awards, grantees also had to have lost at least 70 percent of gross earned revenue in 2021 as compared to 2019.⁸

Table 1: Examples of Eligibility and Funding Conditions for the Shuttered Venue Operators Grant Program

Condition	Description
Type of business	Live venue operators and promoters (venues and promoters), live performing arts organization operators (performing arts), motion picture theater operators (movie theaters), museum operators (museums), talent representatives, and theatrical producers.
Allowable expenses	Expenses that enable ongoing business operations (e.g., payroll costs, rent or mortgage, utility payments). For recipients of initial grants, only expenses incurred between March 2020 and December 2021. For recipients of supplemental grants, only expenses incurred between March 2020 and June 2022.
Award size limits	Initial grant: equal to 45 percent of 2019 gross earned revenue, up to \$10 million. Supplemental grant: equal to 50 percent of initial grant, up to \$10 million total award (initial and supplemental grants).
Deadline for recipients to expend funds	Initial grant only: within 12 months of disbursement from SBA. Initial and supplemental grant: within 18 months of disbursement of the initial grant (if supplemental grant received).

Source: GAO analysis of Economic Aid to Hard-Hit Small Businesses, Nonprofits and Venues Act and Small Business Administration (SBA) documentation. | GAO-23-105199

SVOG also has numerous unique requirements for each of the six eligible business types. For example, live venue operators had to demonstrate their venue had audio mixing equipment, a public address system, and a lighting rig. In the SVOG application checklist, SBA noted the types of

⁸Pursuant to statute, a grantee was eligible for a supplemental award if its first quarter revenues of 2021 were no more than 30 percent of its 2019 first quarter revenues. 15 U.S.C. § 9009a(b)(3)(A). In early 2022, SBA announced that it was offering a second round of supplemental awards for those grantees that did not qualify for them under the first round. SBA expanded the eligibility evaluation criteria for the second round to include a review of revenues for the third and fourth quarters of 2021. According to SBA, the agency offered the additional round of supplemental funding because COVID variants had negatively affected businesses during the third and fourth quarters of 2021. SBA stated its expansion of the eligibility criteria was consistent with Congress's express intent that all "eligible persons or entities" be permitted to be eligible for supplemental awards (provided funds were available) as well as with its prior determination that entities operating only in 2020 were eligible for initial awards, although a strict reading of the statute would have made their initial awards \$0.

documents that live venue operators could provide (such as receipts or insurance documents) to prove the venue had this equipment.

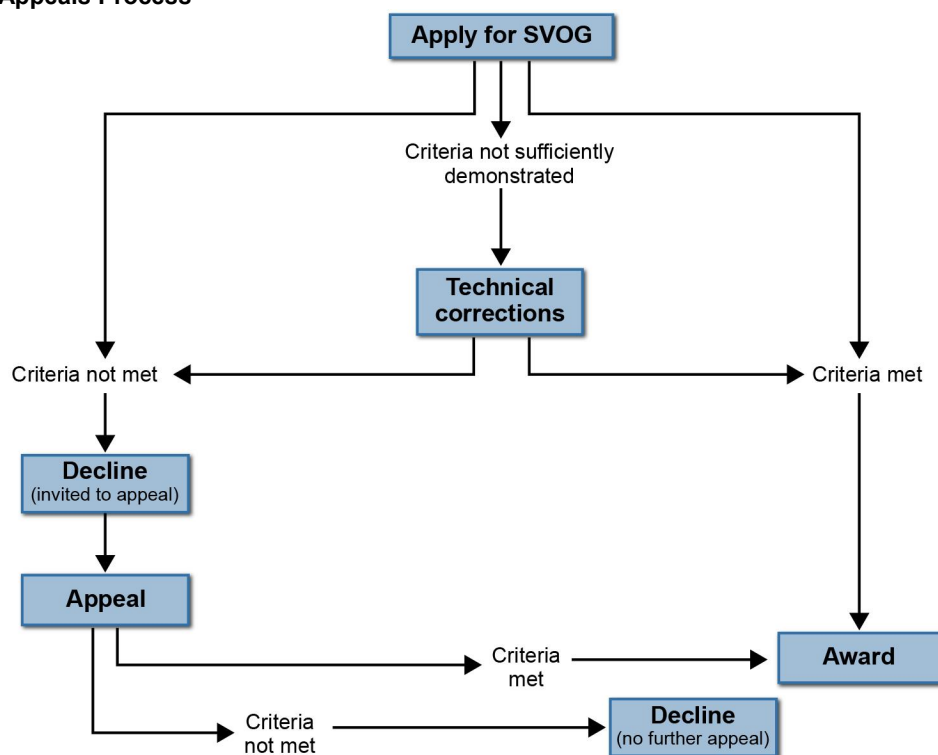
SBA has several other pandemic relief programs for which arts and entertainment businesses were eligible to apply, but cross-program restrictions limited the assistance such businesses could receive in addition to SVOG.

- **Paycheck Protection Program (PPP).** Arts and entertainment businesses could apply for PPP loans. However, businesses that received PPP loans after December 27, 2020, were to have their PPP loan amounts deducted from their SVOG award. Businesses that received SVOG funds could not apply for PPP after receiving an SVOG award.
- **Economic Injury Disaster Loan (EIDL).** Arts and entertainment businesses could apply for EIDL. However, businesses that received funds from EIDL and SVOG could not use funds from these two programs for the same purposes or costs.
- **Restaurant Revitalization Fund (RRF).** Arts and entertainment businesses could not apply for funds from both RRF and SVOG. In other words, those businesses that had a pending application for, or received an SVOG award, were not eligible to apply for an RRF award, and vice versa.

Technical corrections and appeals. SBA developed two processes to allow applicants to amend and resubmit their applications (see fig. 1). First, some applicants who did not sufficiently demonstrate eligibility for a grant were invited to amend their application through the technical corrections process. SBA indicated which eligibility criteria the applicant had not sufficiently demonstrated on its application. According to SBA, the agency implemented this process so as not to decline applicants whose businesses appeared eligible but who had not submitted a few documents.

Second, on July 22, 2021, SBA announced an appeal process open to all declined applicants. Applicants who successfully demonstrated program eligibility through appeal were awarded grants; those who did not were declined and given no additional opportunity to appeal.

Figure 1: Shuttered Venue Operators Grant (SVOG) Technical Corrections and Appeals Process



Source: GAO analysis of Small Business Administration documentation. | GAO-23-105199

Reconsideration. SBA announced through a July 22, 2021, update to its guidance documents that it would invite all applicants who received an award amount of at least \$100 less than the proposed grant amount on their application to have their award amount reconsidered. On November 17, 2021, SBA expanded reconsideration to all grantees to correct errors on their applications that had led to smaller awards.

Supplemental grants. In an October 20, 2021, update to its frequently asked questions (FAQ), SBA provided grantees with guidance for obtaining supplemental grants. Eligible grantees received an email notifying them that they were eligible to apply for a supplemental grant. In March and April 2022, SBA notified grantees that did not qualify for supplemental funding under the first round to apply using their earnings from the third and fourth quarters of 2021. According to SBA, the agency offered this additional round of supplemental funding because additional COVID variants negatively affected businesses during these quarters.

Thus, some businesses may have experienced more than 70 percent losses during this period and would be eligible for supplemental funding.

Most Applicants Viewed SBA’s Program Communications Negatively

SBA changed its SVOG program guidance multiple times and this created challenges for many program applicants, according to our generalizable survey of 504 SVOG applicants. Applicants also generally reported that SBA’s customer service was hard to access and did not provide applicant-specific assistance. SBA does not have guidance that would address these communications challenges and lessons learned for future programs it may implement similar to SVOG.

SBA Changed Program Guidance Frequently and Applicants Experienced Related Challenges

Changing guidance. SBA frequently revised SVOG program guidance for potential applicants, including very shortly before opening (and reopening) the application portal. From January to October 2021, SBA published 12 versions of its FAQs, including two versions within 2 days of the portal’s planned opening (April 8, 2021) and another version just before its reopening (April 26, 2021). As shown in table 2, these three versions contained numerous changes and additions that SBA identified as significant.

Table 2: Significant Changes to SBA’s FAQs for the Shuttered Venue Operators Grant Program, March 22–April 23, 2021

	Version 8 (April 6)	Version 9 (April 8)	Version 10 (April 23)	Total since version 7 (March 22)
Changes to existing answers	9	2	38	49
Additional answers	64	29	13	106

Source: GAO analysis of Small Business Administration (SBA) documents. | GAO-23-105199

Note: The table addresses changes SBA identified as significant and not all changes to its frequently asked questions (FAQ) documents.

Additionally, SBA published four versions of its application checklist, including one on April 23, 2021, which was 3 days before the portal reopening.⁹ That version contained 10 additions (three technology

⁹The application checklist assists applicants with gathering and preparing necessary materials for the SVOG application.

requirements for accessing the application portal and seven documents applicants would have to provide to demonstrate eligibility). SBA also published two versions of its application user guide, the first on April 8, the day the portal opened, and the second on April 23, 3 days before the reopening.¹⁰ According to SBA officials, the agency updated its guidance documents to accommodate user improvements to the application portal, statutory changes to SVOG, and public feedback. For example, the American Rescue Plan Act, signed into law on March 11, 2021, amended SVOG eligibility requirements to allow borrowers who received PPP loans after December 27, 2020, to also receive a grant. Therefore, corresponding guidance was updated as regulatory clearances permitted.

Based on survey results, we estimate that 85 percent of applicants found changes in program guidance to be at least somewhat challenging (see table 3).¹¹

Table 3: Applicant Views on Changing SVOG Program Guidance (Estimated)

GAO survey question: How challenging, if at all, did you find changes in program guidance from the Small Business Administration (e.g., frequently asked questions)?	Extremely or very challenging	Moderately or somewhat challenging	Not at all challenging	Not applicable/ Do not remember/ No opinion
All applicants	39%	46%	8%	8%
Approved applicants	33%	53%	9%	6%
Declined applicants	57%	26%	5%	12%

Source: GAO analysis of Shuttered Venue Operator Grant (SVOG) survey responses. | GAO-23-105199

Note: Estimates are based on survey responses obtained from a generalizable sample of SVOG applicants. All estimates have a margin of error of less than plus or minus 9 percentage points. Rows may not sum to 100 percent because of rounding.

Representatives of trade groups for movie theaters, theatrical producers, and performing arts organizations told us their members were confused by guidance for business model eligibility that appeared to change with each FAQ update. For example, the February 12 update of the FAQs was the first to state that university-based businesses were ineligible if their parent university received more than 10 percent of its revenue from the federal government.¹² The February 28 update was the first to state that

¹⁰The applicant user guide offers instructions to applicants for using the SVOG application portal and completing applications.

¹¹Estimates included in this report are based on survey responses obtained from a generalizable sample of SVOG applicants. All estimates in this report have a margin of error of plus or minus 10 percentage points or fewer, unless otherwise noted.

¹²This applies to entities that are majority owned or controlled by a university.

businesses based at public universities could be eligible regardless of revenue the university received from the federal government.

According to SBA, the agency updated the FAQs as it became familiar with the arts and entertainment industry, with which it had little prior experience, and as a result of consultations with industry trade groups. However, trade groups told us that confusion associated with changing guidance could have been avoided if SBA had sought their input early (during program design). Instead, trade groups had to react to guidance revisions each time SBA published a new version.

Applicant preparedness. Based on survey responses, we estimate that 44 percent of applicants considered that the level of resources (time, staff, and documents) needed to apply for SVOG was higher or much higher than they expected based on the information SBA shared. Thirty-eight percent of applicants considered the level of resources to be as expected, and 15 percent considered it to be lower or much lower than expected (see table 4).

Table 4: Actual Level of Resources Needed to Apply for SVOG Compared to Applicant Expectations (Estimated)

GAO survey question: Considering the information the Small Business Administration shared about the program’s application process and requirements, how did the level of resources required to complete the application compare to your expectations? Resources include time, staff, and documents.	Much higher or higher than expected	As expected	Lower or much lower than expected	Do not know
All applicants	44%	38%	15%	3%
Approved applicants	44%	44%	10%	2%
Declined applicants	45%	18%	32%	6%

Source: GAO analysis of Shuttered Venue Operator Grant (SVOG) survey responses. | GAO-23-105199

Note: Estimates are based on survey responses obtained from a generalizable sample of SVOG applicants. These estimates have a margin of error of less than plus or minus 9 percentage points. Rows may not sum to 100 percent because of rounding.

We estimate that the process of gathering and preparing application documents was challenging for 88 percent of applicants (see table 5). According to SBA, applications typically had 30–100 documents supporting businesses’ eligibility. While SBA developed a checklist of required documentation for applicants, it was not intended to be definitive. That is, the checklist did not name or describe all the materials an applicant had to provide to support eligibility; instead, it included some examples of documentation that could be submitted. According to SBA, this approach provided flexibility for applicants that did not have a specific document type.

Table 5: Applicant Views on Gathering and Preparing Documents for SVOG (Estimated)

GAO survey question: How challenging, if at all, did you find gathering and preparing documents for your application?	Extremely or very challenging	Moderately or somewhat challenging	Not at all challenging	Not applicable/ Do not remember/ No opinion
All applicants	41%	47%	11%	2%
Approved applicants	37%	51%	12%	1%
Declined applicants	54%	35%	7%	4%

Source: GAO analysis of Shuttered Venue Operator Grant (SVOG) survey responses. | GAO-23-105199

Note: Estimates are based on survey responses obtained from a generalizable sample of SVOG applicants. These estimates have a margin of error of less than plus or minus 9 percentage points. Some rows do not sum to 100 percent due to rounding.

Views on SBA information sources. SBA used several methods to share program guidance with potential applicants, but most applicants deemed trade group information as more useful. Prior to applying, many applicants received information about SVOG eligibility and requirements through the SVOG website (an estimated 69 percent), SBA emails (54 percent), trade groups (42 percent), and SBA information sessions (27 percent). Fewer applicants received information from SBA social media (10 percent) or SBA offices (9 percent). We estimate that about half of approved applicants and about one-quarter of declined applicants received this information from trade groups. One trade group told us that it waived membership dues during the pandemic and that many small businesses joined to learn about SVOG. Based on our survey results, we estimate that a higher percentage of applicants found trade group information extremely or very useful than SBA resources (see table 6). According to SBA, from the inception of the program, the agency met weekly with leaders of industry trade groups to address their questions about SVOG, and SBA expected them to pass that information on to their members.

Table 6: Applicant Views of Selected Information Sources on SVOG Eligibility and Requirements (Estimated)

GAO survey question: Prior to applying, how useful were each of the following resources at informing you about SVOG program eligibility and requirements?	Extremely or very useful	Moderately or somewhat useful	Not useful	No opinion
Trade groups relevant to your industry	74%	23%	1%	2%
Information sessions hosted by Small Business Administration (SBA)	59%	38%	3%	0%
SVOG website	56%	39%	5%	1%
SBA emails	51%	41%	7%	1%

Source: GAO analysis of Shuttered Venue Operator Grant (SVOG) survey responses. | GAO-23-105199

Note: Estimates are based on survey responses obtained from a generalizable sample of SVOG applicants. These estimates have a margin of error of less than plus or minus 9 percentage points. Rows may not sum to 100 percent because of rounding.

Applicants Faced Challenges Getting Answers to Application Questions

Many SVOG applicants reported that SBA's customer service was hard to access and did not provide applicant-specific assistance. Applicants viewed two additional resources—"office hours" and a high-level support team—as limited, not timely, and not well-known.

GAO Covert Investigation



Source: Vadym/stock.adobe.com. | GAO-23-105199

We created three fictitious businesses to covertly test fraud and eligibility controls for the Shuttered Venue Operators Grant (SVOG) program (discussed later). We experienced challenges connecting with customer support services. For example, five of the six times we covertly contacted the customer support phone line with an application question, we were told to email the Small Business Administration (SBA); the other time our call was disconnected. When we emailed SBA the question, the agency referred us to the customer support phone line. In one instance, we were connected with a customer service representative for the Economic Injury Disaster Loan program, who incorrectly told us SVOG was a state grant program and not run by SBA.

Source: GAO. | GAO-23-105199

SBA Customer Service

We estimate that 62 percent of applicants called an SBA customer support service center for assistance with their initial application and 44 percent sought assistance by email. Most SVOG applicants experienced issues connecting with customer service and receiving answers specific to their business.

Most applicants who called SBA's customer service center reported issues connecting with a representative, and many were unable to speak with someone. Of those who called during their initial application, an estimated 80 percent experienced at least one of the following issues: long wait times (52 percent), multiple calls needed to reach someone (51 percent), phone call disconnected (26 percent), phone call transferred to multiple representatives (39 percent), or phone call transferred to a representative of a different SBA program (26 percent). An estimated 38 percent of applicants were not able to speak with someone.

Additionally, customer service centers could not provide applicant-specific answers to questions. According to SBA, customer support staff were limited by regulations and procedures in the responses they could provide to applicant-specific questions on SVOG eligibility, potential grant amount, or other detailed information in order to prevent applicants from gaining a competitive advantage.¹³ Nevertheless, officials stated that the agency took steps to help applicants with the application process by implementing a technical corrections process and setting up a high-level support team (discussed later).¹⁴

Trade groups said customer support services did not meet applicants' needs because they could not answer questions specific to an application. In response to specific questions, customer service centers directed callers to guidance documents on the SVOG website or told them to email SBA for assistance. One trade group said its members reported the customer support phone line directed them in circles and did not provide useful answers.

Office Hours and Support Team

SBA created two additional resources—office hours and a high-level support team—that could provide applicants that had not yet been

¹³According to SBA, 2 C.F.R. § 200.205 placed limits on the information its staff could provide in response to applicants' questions. Under 2 C.F.R. § 200.205, a federal agency must design and execute a merit review process for applications for a discretionary award. The process objectively evaluates federal award applications in accordance with the agency's written standards. It must be described or incorporated by reference in the funding opportunity. SBA also cited Standard Operating Procedure 00 18 01, Federal Assistance Policy Directive (Grants), which requires that no grant applicant receive a biased competitive advantage and instructs that SBA staff must avoid any semblance of preferential treatment or give any applicant an unfair advantage over another, limiting any guidance or direction that could be given to any individual applicant.

¹⁴SBA issued a waiver of the provisions of Standard Operating Procedure 00 18 01 that it noted could be construed as restricting its ability to reconsider SVOG applications denied due to the applicants' good faith mistakes or omissions.

approved for awards with answers to their questions. However, these resources were limited in availability and were established in late July 2021, after SBA approved awards to more than two-thirds of applicants. According to SBA, it waived its standard operating procedures in June 2021 to allow the agency to provide narrowly tailored answers to certain questions through the high-level support team.

SBA held five office hours in July 2021 to provide applicants who had not yet been approved for awards with guidance from SBA staff.¹⁵ According to SBA, the agency solicited questions from applicants to determine the topics to cover. The first three sessions, which were available to applicants in priority groups, covered portal navigation, action items, registration in the System for Award Management (SAM.gov), and notice of awards.¹⁶ The last two sessions were open to all active applicants and discussed entity-specific technical corrections in addition to the prior topics. Each session reserved time for applicants to ask questions, but applicants were told that questions outside the scope of the presentation topics would not be addressed. According to SBA, questions outside the presentation's scope or very specific to an individual were not addressed because of limited time and the need for applicability to the general audience.

SBA also established a high-level support team. Unlike other customer support representatives, members of this support team had access to applications, which better positioned them to answer applicant questions. Applicants who attended office hours were told they could submit questions to high-level support team members. According to SBA, many of these questions concerned eligibility and thus the high-level support team was limited in the responses they could provide (to prevent applicants from gaining a competitive advantage). SBA also informed trade groups that emails requesting high-level support in the subject line

¹⁵The agency held an office hour session on August 4, 2021, to provide declined applicants with guidance about the appeal process. The agency also has held many office-hour sessions for grantees to provide guidance about the reconsideration and post-award processes.

¹⁶Priority groups were based on revenue loss and were established in statute. During the first 14 days of the program, SBA had to award grants only to businesses with at least 90 percent revenue loss from April through December 2020 as compared to the same period in 2019 due to the COVID-19 pandemic; during the next 14 days, it had to award grants only to businesses with at least 70 percent revenue loss. SAM.gov is a website that entities use to register to bid on federal government contracts or receive federal assistance.

would be routed to the high-level support team for answers. One trade group told us it sent its members' questions to the high-level support team and received better responses than for questions directed through the usual customer support channels. According to SBA, the customer service center could refer questions to the high-level support team for follow-up.

However, few SVOG applicants were aware of the high-level support team. According to SBA, the agency did not publicize the team on its website or through emails to applicants because they did not want it to receive a high volume of questions from applicants at once.¹⁷ Instead, they opted to share information about the team through trade organizations and during office hours. Based on our survey results, we estimate that 86 percent of applicants were unaware of high-level support before their application was approved or declined.

Most Declined Applicants Reported That Notifications Were Not Useful

SBA provided little notice of the application portal reopening. We also estimated that most applicants who were declined awards viewed notifications as not useful or timely.

Portal reopening. SBA provided little notice to potential applicants on the portal reopening. When SBA announced the portal closure on April 8, 2021, it did not provide a time frame for reopening. On April 23, SBA announced it would reopen the portal the following day (April 24). However, later that day it announced a new date for the reopening (April 26). According to SBA, it revised the date to April 26 after hearing concerns from stakeholders about reopening on a Saturday. Applicants developed more negative views about SBA communications after the agency closed the application portal (see table 7).

¹⁷According to SBA, the phone number and email address for the customer service center was published on the SVOG website and included in all outgoing email blasts to applicants and grantees. However, neither the webpage nor email blasts mentioned the high-level support team.

Table 7: Applicant Views of Small Business Administration (SBA) Communication on the SVOG Application Portal (Estimated)

GAO survey question: How useful did you find SBA's communication (emails, tweets, website, etc.) about the program's opening date and how to apply using the online application portal?	Extremely or very useful	Moderately or somewhat useful	Not useful at all	Did not receive/no opinion
Before April 8, 2021	43%	41%	11%	5%
After April 8, 2021	33%	39%	21%	7%

Source: GAO analysis of Shuttered Venue Operator Grant (SVOG) survey responses. | GAO-23-105199

Note: Estimates are based on survey responses obtained from a generalizable sample of SVOG applicants. These estimates have a margin of error of less than plus or minus 5 percentage points.

Application status. An estimated 61 percent of approved SVOG applicants viewed SBA notifications about the status of their application to be extremely or very useful. In contrast, 62 percent of declined applicants who appealed their award decision reported that these notifications were not at all useful (see table 8). Declined applicants received invitations to appeal their award decision via the application portal. Although SBA provided one of eight high-level reasons for declining an applicant, they did not indicate what additional information applicants would need to include in their appeal.

Table 8: Applicant Views of the Usefulness of SVOG Notifications on Application Status (Estimated)

GAO survey question: How useful were the notifications from the Small Business Administration on the status of your application?	Extremely or very useful	Moderately or somewhat useful	Not at all useful	No opinion
After submitting initial application, approved applicants	61%	33%	6%	1%
After submitting initial application, declined applicants	24%	41%	34%	1%
After submitting appeal	15% ^a	22% ^a	62% ^a	1%

Source: GAO analysis of Shuttered Venue Operator Grant (SVOG) survey responses. | GAO-23-105199

Note: Estimates are based on survey responses obtained from a generalizable sample of SVOG applicants. All estimates have a margin of error of less than plus or minus 10 percentage points unless otherwise noted. Rows may not sum to 100 percent because of rounding.

^aThe margin of error was plus or minus 10–12 percentage points.

We estimate that about 49 percent of applicants who appealed their application decisions viewed SBA's notifications on the status of their appeals as not timely compared to 12 percent of approved applicants (see table 9). According to SBA, the review process for applicants flagged as ineligible resulted in a much longer decision-making timeline for some declined applicants.

Table 9: Applicant Views of the Timeliness of SVOG Notifications on Application Status (Estimated)

GAO survey question: How timely were the notifications from the Small Business Administration on the status of your application?	Extremely or very timely	Moderately or somewhat timely	Not at all timely	No opinion
After submitting initial application, approved applicants	44%	40%	12%	3%
After submitting initial application, declined applicants	15%	40%	44%	0%
After submitting appeal	11% ^a	38% ^a	49% ^a	2%

Source: GAO analysis of Shuttered Venue Operator Grant (SVOG) survey responses. | GAO-23-105199

Note: Estimates are based on survey responses obtained from a generalizable sample of SVOG applicants. All estimates have a margin of error of less than plus or minus 10 percentage points unless otherwise noted. Rows may not sum to 100 percent because of rounding.

^aThe margin of error was plus or minus 10–12 percentage points.

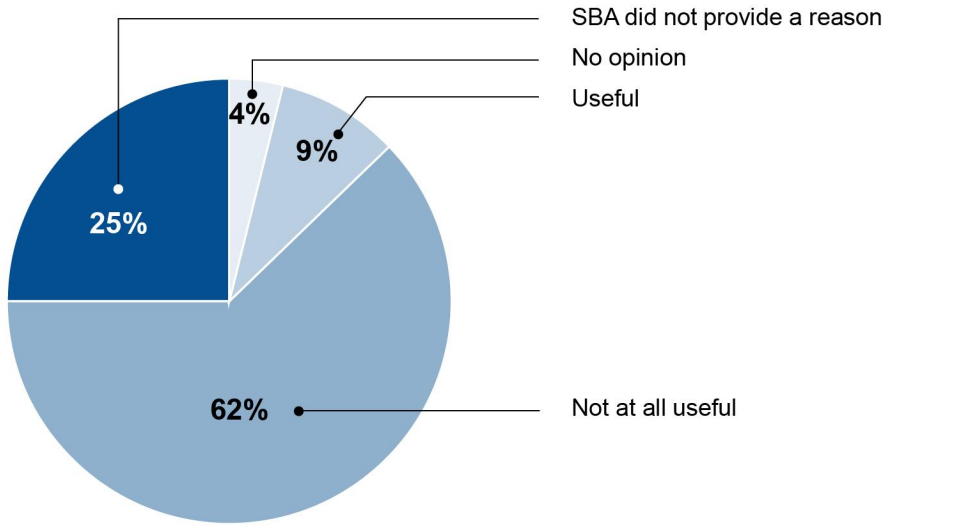
Reasons applicants were declined. We estimate that for declined applicants, 62 percent viewed SBA information on reasons for declining their application as not at all useful, and 25 percent believed SBA did not provide this information (see fig. 2). Starting in August 2021, SBA sent notifications to declined applicants that provided the reason the applicant was declined. According to SBA, most declined applicants did not meet one or more eligibility criteria. But the notice did not specify which criteria were not met. According to one trade group, these applicants were often confused about why they were not eligible. In response to stakeholder feedback, SBA modified the information provided in its decline notices, beginning in November 2021. In addition to stating the applicant had been declined, the new version of the notices also listed all 16 possible reasons (such as an incomplete application).¹⁸ However, for applicants who were notified that they did not meet one or more eligibility criteria, this change did not provide information on the criteria they did not meet. In March

¹⁸The 16 reasons for which an application may be declined were (1) not fully operational on February 29, 2020; (2) not currently open, in operation, or representing live talent; (3) lacked the required minimum 25 percent gross earned revenue loss; (4) issues securities on a national securities exchange (or owned by an entity that does so); (5) more than 10 percent of 2019 income came from federal resources; (6) owned/operated a venue in more than one country, owned/operated a venue in more than 10 states, and had more than 500 full-time equivalent employees; (7) currently suspended or debarred from contracting with the federal government or receiving federal grants or loans; (8) in the past 5 years, was convicted, pled guilty, or pleaded nolo contendere under specified conditions; (9) presented live performances of a prurient sexual nature; (10) did not meet the principal business activity standard for the entity type under which applied; (11) did not meet one or more of the eligibility criteria specific to the entity type under which applied; (12) met limit for affiliates; (13) application withdrawn; (14) incomplete application; (15) failure to abide by terms and conditions; and (16) submitted documents that could not be verified.

2022, SBA began providing this information to declined applicants who requested it.

Figure 2: Most Declined SVOG Applicants Viewed SBA Information on the Reason for Their Denial as Not Useful

GAO’s survey question: How useful was the information the Small Business Administration (SBA) provided for the reason your application was declined?



Source: GAO analysis of Shuttered Venue Operators Grant (SVOG) survey data. | GAO-23-105199

Accessible Data for Figure 2: Most Declined SVOG Applicants Viewed SBA Information on the Reason for Their Denial as Not Useful

SBA did not provide a reason (percentage)	No opinion (percentage)	Useful (percentage)	Not at all useful (percentage)
25	4	9	62

Note: Estimates are based on survey responses obtained from a generalizable sample of SVOG applicants. These estimates have a margin of error of less than plus or minus 9 percentage points.

SBA Lacks Communications Guidance That Would Address Industry-Specific Programs Such as SVOG

SBA lacks a comprehensive strategy for communicating with potential or actual program applicants to emergency assistance programs that would encompass situations in which programs do not offer loans or are scoped nationally or to a specific industry or both. SBA has two plans that guide

communication and disaster response, the Outreach and Marketing Plan and the Disaster Preparedness and Recovery Plan. Both of these plans focus on existing loan programs for regional natural disasters that serve all businesses. However, SVOG is a new grant program that is national in scope and serves a specific industry.

Additionally, SBA has not updated either plan to reflect issues that arose with SVOG, including the challenges discussed above relating to communicating with industry-specific applicants in a timely and effective manner. According to SBA, the agency will update the Disaster Preparedness and Recovery Plan in fall 2022, and as of July 2022 was re-evaluating the format and goals of its Outreach and Marketing Plan.

One of SBA's strategic goals is to build resilient businesses after disasters. Its strategic plan notes the COVID-19 pandemic has shown that disasters come in many forms and may affect certain sectors more than others.¹⁹ Agency strategies for this goal include administering loan and grant programs equitably and expediently; promoting transparency of data and resources across communities, including by supporting small businesses with timely information; and leveraging technology to expedite disaster application processing, including by using customer survey data to identify areas for improvement in relation to customer satisfaction. The plan also states that SBA is committed to improving customer service to create a better experience for small businesses.

In our July 2021 report on the EIDL program, we found SBA lacked guidance on the type of information that loan applicants would need to understand and participate in a disaster program, when such information was to be provided, and how applicants could access it.²⁰ We recommended that SBA develop a comprehensive strategy for communicating with potential and actual program applicants in the event of a disaster. We stated that this strategy should include guidelines on providing information for the types and timing of information to be provided to program participants in different stages of the loan process. SBA agreed with the recommendation and started plans to develop such a strategy, with a draft expected by September 30, 2022. But our recommendation was specific to our findings about EIDL, and the agency may not implement it in a way that addresses our findings about SVOG.

¹⁹Small Business Administration, *Strategic Plan, Fiscal Years 2022–2026* (Washington D.C.: Mar. 28, 2022).

²⁰GAO, *Economic Injury Disaster Loan Program: Additional Actions Needed to Improve Communication with Applicants and Address Fraud Risks*, [GAO-21-589](#) (Washington, D.C.: July 30, 2021).

By developing a comprehensive communications strategy that addresses problems the SVOG program experienced, and the lessons learned from it, SBA would be better positioned to communicate information in a timely and effective manner about future emergency programs that may offer grants instead of loans, are national in scope, or industry-specific.

Most Applicants and Recipients Were Small Businesses with 50 or Fewer Employees

Nearly three-quarters of businesses that applied to the SVOG program received an award. More than 90 percent of these awards went to businesses with 50 employees or fewer, and award rates varied by type of business and state.

SBA Approved Awards for 73 Percent of SVOG Applicants, with 90 Percent Going to Smaller Businesses

SBA approved about 73 percent of the 17,328 applications it received, according to our analysis of SBA data as of December 31, 2021. Smaller businesses made up the largest share of SVOG applications and awards. Businesses with 50 employees or fewer received more than 90 percent of all awards and about 62 percent of the award dollars, as of December 31, 2021 (see table 10). Businesses with 50 or fewer employees also made up over 90 percent of applicants. SBA was required to reserve \$2 billion in grant funds for businesses with 50 or fewer employees.²¹ Businesses with 101–500 employees had the highest median award (about \$4.7 million). Because SVOG awards are calculated based on revenues, businesses with the largest revenues were eligible for the largest awards.

Table 10: Shuttered Venue Operators Grant Applicants, Recipients, and Awards, by Business Size, as of December 31, 2021

Number of employees	Number of grant applicants	Number of grant recipients	Percent of all awards	Total grant amount (in billions)	Median award amount
10 or fewer	11,773	8,159	64.2%	\$3.5	\$148,533
11–50	4,199	3,358	26.4%	\$4.8	\$714,146
51–100	661	569	4.5%	\$2.1	\$2,442,148
101–500	572	503	4.0%	\$2.6	\$4,722,970

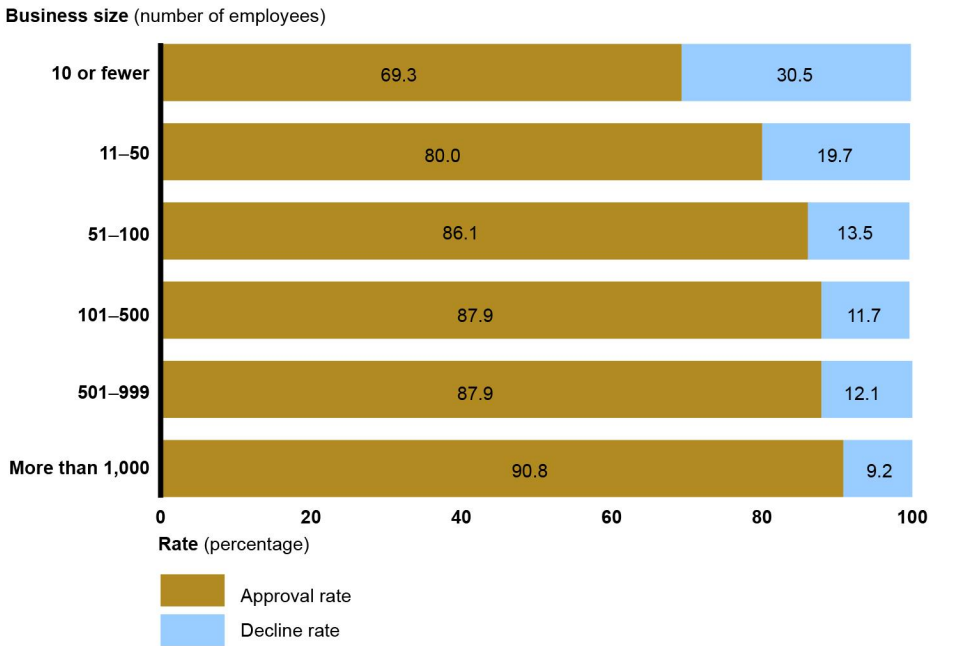
²¹15 U.S.C. § 9009a(b)(2)(E). Under some circumstances, businesses with more than 500 employees were ineligible for SVOG awards. See 15 U.S.C. § 9009a(a)(1)(A)(vi)(II)(cc).

Number of employees	Number of grant applicants	Number of grant recipients	Percent of all awards	Total grant amount (in billions)	Median award amount
501–999	58	51	0.4%	\$0.2	\$2,680,796
1,000 or more	65	59	0.5%	\$0.2	\$1,205,144

Source: GAO analysis of Small Business Administration data. | GAO-23-105199

As shown in figure 3, businesses with 1,000 or more employees had the highest application approval rates (about 90 percent). Businesses with 10 or fewer employees had the lowest approval rate (about 70 percent).

Figure 3: Approval Rates for Shuttered Venue Operator Grants, by Business Size, as of December 31, 2021



Source: GAO analysis of Small Business Administration data. | GAO-23-105199

Accessible Data for Figure 3: Approval Rates for Shuttered Venue Operator Grants, by Business Size, as of December 31, 2021

Business size (number of employees)	Approval rate	Denial rate
10 or fewer	69.3	30.5
11 to 50	80	19.7
51 to 100	86.1	13.5
101 to 500	87.9	11.7
501 to 999	87.9	12.1

Business size (number of employees)	Approval rate	Denial rate
More than 1000	90.8	9.2

Note: The percentages may not sum to 100 percent because of the small percentage of applications that were pending as of December 31, 2021.

Most Grant Awards Went to Venues and Promoters, but Movie Theaters Had the Highest Approval Rate

From April 2021 to July 2022, SBA awarded \$14.6 billion in grants to over 13,000 businesses in the arts and entertainment industry.²² Among business types, the majority of SVOG grant awards went to venues and promoters (37 percent) and performing arts organizations (26 percent)—close to \$8 billion in awards (see table 11). Movie theaters had the highest median award amount (about \$550,000) and performing arts organizations the lowest (about \$158,000).

Table 11: Shuttered Venue Operators Grant Applicants and Recipients, by Business Type, as of December 31, 2021

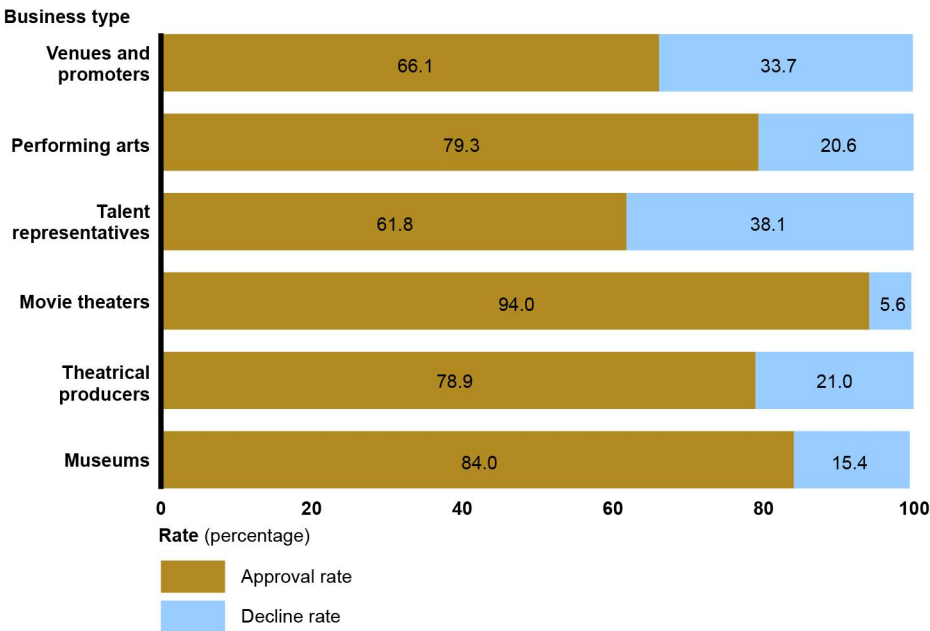
Business type	Number of grant applicants	Number of grant recipients	Percent of all awards	Total grant amount (in billions)	Median award amount
Venues and promoters	7,133	4,713	37%	\$5.6	\$375,682
Performing arts	4,157	3,295	26%	\$2.2	\$158,411
Talent representatives	2,202	1,360	11%	\$0.7	\$169,590
Movie theaters	1,692	1,591	13%	\$2.4	\$552,541
Theatrical producers	1,187	936	7%	\$1.0	\$191,928
Museums	957	804	6%	\$1.3	\$364,740

Source: GAO analysis of Small Business Administration data. | GAO-23-105199

As shown in figure 4, SBA approved awards for movie theaters at the highest rate (94 percent) among business types, and talent representatives at the lowest rate (62 percent).

²²Small Business Administration, *Shuttered Venue Operators Grant Public Report*, (Washington, D.C.: July 5, 2022). All other numbers in this section are based on our analysis of SVOG data as of December 31, 2021.

Figure 4: Approval Rates for Shuttered Venue Operators Grants, by Business Type, as of December 31, 2021



Source: GAO analysis of Small Business Administration data. | GAO-23-105199

Accessible Data for Figure 4: Approval Rates for Shuttered Venue Operators Grants, by Business Type, as of December 31, 2021

Business type	Approval rate	Decline rate
Venues and promoters	66.1	33.7
Performing arts	79.3	20.6
Talent representatives	61.8	38.1
Movie theaters	94	5.6
Theatrical producers	78.9	21
Museums	84	15.4

Note: The percentages may not sum to 100 percent because of the small percentage of applications that were pending as of December 31, 2021.

We estimate that 75 percent of declined applicants appealed their award decisions, based on our survey.²³ According to SBA officials, as of July

²³Estimates are based on survey responses obtained from a generalizable sample of SVOG applicants. This estimate has a margin of error of less than plus or minus 10 percentage points.

28, 2022, the agency approved 22 percent of applicants who were previously declined.

Approval Rates by State Ranged from 57 to 97 Percent, Which May Reflect Prevalence of Business Types

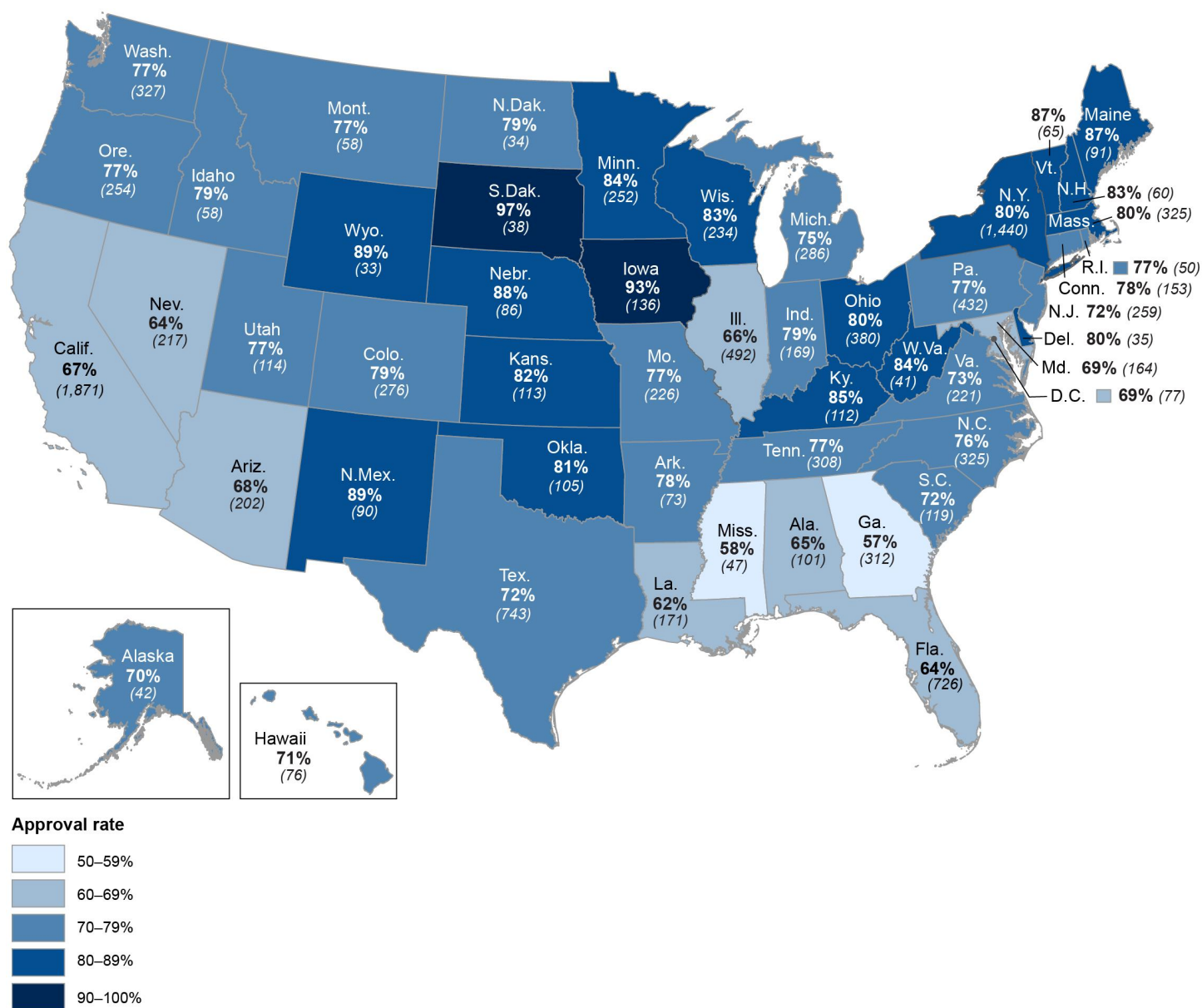
The number of approved applicants and approval rates varied by state. California had the largest number of businesses approved for awards (1,871) and Wyoming the fewest (33), generally reflecting population differences. Total award dollar amount by state ranged from about \$2 billion (California) to about \$15 million (South Dakota). Utah had the highest median award amount (\$622,605) and Montana the lowest (\$96,234).

The average approval rate was 73 percent nationwide, ranging from 57 percent in Georgia to 97 percent in South Dakota (see fig. 5).²⁴ This variation may be based in part on the characteristics of businesses that applied in each state. We analyzed this relationship and found that certain types of businesses, such as movie theaters and theatrical producers, were more likely to get SVOG awards and be in states with higher approval rates.²⁵ As we noted previously, SBA data showed that movie theaters had the highest approval rates among business types.

²⁴Among U.S. territories, Guam had 86 percent of SVOG initial grants approved (12 awards), Puerto Rico had about 73 percent approved (66 awards), and the U.S. Virgin Islands had 50 percent approved (two awards). There were no SVOG applications from American Samoa or the Commonwealth of the Northern Mariana Islands.

²⁵To examine the associations between approved applicants, states, and demographic characteristics, we performed multivariate regression analyses. Our analysis also indicated that other characteristics were associated with higher approval rates. For example, we found that older businesses (older than 20 years) and nonprofit businesses had a greater chance of being approved for an SVOG award and also were more likely to be in the higher-approval states. For more information on our analysis, see app. I.

Figure 5: Approval Rates for and Number of Shuttered Venue Operator Grants (SVOG), by State, as of December 31, 2021



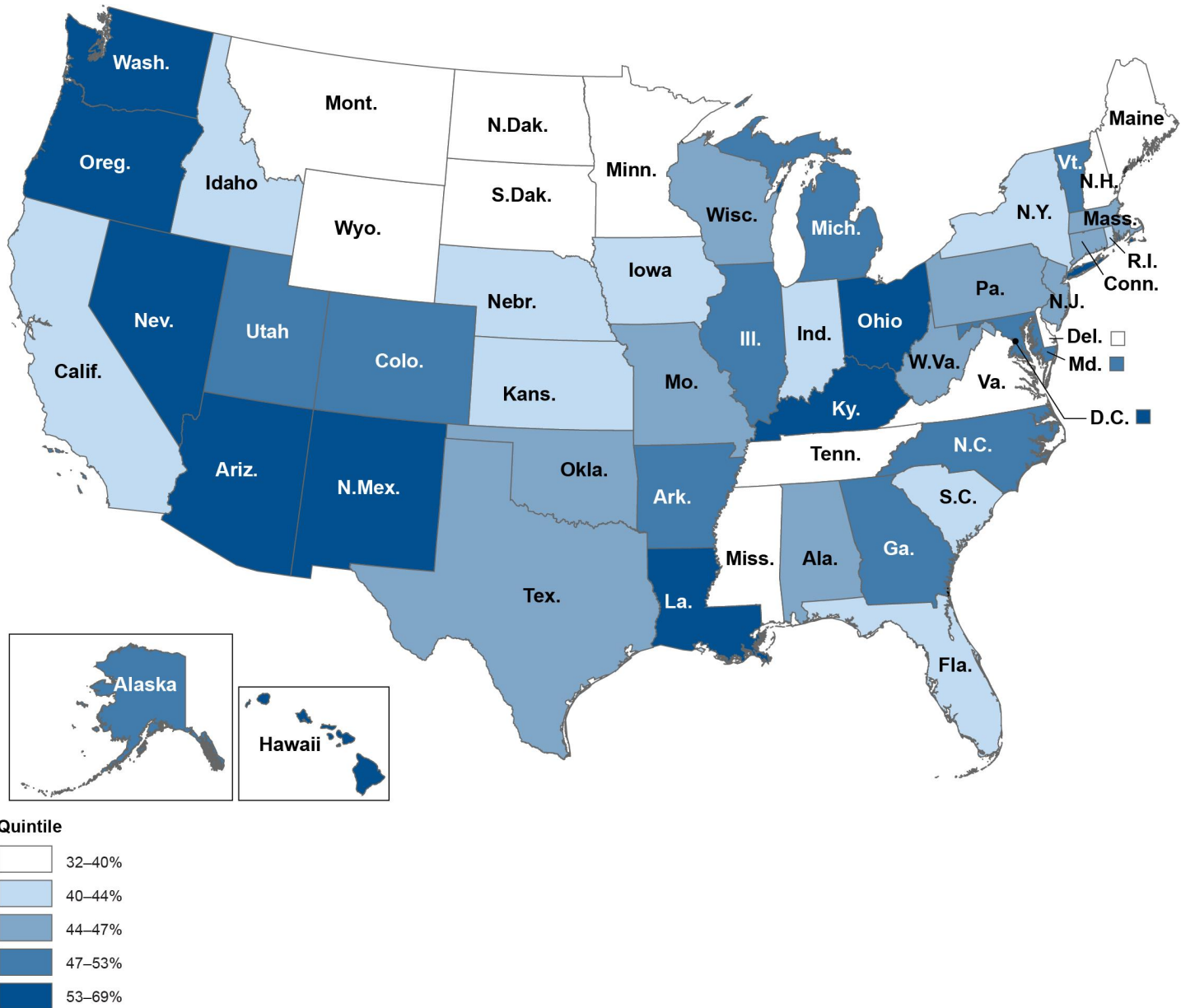
Source: GAO analysis of Small Business Administration data. | GAO-23-105199

Note: Percentage figures in each state represent the percentage of SVOG applicants that received SVOG awards. The number of awards is given below the percentage figure.

We also analyzed census data to estimate the proportion of eligible businesses that received awards.²⁶ Based on this analysis, we estimate that close to half of businesses in the arts and entertainment industry received an award nationwide. Ratios of recipients relative to the population of potentially eligible businesses varied by state (see fig. 6).

²⁶For more information on the methodology used to develop these estimates, see app. 1.

Figure 6: Ratio of Shuttered Venue Operators Grant Recipients to Population of Potentially Eligible Arts and Entertainment Businesses, by State



Source: GAO analysis of Small Business Administration data and U.S. Census data. | GAO-23-105199

Note: To estimate the population of potentially eligible arts and entertainment businesses, we used the Census Bureau's 2019 County Business Patterns dataset, which provides business data by geography, industry, and employment size, among other traits. Industry classification for this dataset is based on 2017 North American Industry Classification System codes. However, as the dataset does not include variables that align with all SVOG eligibility requirements, such as required revenue

loss, our analysis may overestimate the size of the eligible population. We were not able to develop an estimate for U.S. territories because census data were not available for these geographies.

SBA's Pre-Award Controls Reflect Some Leading Practices and Post-Award Controls Could Be Strengthened

SBA created controls to identify ineligible or potentially fraudulent businesses before SVOG awards were approved and periodically assessed program risks. Some of SBA's controls reflect leading practices in GAO's Fraud Risk Management Framework related to designing and implementing an antifraud strategy. However, contrary to leading practices in the framework, the agency's draft procedures for monitoring SVOG awards do not explicitly address risks the agency identified, including fraud-related risks.

SBA Established Pre-Award Controls and Periodically Identified Program Risks

Pre-award Controls Included Reviews to Verify Identity and Eligibility

SBA's pre-award controls for SVOG were intended to identify ineligible or potentially fraudulent businesses before awards were approved, and they included the following:

- **Verification of business identities.** Application reviewers were to check applicants' government-issued photo identifications to verify identity. SVOG applicants were to register with websites that verify the identity of businesses and government grantees—Dun & Bradstreet and SAM.gov.²⁷
- **Verification of financial information.** Reviewers were to verify the financial information from applicants, such as tax return information and audited financial statements. Additionally, applicants were to submit an Internal Revenue Service (IRS) Form 4506-T, which authorizes IRS to share applicant tax data with SBA so the agency could verify the information.

²⁷Dun & Bradstreet assigns DUNS numbers—unique nine-digit identifiers used to verify a business' identity—and businesses use SAM.gov to register to do business with the federal government.

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- **Verification of eligibility.** Application reviewers were to verify that applicants met general eligibility requirements. For example, reviewers were to verify bankruptcy status using Lexis Nexis, criminal history through a background check, and eligibility for government payments using Treasury's Do Not Pay system.²⁸ In addition, SBA developed questions and checklists for reviewers to verify business-specific eligibility requirements, which could include corroboration of applicant-provided information. For example, for movie theaters, the guidance indicates that reviewers review floor plans showing where the projection booth, motion picture screen, and fixed audience seating were located to verify an applicant met these facility requirements.
 - **Steps to avoid duplication of benefits.** Application reviewers were to check agency information from other pandemic relief programs (RRF, PPP, and EIDL) to determine if SVOG applicants applied for or received funding from these programs in a manner consistent with program requirements. For example, if an applicant received a PPP loan after December 27, 2020, the loan amount had to be deducted from the SVOG award.

SBA also considered internal control standards in developing its pre-award controls. For example, it developed pre-award controls based on reviewing program risks. This was consistent with federal internal control standards indicating management should (1) identify, analyze, and respond to risks related to achieving the defined objectives, and (2) design control activities to achieve objectives and respond to risks.²⁹

SBA Relaxed Some Pre-award Controls to Process Applications Faster

In June 2021, SBA relaxed some of the SVOG program's pre-award controls to address delays in award processing.³⁰ While relaxing controls may have implications for fraud risk management, SBA's changes aligned with controls for other emergency programs or incorporated strategies to mitigate risk to the program. For example, SBA stopped independently

²⁸The Department of the Treasury's Do Not Pay service is an analytics tool that helps federal agencies detect and prevent improper payments made to vendors, grantees, loan recipients, and beneficiaries. Agencies can use the service to check multiple data sources to make payment eligibility decisions.

²⁹[GAO-14-704G](#).

³⁰We describe key changes to the pre-award controls in more detail in app. III and discuss application processing times for initial grants in app. II.

identifying undisclosed affiliates (awards were limited to no more than five business entities of an eligible entity) and started to rely on applicant attestations.³¹ SBA officials stated they considered the costs and benefits of the control and determined that SBA no longer needed to spend staff time on investigations into affiliate status. However, according to SBA officials, automated controls to mitigate the risk of undisclosed affiliates remained, and the agency plans to review affiliate status in post-award monitoring.³²

Additionally, SBA removed automatic verification reviews of applicant tax information against IRS data for awards below a certain dollar threshold, relying on applicant-provided information instead.³³ Agency officials noted that their goal was to create a dollar threshold that reduced application processing times, while still providing these reviews to higher-dollar applications representing about 90 percent of the funds. According to SBA, this approach aligned with SBA's procedures for other programs, such as RRF, which they said also did not check IRS data for all applicants.

SBA also changed the payment method for awards from multiple disbursements to a single disbursement. Using multiple disbursements allowed SBA to withhold a portion of the award in the future if recipients were subsequently found to be fraudulent or ineligible. According to SBA, in June 2021, the agency changed to a single payment approach to align with that of other emergency programs and to provide timely relief to

³¹According to program requirements, a maximum of five business entities related through affiliation (for example, through common ownership, management, or contractual or other legal arrangements) can receive an SVOG award. Prior to June 2021 revisions to SBA's application controls, suspected affiliates would be referred to SVOG application reviewers who specialized in applications that were considered "complex," such as business models that rely on verbal contracts.

³²According to SBA officials, the application portal was programmed to reject duplicate applications for a single Taxpayer Identification Number unless related to a governmental entity, which mitigated the risk of undisclosed affiliates. Agency officials also noted plans to continue affiliate reviews in the post-award monitoring phase to investigate cases where more than five applications appear to be affiliated.

³³As an alternative to using IRS data, SBA officials noted they requested specific documents from applicants, including audited financial statements, official IRS tax return transcripts, IRS file stamped copies of federal tax returns, or copies of federal tax returns with letters from certified public accountants attesting the returns were prepared and submitted to IRS. According to SBA officials, the agency determined that these and other documents were sufficient to validate applicants' financial information.

grantees.³⁴ In July 2022, SBA's OIG reviewed the agency's awards and payment practices for SVOG and found that this change increased the financial risks to the program.³⁵ SBA stated it plans to implement OIG's recommendation that it use a risk-based approach for disbursing award funds for future disaster grant programs.³⁶

SBA Periodically Assessed Risks, but Focused on Fraud Risks after Application Window Closed

SBA identified and evaluated risks to the program on four occasions. The first of these assessments was in January 2021, shortly after the program was established, and the second was in April 2021, just before SBA started collecting grant applications. These first two assessments generally described potential program risks, such as those related to improper payments or technology challenges.³⁷ For each risk identified, the assessments describe mitigation steps, the likely impact of the risk considering mitigation strategies, and how the risk will be monitored.

SBA's subsequent assessments focused on fraud-related risks facing the program.³⁸ SBA conducted these assessments in September and December 2021, after closing the SVOG application portal in August 2021 and after issuing most awards. According to SBA officials, the agency conducted a fraud risk assessment for SVOG in response to our recommendations on assessing fraud and improper payment risks in the

³⁴SBA cited federal grant regulations (2 C.F.R. § 200.305) as its justification for changing to a single-payment approach. That regulation requires that agencies time payments in accordance with the actual, immediate cash requirements to carry out the purpose of a program. According to SBA, it received several appeals from Congress stressing the performing arts industry's need for immediate emergency relief to stay solvent.

³⁵Small Business Administration, Office of Inspector General, *SBA's Award and Payment Practices in the Shuttered Venue Operators Grant Program*, OIG-22-15 (Washington, D.C.: July 5, 2022).

³⁶OIG-22-15.

³⁷An improper payment is defined as any payment that should not have been made or that was made in an incorrect amount (including overpayments and underpayments) under statutory, contractual, administrative, or other legally applicable requirements.

³⁸GAO has separate ongoing work that examines, among other things, SBA's development of fraud risk assessments for SVOG and its other pandemic relief programs.

PPP and EIDL programs.³⁹ The most recent assessment described eight specific risks related to fraud, the likelihood of the risks, and controls to mitigate them. SBA also determined the effectiveness of certain anti-fraud controls through a scoring system. Moreover, the assessment noted the likelihood and impact of residual risks (those that remain after mitigation steps).

SBA Developed Fraud Review and Referral Procedures

SBA's pre-award fraud review and referral procedures for SVOG describe several layers of SBA review. SVOG application reviewers are to flag applications they suspect of fraud and refer them to an SVOG fraud investigation team. This team is to further review these applications and refer those it suspects of fraud to the Office of Disaster Assistance's fraud review team. If the Office of Disaster Assistance also suspects fraud, it is to refer the applications to SBA's OIG for review.⁴⁰

As of June 2022, the Office of Disaster Assistance referred 257 applications to the OIG.⁴¹ According to SBA, the applications that the Office of Disaster Assistance referred to OIG were declined prior to, or simultaneously with, referral. As of June 2022, SBA had awarded nine applications before referring them to the OIG and declined the remaining 248 referrals. For applications that received awards prior to OIG referral,

³⁹GAO issued a number of reports that addressed fraud and improper payments risks for PPP and EIDL and made related recommendations. See GAO, *COVID-19: Opportunities to Improve Federal Response and Recovery Efforts*, [GAO-20-625](#) (Washington, D.C.: June 25, 2020); *COVID-19: Urgent Actions Needed to Better Ensure an Effective Federal Response*, [GAO-21-191](#) (Washington, D.C.: Nov. 30, 2020); *COVID-19: Critical Vaccine Distribution, Supply Chain, Program Integrity, and Other Challenges Require Focused Federal Attention*, [GAO-21-265](#) (Washington, D.C.: Jan. 28, 2021); and *COVID-19: Sustained Federal Action Is Crucial as Pandemic Enters Its Second Year*, [GAO-21-387](#) (Washington, D.C.: Mar. 31, 2021). SBA agreed with the recommendations in [GAO-21-387](#) and neither agreed nor disagreed with the recommendations in the other reports. As of June 2022, SBA fully implemented the recommendation in [GAO-20-625](#) and has taken steps to address, but has not yet fully implemented, the remaining recommendations.

⁴⁰According to OIG officials, the OIG typically does not communicate its decision to pursue or decline an investigation with the office that made the fraud referral. However, SBA offices can request a status update for fraud referrals or may receive requests for information related to active OIG investigations.

⁴¹The Office of Disaster Assistance referred a total of 317 applications to the OIG. However, SBA subsequently retracted 60 referrals. As of June 2022, the SVOG fraud investigation team had reviewed 575 applications. The Office of Disaster Assistance reviewed 399 potentially fraudulent applications (394 referrals from the SVOG fraud investigation team and an additional five referrals from external third-party sources).

SBA officials noted that they wait for resolution from their general counsel or OIG before taking further action.

Our Limited Tests Did Not Reveal Significant Weaknesses in Controls

We did not identify significant weaknesses, based on our limited covert testing of controls. As we previously mentioned, we created three fictitious businesses to test fraud and eligibility controls. Although the results were not generalizable, SBA's controls identified these businesses as ineligible. Furthermore, SBA declined the applications following our appeal of SBA's initial decisions.⁴²

Similarly, we did not identify significant weaknesses based on our limited analysis of SVOG data we received as of December 31, 2021.⁴³

- A comparison with PPP data generally showed that SBA deducted PPP loan amounts from SVOG awards (as is required for SVOG recipients approved for a PPP loan after December 27, 2020).⁴⁴
- A comparison with U.S. Postal Service address data showed that close to 98 percent of SVOG applicants had address information that matched what was in the Postal Service address database.
- SVOG data showed that most recipients generally used certain valid or eligible business identifiers.

In addition, we previously reported that after comparing SVOG and RRF data, we found no examples of SVOG recipients receiving RRF funds (which they are not permitted to do).⁴⁵

⁴²SBA notified one of our fictitious businesses that it was approved for a supplemental award, but no money was disbursed. The notification was likely erroneous because SBA already had declined the fictitious business' appeal and did not invite it to apply for a supplemental award.

⁴³See app. I for more information on the methodology used to conduct these analyses.

⁴⁴In close to 11 percent of the SVOG awards we reviewed, the award was greater than the applicant's proposed award with their PPP loan amount deducted. In these instances, we could not determine if the full PPP loan amount had been deducted because, according to SBA officials, application reviewers adjusted some SVOG award amounts upward after reviewing applicant revenue and other information. According to SBA officials, fully testing controls related to PPP loans would involve a manual review of SVOG files. They also noted that the agency's post-award monitoring plans include steps to determine whether PPP loans were appropriately deducted from SVOG awards.

⁴⁵GAO, *Restaurant Revitalization Fund: Opportunities Exist to Improve Oversight*, [GAO-22-105422](#) (Washington, D.C.: July 14, 2022).

Some of SBA's Pre-award Activities Reflect Selected Leading Practices for Fraud Risk Management

Some of SBA's pre-award control activities for SVOG reflect selected practices in GAO's Fraud Risk Management Framework related to designing and implementing an antifraud strategy with specific control activities (see table 12).⁴⁶ For example, SBA outlined roles and responsibilities for pre-award risk-management activities, designed various controls to check applicant information against third-party databases, developed plans for referring cases of suspected fraud to the OIG, and coordinated with relevant parties to share information for fraud risk management.

Table 12: Examples of Shuttered Venue Operators Grant Program Activities That Reflect Selected Leading Practices for Designing and Implementing an Antifraud Strategy

SVOG pre-award activities	Description	Related leading practices
Establishing roles and responsibilities	Although not a comprehensive strategy, SBA's fraud review and internal control procedures for the Shuttered Venue Operators Grants (SVOG) describe the roles of individuals and offices within SBA responsible for implementing antifraud activities, including the Office of Inspector General (OIG).	Establish roles and responsibilities of those involved in fraud risk management activities, such as the antifraud entity and external parties responsible for fraud controls, and communicate the role of the OIG to investigate potential fraud.

⁴⁶See [GAO-15-593SP](#). The framework provides a comprehensive set of key components, overarching concepts, and leading practices that serve as a guide for agency managers to use when developing efforts to combat fraud in a strategic, risk-based way. As required under the Fraud Reduction and Data Analytics Act of 2015 and its successor provisions in the Payment Integrity Information Act of 2019, the leading practices of the framework are to be incorporated into the Office of Management and Budget's guidelines and agency controls. Fraud and fraud risk are distinct concepts. Fraud involves obtaining something of value through willful misrepresentation and is a determination to be made through the judicial or other adjudicative system. Fraud risk exists when individuals have an opportunity to engage in fraudulent activity, have an incentive or are under pressure to commit fraud, or are able to rationalize committing fraud. Fraud risk can exist even if actual fraud has not occurred. When fraud risks can be identified and mitigated, fraud may be less likely to happen.

SVOG pre-award activities	Description	Related leading practices
Design	<p>SBA's Audit and Oversight Plan cites SVOG program preventive control activities that include</p> <ul style="list-style-type: none"> establishing requirements in the application to help SVOG identify and deter potentially ineligible or fraudulent applications (e.g., DUNS and Sam.gov registration); verifying application information against third-party databases, and other SBA program databases; and using checklists for each type of eligible business. 	Focus on fraud prevention over detection and response to avoid a "pay-and-chase" model (that is, to avoid having to retrieve funds that already may have been spent), to the extent possible.
Fraud referral	<p>SBA developed internal control procedures for reviewing and referring suspected fraud cases, including the roles of the SVOG Fraud Investigation Team, Office of Disaster Assistance's Office of Internal Controls, and the OIG.</p> <p>The SVOG program referred 257 applications to the OIG as of June 30, 2022.</p>	<p>Develop a plan outlining how the program will respond to identified instances of fraud and ensure the response is prompt and consistently applied.</p> <p>Refer instances of potential fraud to the OIG or other appropriate parties, such as law-enforcement entities or the Department of Justice, for further investigation.</p>
Information sharing	<p>According to SBA officials, the Office of Disaster Assistance and staff that administer SVOG engaged in information sharing with other programs or agencies to incorporate best practices into the SVOG program.</p> <p>As of July 2022, SBA officials noted the agency was leveraging fraud information from other SBA programs to identify instances of potential fraud in the SVOG program.</p>	Establish collaborative relationships with internal and external stakeholders to share information on fraud risks and emerging fraud schemes and lessons learned related to fraud control activities.

Source: GAO analysis of Small Business Administration (SBA) documentation and GAO's Fraud Risk Framework. | GAO-23-105199

Note: We compared SBA's activities against leading practices identified in our Fraud Risk Framework ([GAO-15-593SP](#)). We focused on leading practices of the framework's third component, "Design and Implement a Strategy with Specific Control Activities to Mitigate Assessed Fraud Risks and Collaborate to Help Ensure Effective Implementation."

SBA Has Drafted Post-Award Monitoring Procedures, but They Do Not Explicitly Address Identified Fraud Risks

Compliance and Improper Payment Reviews

In February 2021, SBA developed an audit and oversight plan for SVOG—as required by law—to document internal control policies and procedures.⁴⁷ These procedures included SBA's methodology for auditing a sample of awards to assess eligibility determinations and recipients' use of funds. In April 2021, the OIG raised concerns about SBA's initial

⁴⁷15 U.S.C. § 9009a(f).

sampling approach.⁴⁸ The sample would have included a maximum of 10 audits for low-risk applications, although SBA expected these applications to make up the bulk of awards. SBA officials noted that they submitted a revised audit and oversight plan to Congress in December 2021. The plan's new methodology increases the sample size for low-risk applications and includes auditing a statistically significant sample of awards in each of three risk categories. In July 2022, OIG staff indicated that the office had not yet assessed whether the revised sampling approach addressed the concerns from the April 2021 report, but they expected to assess this approach in future audit work.

Additionally, SBA developed plans to conduct monthly quality assurance reviews on a random sample of awards (or a review of files with similar characteristics) to identify instances of noncompliance and the potential for improper payments. The plans describe procedures for addressing improper payments, including potential corrective actions such as recovering funds. SBA also is to perform a quarterly improper payment audit, the results of which would be included in the agency's financial report. According to SBA officials, the agency conducted a preliminary assessment of the program's first quarter fiscal year 2022 awards and disbursements, and the results are still being finalized.

In July 2022, SBA provided us with a copy of draft procedures for monitoring SVOG recipients' compliance with the requirement to not use funds from SVOG and EIDL for the same purpose. According to the procedures, SBA will use a risk-based approach. Specifically, SBA will determine the scope of the reviews based on risk category, suspicious and flagged budget items, and cost categories susceptible to double counting, such as personnel costs. The procedures also state that SBA staff will search SBA and federal databases to identify other federal awards that could be improperly used for the same purpose as SVOG funds.⁴⁹

Draft Procedures for Fraud Reviews

SBA's draft procedures for post-award monitoring discuss strategies to identify and respond to suspected fraud, but they do not clearly link

⁴⁸Small Business Administration, Office of Inspector General, *Serious Concerns About SBA's Control Environment and the Tracking of Performance Results in the Shuttered Venue Operators Grant Program*, 21-13 (Washington, D.C.: Apr. 7, 2021).

⁴⁹According to SBA, these procedures are derived from the allocability principles in the Uniform Guidance, 2 CFR part 200. As stated in 2 C.F.R. § 200.405, "Any cost allocable to a particular Federal award under the principles provided for in this part may not be charged to other Federal awards"

planned efforts to the risks identified in periodic risk assessments. SBA provided us with a copy of the draft procedures for post-award monitoring in July 2022. According to SBA officials, the draft procedures were to be finalized in August 2022.

SBA's draft procedures include activities to identify and respond to suspected fraud. For example, the procedures note that SBA staff will conduct data matching quarterly to identify SVOG recipients that have been flagged for fraud by other SBA programs. The procedures also discuss the steps SBA staff should take if they suspect fraud while reviewing an awarded file or documentation submitted by an award recipient. Such steps can include evaluating the concern and escalating it for further review or referral to the OIG. These activities reflect some leading practices described in our Fraud Risk Framework.⁵⁰

However, SBA's draft procedures do not specifically connect risks identified in its periodic assessments, in particular its two fraud-risk assessments, to its planned monitoring activities. As previously noted, SBA's December 2021 fraud risk assessment describes eight specific fraud-related risks.⁵¹ For each risk, the assessment describes pre-award mitigation steps and identifies residual risks that would require monitoring. SBA's draft procedures do not explicitly discuss seven of the eight fraud risks previously identified. For example, SBA identified identity theft as a potential fraud scheme (with residual risks) in its December 2021 fraud risk assessment, but the draft procedures do not mention identity theft. The draft procedures mention monitoring activities related to one risk—businesses overstating their revenue losses.⁵² In addition, the draft procedures do not explicitly discuss whether the agency decided that the risks were within its tolerance level for the program, or, if applicable, how it would monitor risks that exceed the tolerance level.⁵³

Our Fraud Risk Framework underscores the importance of determining fraud risk tolerance and considering the benefits and costs of control

⁵⁰[GAO-15-593SP](#).

⁵¹An earlier version of the fraud risk assessment from September 2021 described seven fraud risks.

⁵²SBA's draft monitoring procedures state that agency staff should document any concerns for potential fraud-related discrepancies in claimed revenues.

⁵³According to *Standards for Internal Control in the Federal Government*, risk tolerance is the acceptable level of variation in performance relative to the achievement of objectives. [GAO-14-704G](#).

activities to address identified residual risks, so that monitoring efforts and resources are appropriately targeted.⁵⁴

SBA officials told us that their draft procedures do not explicitly mention fraud risks identified in risk assessments because they intended for these procedures to address a broader set of fraud risks than the assessments identified. Nonetheless, having procedures that more explicitly link monitoring activities to all risks identified in previous risk assessments would better position SBA to detect and respond to fraud in a more targeted manner.

SBA Plans to Measure SVOG Performance Outcomes

SBA used Office of Management and Budget (OMB) guidance related to performance measurement to develop its performance measures—outputs and outcomes—for SVOG.⁵⁵ Consistent with that guidance, SBA created a logic model—a table that describes the relationship between planned activities and desired outcomes.⁵⁶

SVOG staff developed the logic model in March 2021 to form the basis for the program's performance framework (see table 13). SVOG staff worked with other SBA staff from the Office of Performance Management and Chief Financial Officer, the Office of Disaster Assistance, and with detailees from the Office of Entrepreneurial Development and Office of Government Contracting and Business Development.

⁵⁴[GAO-15-593SP](#).

⁵⁵Outputs are the direct products and services delivered by a program and outcomes are the results of those products and services. GAO, *Performance Measurement and Evaluation*, [GAO-11-646SP](#) (Washington, D.C.: May 2, 2011).

⁵⁶According to OMB Circular A-11 (Part 6, Section 230.10), a logic model generally reflects an agency's underlying theory for how the planned coordination and orchestration of resources and activities will achieve the desired outcome or change in terms of performance and impact at the organizational, operational, or programmatic levels.

Table 13: Logic Model Activities, Outputs, and Outcomes for Shuttered Venue Operators Grant Program

Activities	Outputs	Short-term outcomes	Intermediate outcomes	Long-term outcomes
Develop funding notice	Number of grants approved and disbursed	Percent of eligible grant funds expended for persons and venues	Number of previously shuttered venues still in operation one year after grants received	Number of jobs supported from previously shuttered venues in operation
Establish system to collect grant applications and process awards	Amount of grants received by each eligible person or entity, including any supplemental grants	Percent of eligible grant funds expended for small venues (fewer than 50 employees)		Revenue (dollars) earned from previously shuttered venues in operation
Develop and issue communication on the program for potential grant recipients	Number of active investigations and audits of grants			
Review grant applications and make awards	Number of completed reviews and audits of grants under this section, including a description of any findings of fraud or other material noncompliance			
Monitor grant progress and track performance				
Conduct audits of grant recipients and monitor program risk				

Source: GAO analysis of Small Business Administration documents. | GAO-23-105199

SBA published its performance measures and targets for the SVOG program in the agency's fiscal year 2023 Congressional Budget Justification. For one measure, SBA set performance targets for fiscal years 2022 and 2023. For the other two measures, SBA will record baselines in fiscal year 2022 and set targets in 2023 (see table 14).

Table 14: Performance Measures and Targets for Shuttered Venue Operators Grant (SVOG) Program

Measure	Fiscal year 2022 target	Fiscal year 2023 target
Percent of SVOG recipients that continued or reopened operations	95 percent	95 percent
Number of active audit investigations	Baseline	To be determined
Percent increase in revenue of businesses assisted by SVOG	Baseline	To be determined

Source: GAO analysis of Small Business Administration information. | GAO-23-105199

In April 2021, the SBA OIG issued a management alert that noted SBA had not developed required SVOG performance goals and suggested the agency do so.⁵⁷ The OIG also said that without specific grantee performance reporting requirements, stakeholders would disburse billions without knowing whether SVOG grants successfully aided pandemic-affected small businesses. According to the OIG, the performance

⁵⁷Small Business Administration, Office of Inspector General, *Serious Concerns About SBA's Control Environment and the Tracking of Performance Results in the Shuttered Venue Operators Grant Program*. According to 2 C.F.R. § 200.211, performance goals, indicators, targets, and baseline data must be included in the federal award, where applicable. The awarding agency must specify how performance will be assessed in the terms and conditions of the award, including the timing and scope of expected performance.

measures SBA subsequently established in its Congressional Budget Justification address the OIG's concerns about performance goals.

SBA plans to measure how SVOG grantees spent funds, has been developing an evaluation framework for measuring outcomes, and plans to gather performance information from a survey of grantees, its own data, and census data.

- **Short-term outcomes:** SBA plans to measure how grantees expended funds, including during certain time periods across the SVOG grant portfolio, and how much businesses with fewer than 50 employees expended. As SBA moves to the monitoring, audit, and closeout phase of the program, it plans to track expenditures. According to SBA, as of July 2022, the agency still was requesting and approving final budgets from all grantees, and had not begun tracking final expenditures.
- **Intermediate outcomes:** According to SBA, the agency has been working with a third party to develop an outcome evaluation framework. SBA will use the data from a grantee closeout survey and administrative data from the SVOG portal to evaluate the impact of the program on businesses' continued operations. SBA officials expect the evaluation to take 18 months to complete.
- **Long-term outcomes:** According to SBA, the agency entered into a joint statistical arrangement with the Census Bureau. Census will create statistically significant comparison groups to measure the impact of SVOG grants on the number of jobs supported, changes in revenue, and changes in wages and salaries. According to SBA, the agency anticipates the results of evaluation will be available in fiscal year 2024.

Conclusions

In response to the COVID-19 pandemic, SBA awarded grants to more than 13,000 businesses in the hard-hit arts and entertainment industry—a vast majority of which had 50 employees or fewer. Because SVOG offered financial assistance in the form of grants and targeted a specific industry, it represents a departure from SBA's usual emergency assistance programs, and offers learning experiences.

More specifically, the dissatisfaction of SVOG applicants with SBA's communications and customer support suggests there are lessons to be learned for future emergency response efforts. Because SBA's existing plans for communication during disasters or emergencies focus on

regional loan programs serving all small businesses, they are not well-suited for a program like SVOG, a national grant program serving a specific industry. A more comprehensive communications strategy would better position SBA for future emergency assistance programs, particularly those that may differ from its existing programs.

Because some grantees have passed or are approaching the deadline to spend their awards, SBA has pivoted toward the monitoring (post-award phase) of SVOG. But the agency's draft monitoring procedures do not specifically discuss risks identified in its fraud-risk assessments or link those risks to monitoring activities. SBA also removed certain antifraud controls to expedite award processing. By implementing monitoring procedures that specifically address the residual and other risks it identified for SVOG awards, SBA could improve its ability to identify and address fraud among SVOG grantees. Such procedures also could help mitigate potential fraud risks resulting from removal of certain controls.

Recommendations for Executive Action

We are making the following two recommendations to SBA:

The Associate Administrator of SBA's Office of Disaster Assistance should develop a comprehensive strategy for communicating with potential and actual grant program applicants in the event of a disaster or other emergency. Such a strategy should provide guidelines for how to communicate information in a timely and effective manner during nationwide emergencies (such as pandemics) and for doing so for any future industry-specific emergency assistance programs.

(Recommendation 1)

The Associate Administrator of SBA's Office of Disaster Assistance should ensure that its post-award monitoring procedures for the Shuttered Venue Operators Grant program specifically address the risks the agency has assessed, including fraud risks, and clearly link them to monitoring activities. As a part of this effort, SBA should document its tolerance for the risks it has identified. (Recommendation 2)

Agency Comments and Our Evaluation

We provided a draft of this report to SBA for review and comment. In written comments, which are summarized below and reproduced in appendix IV, SBA partially agreed with both of our recommendations.

SBA also provided technical comments, which we reviewed and incorporated as appropriate.

SBA partially agreed with our first recommendation to develop a more comprehensive strategy for communicating with applicants of future emergency assistance programs. In its response, SBA said it plans to incorporate lessons learned into future iterations of communications plans to ensure a more comprehensive approach to new emergency assistance programs. SBA listed several best practices for communication it identified, including email outreach to applicants addressing updated guidance and monthly webinars highlighting program updates. We believe this is a step in the right direction that would benefit applicants of future emergency assistance programs. We urge SBA to continue to build on the practices it identified and draw lessons from program stakeholders and participants. For instance, we identified challenges with program communication through our survey of applicants and discussions with trade groups. SBA could use similar methods to inform their communication strategy.

In addition, SBA's response discusses bringing the issue of barriers to addressing applicants' specific questions before the Office of Management and Budget for clarification in its Uniform Guidance for grants administration. It stated that codifying additional flexibility for communications in disaster-assistance grants and other urgent areas is needed to ensure future federal efforts do not meet similar obstacles.

SBA partially agreed with our second draft recommendation to ensure that its post-award monitoring procedures for the Shuttered Venue program specifically address the risks the agency has identified. In its response, SBA reiterated that it has a number of monitoring procedures for addressing program risks more generally. In an appendix to its comment letter, SBA provided additional information on how its monitoring procedures applied to each of the fraud risks it previously identified, which may explain their partial agreement with the recommendation. For example, SBA indicated that it does not consider most of the fraud risks it previously identified, such as identity theft, as continuing to apply to SVOG now that all grants have been awarded. In its response, SBA also said it has procedures that would address the residual impacts from some of these risks, such as continued searches of third-party databases and public webpages to determine instances of identity theft.

We acknowledge in our report that SBA's controls for the application process (pre-award controls to verify identity and eligibility) reflected some leading practices for fraud risk management. For example, SBA

designed controls to check applicant information against third-party databases and periodically assessed risks to the program, including fraud risks. SBA's post-award monitoring procedures (which were in draft form at the time of our review) included a number of controls as well.

Although SBA noted in its response that it has post-award monitoring procedures to address the risks it previously identified, the draft procedures themselves do not provide this linkage. For example, as noted in our report, the draft procedures do not describe activities to address residual impacts for all the risks. The draft procedures also do not specifically outline why identity theft and other risks are no longer applicable. Furthermore, in its response, SBA did not address documenting its tolerance for the risks it identified, as we had recommended. We continue to believe that clearly linking SVOG monitoring procedures back to each of the risks SBA identified and documenting its fraud risk tolerance, will enhance the agency's ability to appropriately target its monitoring efforts to detect and respond to fraud.

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

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



William B. Shear
Director, Financial Markets and Community Investment

List of Committees

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

Chairman
The Honorable Mike Crapo
Ranking Member
Committee on Finance
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The Honorable Patty Murray
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The Honorable Richard E. Neal
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The Honorable Kevin Brady
Republican Leader
Committee on Ways and Means
House of Representatives

Appendix I: Objectives, Scope, and Methodology

This report examines (1) how applicants viewed Shuttered Venue Operators Grant (SVOG) communications and the application process; (2) characteristics of SVOG applicants and recipients; (3) steps the Small Business Administration (SBA) took to identify ineligible and fraudulent applications and manage fraud risks, and the extent to which SBA's control activities reflect selected leading practices; and (4) how SBA measures SVOG program performance.

Applicant Views on SVOG Communications and Application Process

Survey. For our first objective, we administered a web-based survey to a generalizable sample of SVOG applicants. In the survey, we asked applicants about their preparedness to apply for the program, experience completing and submitting their application, experience with program customer service providers, and post-award requirements. We administered the survey from February 2022 to April 2022, and we collected information for the 16-month period from January 2021 to April 2022.

To identify the universe of SVOG applicants, we used SVOG application data as of December 31, 2021, provided by SBA, which contained 17,644 applicants. We identified 114 applicants for which a final decision had not been made or the application status was not defined, seven SBA test applications, and 309 applicants SBA flagged as potential fraud. We chose to remove these 430 applicants from the sample frame so that our survey only would include those applicants who had received at least an initial decision on their application. The final sample frame consisted of 17,214 unique applicants.

Sampling and response weighting. We selected a generalizable, stratified random sample of 998 applicants. We stratified the population of applicants into eight mutually exclusive strata by decision status (approved for initial grant only, approved for initial and supplemental grants, initial grant and appeal denied, and initial grant denied with no appeal), and business size (small—up to 50 employees, and large—51 or more employees).

We computed sample sizes necessary to obtain a precision of at least plus or minus 10 percentage points, at the 95 percent confidence level, for each of four decision status subpopulations of interest: (1) approved for initial grant only, (2) approved for initial and supplemental grants, (3) initial grant and appeal denied, and (4) initial grant denied with no appeal. These sample sizes are expected to result in overall precision of at least plus or minus 5 percentage points. Finally, we inflated sample sizes within each stratum for an expected response rate of 50 percent and expected skip-pattern participation rate of 75 percent (25 percent skips).

We received valid and complete responses from 504 applicants. The 504 responses represent a 50.5 percent unweighted response rate. The weighted response rate, which controls for the disproportionate sample design, was 60.2 percent. We conducted an analysis of our survey results to identify potential sources of nonresponse bias using two methods. First, we examined the response propensity of the sampled applicants by several demographic characteristics. These characteristics included decision status, business size, proposed grant award amount, agency type, region, venue type and likely grant experience (based on venue type). We conducted bivariate logistic regression analyses to test for statistically significant differences in response propensities for these demographic variables.

Our second method consisted of comparing weighted estimates from respondents and nonrespondents of population distributions to known population distributions for the demographic characteristics. We conducted statistical tests of differences, at the 95 percent confidence level, between estimates and known population values, and between respondents and nonrespondents.

Based on this analysis, we observed significant differences in response propensities for some of the characteristics we examined. Specifically, we found that denied applicants, business applicants, live venue operators or promoters, and entity types likely to have less experience with grants were all significantly underrepresented by our respondents. We found significant differences, at the 95 percent confidence level, between weighted estimates from the respondents when compared to known population values for agency type. Specifically, businesses were under-represented, while nonprofits were over-represented.

To ensure that the survey results appropriately represented the population of applicants, we calculated weights to adjust for the differential response propensities we observed. Specifically, we weighted the results from the 504 respondents by the inverse of the probability of

selection (base weight) and a nonresponse adjustment factor to account for nonresponse and the differences in response propensities we identified. The nonresponse adjustment factor was calculated using a propensity-based weighting class adjustment where adjustment cells were based on quintiles of the predicted response propensities estimated by a logistic regression model. The model included decision status, proposed grant award amount, agency type, venue type, and an interaction between decision status and proposed grant award amount.

We applied the propensity weighting class adjustments to adjust the sampling weights to account for potential bias due to nonresponse. To compute the final adjusted sampling weight, we applied a simple raking procedure to ensure adjusted weights summed to the number of applicants in the population and by stratum.

Interviews and documents reviewed. In addition, we interviewed representatives from six industry associations representing SVOG-eligible businesses to obtain their perspectives on SBA's implementation of the program and their members' experiences with the application process. We selected national organizations that met all of the following criteria: (1) represented at least one SVOG-eligible business type and small businesses, (2) had publicly commented on SVOG or had SVOG-specific research initiatives, and (3) had dedicated efforts to assist members in navigating COVID-19 economic effects.

Based on these criteria, the industry associations we selected to interview were the Broadway League, Association of Performing Arts Professionals, National Association of Theater Operators, and American Alliance of Museums. For our interview with the American Alliance of Museums, representatives from two other museum industry associations participated and offered their perspectives, for a total of six industry associations. Collectively, the industry associations we interviewed represent members from all six SVOG-eligible business types. These interviews are not generalizable to other associations but offer important perspectives.

We also reviewed SBA documentation and interviewed agency officials. Specifically, we reviewed SVOG implementation plans, application guidance documents, program information session materials, and communication procedure and planning documents. We analyzed changes to program guidance over time. In addition, we reviewed SBA's Strategic Plan for Fiscal Years 2022–2026.

Characteristics of SVOG Applicants and Recipients

For our second objective, we used SVOG application data as of December 31, 2021, that SBA provided. These were the most recent grant-level data available at the time of our analysis. As described previously, the dataset contained 17,644 applicants. To be able to describe applicant characteristics, we chose to include the 114 applicants for which a final decision had not been made or the application status was not defined in our analysis. We still excluded the seven SBA test applications and 309 applicants SBA flagged as potential fraud. Thus, the number of applications included in our analysis was 17,328. Using these data, we analyzed information on approval rates, award amounts, and share of awards by business size (based on the number of employees); type (based on SVOG eligibility categories); and location (state or territory). We also used the results of our survey to estimate the number of applicants who appealed their award decision.

We assessed the reliability of SBA's SVOG application data by reviewing related documentation, testing to check for missing data, outliers, and errors, and interviewing agency officials. We determined these data were sufficiently reliable for describing applicant and recipient characteristics, such as business size, type, and location.

Regression models. Additionally, we developed multivariate regression models to help explain differences in approval rates among states. For example, we used the logistic regression models to examine whether states with higher applicant approval rates also tended to have applicants that were more likely to be approved based on certain characteristics, such as type of business.

To examine the associations between approved applicants, states, and demographic characteristics, we first examined the variation of SVOG approval rates by state via binary logistic regressions, Poisson regressions, and negative binomial regressions. Second, we determined if characteristics associated with higher approval rates differed between states with high and low approval rates via binary logistic regression. We created several statistical models utilizing data from SVOG program applicants to determine if there was any variation in SVOG application approvals by state. Additionally, we examined other demographics and their potential associations with approved applicants.

To analyze the data, several variables were transformed. The approval variable was dichotomized from three categories (declined, pending, and approved) into two categories (declined or pending, and approved). State approval rates were dichotomized into higher-approval rate states and lower-approval rate states. The minimum cut point for high approval rates was set at 75 percent.

In all models, the account type variable for business was collapsed from three categories (majority tribal-owned, majority government-owned, and nonprofit) to nonprofit or other. Size was transformed into an ordinal variable with six categories: 10 or fewer [employees], 11–50, 51–100, 101–500, 501–990, and 1,000 or more. Age was transformed into an ordinal variable with the categories 0–8 years, 9–20 years, and more than 20 years. Finally, the variable measure that contains the amount of money each venue initially requested was categorized into eight ordinal levels; [requested] up to \$50,000, \$50,000–\$100,000, \$100,001–\$200,000, \$200,001–\$300,000, \$300,001–\$500,000, \$500,001–\$900,000, \$900,001–\$2,000,000, and \$2,000,001 or more. Other variables explored in the models include state and account venue.

For the multivariate regression analyses, we determined the data were sufficiently reliable for identifying whether certain characteristics were associated with a higher approval rates for an SVOG award, but the distribution of these characteristics within states did not fully account for the higher or lower approval rates observed.

Analysis of census data. To estimate the proportion of eligible businesses that received SVOG awards, both nationally and by state and territory, we analyzed census data. Using the Census Bureau’s 2019 County Business Patterns dataset, which provides data by geography, industry, and employment size, we estimated the population of potentially eligible arts and entertainment businesses. Industry classification for the census dataset is based on 2017 North American Industry Classification System (NAICS) codes, which include nearly 1,200 industries.

We identified the following NAICS codes that align with the seven types of businesses eligible for the SVOG program: Performing Arts Companies (7111); Promoters of Performing Arts, Sports, and Similar Events (7113); Agents and Managers for Artists, Athletes, Entertainers, and Other Public Figures (7114); Museums, Historical Sites, and Similar Institutions (7121); and Motion Picture Theaters (512131). These data do not align with all the eligibility criteria for SVOG recipients—such as revenue loss requirements—so our analysis may overestimate the size of the eligible population. Nonetheless, the census data provides reasonable estimates for comparing eligible business populations at the state level. We were

not able to develop an estimate for U.S. territories because data were not available for these geographies.

We assessed the reliability of the census data by reviewing information from the Census Bureau's website on the procedures and methods it used to collect the County Business Patterns data and conducted electronic testing of the variables we used in our analysis. We determined the data were sufficiently reliable to estimate the number of eligible businesses per state.

SBA's Control Activities, Including for Fraud

For the third objective, we reviewed SBA documentation on internal control procedures and interviewed agency officials. For example, we reviewed SBA guidance on what application reviewers are to assess to verify an applicant's identity, financial information, and eligibility before making an award. In addition, we reviewed program risk assessments, procedures for conducting fraud reviews and referring applications with potential fraud issues to SBA's Office of Inspector General, and plans to monitor SVOG grantees for potential fraud and improper payment issues. We also reviewed SVOG data on potentially fraudulent applications, including referrals to the Office of Inspector General. In addition, we reviewed SBA Office of Inspector General reports on SVOG implementation and controls and interviewed OIG officials.

Comparison to fraud framework. We compared SBA's policies and procedures related to managing fraud risks against federal internal control standards and leading practices in GAO's Fraud Risk Framework.¹ Specifically, we compared SBA's control activities to elements of the third component of the framework (Design and Implement a Strategy with Specific Control Activities to Mitigate Assessed Fraud Risks and Collaborate to Help Ensure Effective Implementation) as part of our review of pre-award controls for the SVOG program. We focused on this component because it was the most relevant to our review of SBA's pre-award controls. We previously highlighted SBA's activities related to the

¹GAO, *Standards for Internal Control in the Federal Government*, [GAO-14-704G](#) (Washington, D.C.: Sept. 10, 2014); and *A Framework for Managing Fraud Risk in Federal Programs*, [GAO-15-593SP](#) (Washington, D.C.: July 28, 2015).

first two components of the framework for related programs, and some of those activities would apply to SVOG as well.²

Covert and other testing. To identify potential weaknesses in SBA's control processes, we covertly tested those controls by submitting fraudulent and ineligible SVOG applications using three fictitious businesses. To support our applications and appear eligible for SVOG, we submitted falsified documents such as business licenses, tax forms, and income statements. We designed our applications to test three sets of controls relating to smaller and larger award sizes and eligibility criteria:

- A fraudulent business, with revenue losses that supported a grant amount under \$500,000.
- A fraudulent business, with revenue losses that supported a grant amount over \$500,000.
- A fraudulent business that did not meet certain business type-specific eligibility criteria.

After SBA declined to award our fictitious businesses, we appealed these decisions and provided additional falsified documentation to support our appeals. We contacted SBA's customer support services multiple times for each fictitious business in an attempt to get support for our applications.

We also analyzed SVOG application data as of December 31, 2021, to identify potential control weaknesses. In particular, we analyzed the data to identify applicants with potentially invalid or ineligible business identification, such as having DUNS identifiers without the required number of digits.³ We also compared the SVOG applicant data against the U.S. Postal Service's Address Matching System to identify potentially invalid address information provided by applicants.⁴

²GAO, *Emergency Relief Funds: Significant Improvements Are Needed to Ensure Transparency and Accountability for COVID-19 and Beyond*, [GAO-22-105715](#) (Washington, D.C.: Mar. 17, 2022).

³SVOG program applicants were required to register with Dun & Bradstreet and obtain a DUNS number—a unique nine-digit identifier used to verify a business' identity. In addition to analyzing which applicants had DUNS without the required number of digits, we looked at other outlier characteristics, such as having DUNS numbers with all digits having the same value (for instance, all zeros), and applicants with prefixes for their employer identification numbers indicating that their businesses may have been formed around the creation of the SVOG program.

⁴The Postal Service's programming interface enables users to validate addresses.

In addition, we compared the SVOG application data with datasets for other pandemic relief programs to determine whether implementation of SVOG was consistent with program requirements. We compared SVOG recipient data with a limited sample of recipient data for the Paycheck Protection Program (PPP) as of December 31, 2021, to determine whether PPP loans were deducted from SVOG awards per program requirements.⁵

SVOG Performance Measurement

For our fourth objective, we reviewed SBA's SVOG logic model (which includes measures to assess the program's outputs and outcomes) and the fiscal year 2023 Congressional Budget Justification (which includes performance targets and measures for the program). We also interviewed officials from SBA's Office of Disaster Assistance and Office of Inspector General.

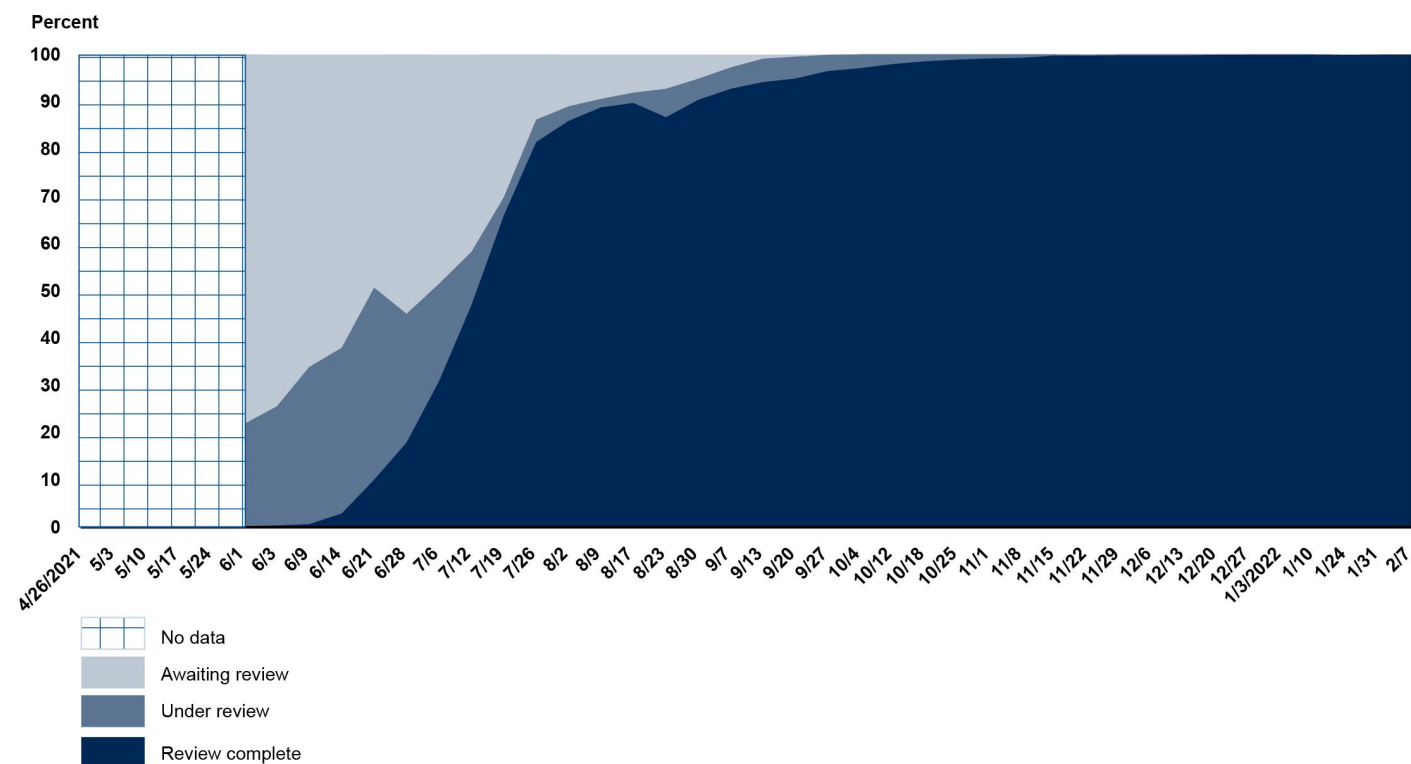
We conducted this performance audit from April 2021 to October 2022 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. We conducted our related investigative work in accordance with standards prescribed by the Council of the Inspectors General on Integrity and Efficiency.

⁵We matched identifiers for SVOG applicants that had a single employer identification number in both the SVOG and PPP datasets (SVOG data were as of December 31, 2021 and PPP data were as of June 30, 2021—the end of the PPP program). This totaled 5,334 SVOG and PPP recipients out of 7,625 SVOG applicants that participated in PPP. Although SVOG applicants were eligible to apply for a PPP loan, SVOG recipients could not apply for PPP after receiving an SVOG award. Additionally, if an SVOG award recipient also had received a PPP loan after December 27, 2020, the PPP loan amount had to be deducted from the recipients' approved SVOG grant award. We compared the potential grant amount with actual grant amount to see if the difference equaled the PPP loan amount. According to SBA, application reviewers adjusted some SVOG award amounts upward after reviewing applicant revenue and other information. Because these adjustments are not identifiable in our data, we could not differentiate cases in which these adjustments were made from cases in which PPP loan amounts were not deducted.

Appendix II: Application Processing Times for the Shuttered Venue Operators Grant Program

The Small Business Administration (SBA) significantly increased processing rates for Shuttered Venue Operators Grants (SVOG) applications after revising some of its review procedures. After the first 6 weeks of the program, SBA had made decisions on less than 1 percent of applications received (90 of 14,013). In June 2021, SBA changed its process for reviewing applications to make funding decisions more quickly (see app. III for more information on the changes). The number of applications processed increased significantly from mid-June to mid-July 2021 (see fig. 7). SBA reported issuing decisions for 10,019 applications (66 percent of applications submitted) by July 19, 2021.

Figure 7: Status of Shuttered Venue Operators Grant Initial Award Applications, April 26, 2021–February 7, 2022



Source: GAO analysis of Small Business Administration data. | GAO-23-105199

Accessible Data for Figure 7: Status of Shuttered Venue Operators Grant Initial Award Applications, April 26, 2021–February 7, 2022

Date	Review complete (percent)	Under review (percent)	Awaiting review (percent)
4/26/2021	0	0	0
5/3/2021	0	0	0
5/10/2021	0	0	0
5/17/2021	0	0	0
5/24/2021	0	0	0
6/1/2021	0.23	21.64	78.14
6/3/2021	0.36	25.2	74.44
6/9/2021	0.64	33.26	66.1
6/14/2021	2.89	35.07	62.04
6/21/2021	10.03	40.62	49.35
6/28/2021	17.89	27.24	54.88
7/6/2021	30.83	20.65	48.52

**Appendix II: Application Processing Times for
the Shuttered Venue Operators Grant Program**

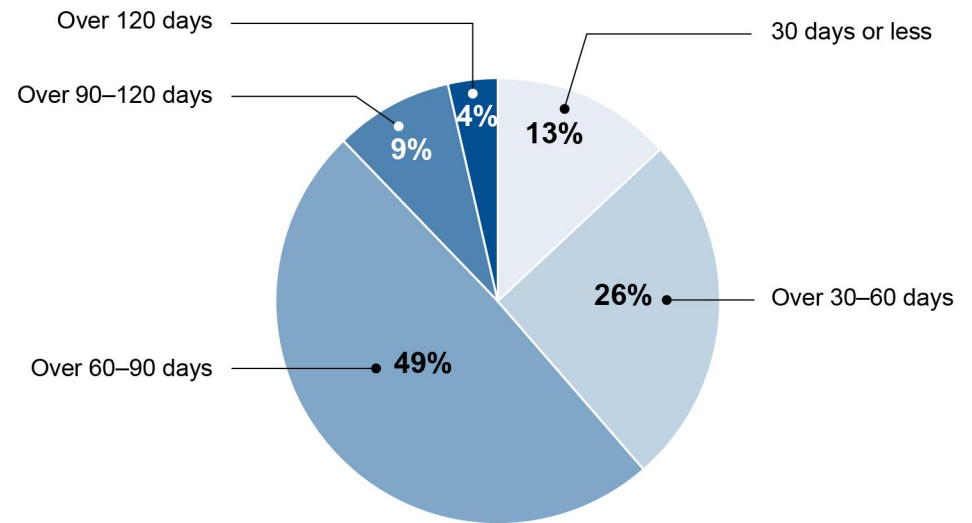
Date	Review complete (percent)	Under review (percent)	Awaiting review (percent)
7/12/2021	46.94	11.28	41.78
7/19/2021	65.91	3.87	30.23
7/26/2021	81.46	4.75	13.8
8/2/2021	85.94	3.09	10.97
8/9/2021	88.81	1.8	9.39
8/17/2021	89.74	2.18	8.08
8/23/2021	86.71	6.03	7.26
8/30/2021	90.4	4.46	5.14
9/7/2021	92.74	4.53	2.73
9/13/2021	94.16	4.96	0.88
9/20/2021	94.91	4.64	0.45
9/27/2021	96.49	3.43	0.08
10/4/2021	97.11	2.93	0
10/12/2021	97.97	2.07	0
10/18/2021	98.55	1.49	0
10/25/2021	98.91	1.13	0
11/1/2021	99.16	0.88	0
11/8/2021	99.29	0.75	0
11/15/2021	99.76	0.28	0
11/22/2021	99.75	0.24	0
11/29/2021	99.81	0.23	0
12/6/2021	99.83	0.21	0
12/13/2021	99.82	0.22	0
12/20/2021	99.9	0.14	0
12/27/2021	99.94	0.1	0
1/3/2022	99.95	0.09	0
1/10/2021	99.97	0.07	0
1/24/2022	99.91	0.04	0
1/31/2022	99.97	0.03	0
2/7/2022	100	0	0

Processing rates slowed after mid-July. According to SBA officials, its rate slowed because the agency had processed the straightforward applications first, and the remaining, more complex applications required additional time for review.

New applications averaged less than 500 per week in August and SBA closed the portal to new applicants on August 20, 2021. On August 23, 2021, SBA reported about 13 percent of applications (2,344) remained to be processed and reported completing them on February 7, 2022.

As of December 31, 2021, SBA averaged 65 days to process an application from receipt through award decision (see fig. 8). About 13 percent of applications took over 90 days. The shortest processing time was under a day and the longest was 247 days.

Figure 8: Application Processing Time for Shuttered Venue Operators Grant, as of December 31, 2021



Source: GAO analysis of Small Business Administration data. | GAO-23-105199

Accessible Data for Figure 8: Application Processing Time for Shuttered Venue Operators Grant, as of December 31, 2021

30 days or less (percentage)	Over 30 to 60 days (percentage)	Over 60 to 90 days (percentage)	Over 90 to 120 days (percentage)	Over 120 days (percentage)
13	26	49	9	4

Note: Chart does not sum to 100 percent because of rounding.

Appendix III: Key Changes to Pre-Award Controls for the Shuttered Venue Operators Grant Program

Table 15 describes key changes the Small Business Administration (SBA) made to its pre-award controls for the Shuttered Venue Operators Grant Program starting on June 11, 2021. The changes were designed to expedite application processing times. Prior to making these changes, SBA had made decisions on less than 1 percent of applications received (90 of 14,013). (See app. II for more information).

Table 15: Key Changes to Pre-Award Controls for the Shuttered Venue Operators Grant Program, June 2021		
Control activity prior to June 2021	Change to control activity in June 2021	Small Business Administration (SBA) reasons for change, according to agency officials
Automatic checks of applicant tax information against Internal Revenue Service (IRS) data (information provided using IRS Form 4506-T).	Removed these checks for grant awards below a certain dollar threshold to instead rely on applicant-provided tax information.	SBA already required all applicants to provide tax information that would help SBA verify their identity and finances, so it determined that requiring this check for all applications was not necessary. This approach aligned with other SBA programs. The threshold set for conducting IRS checks was intended to limit the added risk from removing this control to about 10 percent of the funds.
Automatic legal reviews for certain businesses (e.g., talent representatives) that SBA determined were “inherently complex” (eligibility more difficult to verify through government sources).	Removed automatic legal reviews and reserved complex reviews for novel cases.	SBA determined that its experience assessing the eligibility of each business type, including more complex businesses, made automatic legal reviews unnecessary. Only novel cases in which it was difficult for reviewers to verify the principal business activity would receive a legal review—such as jousting tournaments or laser light shows.
Investigations of applicants to identify affiliates.	Removed investigations to instead rely on applicant attestations.	SBA considered the costs and benefits of removing automatic investigations for affiliate status. SBA determined that it no longer needed to spend staff time on investigations into affiliate status.
Use of different business identifiers to match applicant information against the Department of the Treasury’s Do Not Pay List to identify potentially ineligible businesses, according to SBA officials.	Used employee identification numbers to match applicant information, according to SBA officials.	SBA adopted the new approach to reduce the number of false positives.

**Appendix III: Key Changes to Pre-Award
Controls for the Shuttered Venue Operators
Grant Program**

Control activity prior to June 2021	Change to control activity in June 2021	Small Business Administration (SBA) reasons for change, according to agency officials
Use of multiple disbursements, which provided opportunities for SBA to withhold a portion of the award in the future if recipients were found to be fraudulent or ineligible.	Changed to a one-time disbursement for all grants.	The Office of the Administrator directed the Shuttered Venue program to align its disbursement schedule with SBA's other pandemic relief programs—Restaurant Revitalization Fund, Economic Injury Disaster Loan, and Paycheck Protection Program.

Source: GAO analysis of SBA documentation and officials' statements. | GAO-23-105199

Appendix IV: Comments from the Small Business Administration

**Appendix IV: Comments from the Small
Business Administration**



**U.S. SMALL BUSINESS ADMINISTRATION
WASHINGTON, D.C. 20416**

September 20, 2022

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

Dear Mr. Shear:

Thank you for providing the U.S. Small Business Administration (SBA) with the opportunity to comment on the Government Accountability Office (GAO) Draft Report titled, "COVID RELIEF: SBA Could Improve Communications and Fraud Risk Monitoring for its Arts and Entertainment Venues Grant Program (GAO-22-105442)."

SBA has awarded over \$14.5 billion in Shuttered Venue Operators Grants to over 13,000 businesses in the arts and entertainment industry; a larger federal investment in the arts than all spending by the New Deal's Federal Art Project and the National Endowment of the Arts combined.

As GAO recognizes, close to half of businesses in the arts and entertainment industry nationwide received an award, the vast majority of which were awarded during the first 90 days of processing.

This success was achieved by SVOG's stakeholders and SBA working together to overcome the significant challenges that threatened to wipe out our country's cultural lifeblood during the unprecedented industry disruptions caused by the COVID-19 pandemic.

As the Draft Report recognizes, SVOG is unique among Disaster programs in that it is a grant program, national in scope, which serves a specific industry. Unique eligibility requirements for each of the six eligible entity types (list types) based on a statute that Congress changed as late as a month before the planned opening of the program. Applicants were also concerned that funds would be limited, putting pressure on them to apply as soon as the application portal opened just weeks after the final changes to the statute.

Taken together, these issues did present both communications challenges and application processing challenges -- SBA recognizes there are lessons to be learned from this experience. Despite these challenges, the program's success is clearly demonstrated by the number of businesses served (over 17,000), the amount of grants made (over 13,000 totaling \$14.57 billion), and the demonstrated impact of strengthening the arts and entertainment industry. Moreover, 90% of these awards were made to small businesses with 50 or fewer employees.

SBA thanks GAO for acknowledging in their report that despite these unique and significant challenges, SVOG successfully set up controls to protect against fraud and bad actors, specifically stating that GAO did not identify significant weaknesses in SVOG's controls.

Page 1 of 4

The Draft Report discusses (1) how applicants viewed SVOG communications and the application process; (2) characteristics of SVOG applicants and recipients; (3) steps SBA took to identify ineligible and fraudulent applications and manage fraud risk; and (4) how SBA measures SVOG program performance. The Report makes two recommendations, with which SBA partially agrees.

SBA's responsive comments to GAO's two recommendations are detailed below. SBA would also like to address the instances where the agency has identified issues warranting additional context and clarification within the Draft Report. These concerns are addressed in "[Appendix A: Items of Context & Clarification](#)" after the signature block.

SBA will continue to work with the GAO to overcome the challenges identified in their two recommendations.

SBA Response to Recommendations

SBA partially agrees with each of the two GAO recommendations and offers the following information for additional context and clarification.

Recommendation 1: Develop a more comprehensive strategy for communicating with applicants of future emergency assistance programs.

The SBA partially agrees with this recommendation and offers the following information for additional context and clarification.

SBA maintains two plans that guide communication and disaster response related to ODA's emergency assistance programs. Due to the nature of programs SBA has historically implemented, these plans did not previously encompass best practices for nationally targeted, disaster-response grants, and were not tailored to the performing arts industry and related entities, including non-profit organizations. SBA will incorporate lessons learned into future iterations of communications plans to ensure a more comprehensive approach to new emergency assistance programs.

Best practices identified by SBA include:

- email outreach to applicants addressing updated program guidance
- monthly webinars highlighting program updates
- guidance targeted to specific processing phases
- technical assistance offerings posted to SBA.gov
- weekly office hours for industry stakeholders and SBA support offices
- refined procedures to facilitate escalation of applicant or grantee inquiries from SBA's Customer Support Center to the program office's High-Level Support team
- enhancements to grantee portal user-experience to address feedback from applicants and grantees

In addition to changes already implemented, SBA will continue to support SVOG grantees with Technical Assistance resources through a combination of direct outreach with applicants and stakeholders, updates to SBA.gov, and outreach via SBA's District Offices and Program Offices.

SBA agrees with GAO that existing grant regulations governing agency administration initially prevented SBA staff from answering specific questions related to application submittals. SBA also identified internal

standard procedures related to Grant evaluation which acted as a barrier to providing necessary technical support to disaster survivors.

SBA requested a waiver to existing SOPs which limited the program's ability to support applicants. Once approved, these waivers enabled the program office to establish a high-level support team to assist applicants with clerical issues within their application and implement "technical corrections" during the application phase to reconcile technical deficiencies in the application of otherwise eligible applicants.

SBA would recommend that the concerns discussed herein be brought before the Office of Management and Budget for clarification in its Uniform Guidance for grants administration; codifying additional flexibility for communications in disaster-assistance grants and other urgent areas is needed to ensure future federal efforts do not meet similar obstacles—especially when "performance" is measured in terms of survival.

Recommendation 2: Ensure that its Shuttered Venue program post-award monitoring procedures specifically address the risks the agency has identified.

The SBA partially agrees with this recommendation and offers the following information for additional context and clarification.

SBA pre-award controls for the application process reflected some leading practices for fraud risk management. For example, to verify identity and eligibility SBA designed controls to check applicant information against third party databases. The same preventative measures which resulted in only 1.45% of all the successfully submitted applications being referred to OIG during the award-making phase continue to be employed in the post-award monitoring procedures to address the risks previously identified by the agency.

SBA takes a **risk-based approach** to its program-wide, post-award, grant monitoring. This approach aligns monitoring activities with the identified level of risk for the grant amount. Award recipients are required to submit a final budget and subsequent final expense report detailing how the award funds were expended by allowable cost category. These final reports assist SBA in determining which grantees will be subject to additional monitoring procedures. SBA has identified heightened risks, such as certain allocations in budget cost categories, certain uses of funds, as well as flags raised during evaluation of eligibility or award amount. These individual awards are monitored for the specific concerns raised.

Random Sampling Methodology has been employed to select Grantees for monitoring as set forth in the Audit & Oversight Plan submitted to Congress. This takes place in addition to the risk-based monitoring described above. For awards identified as having a low level of risk (awards between \$1 and \$500,000), SBA has selected a statistically significant sample at a 90% confidence level with a 10% margin of error. For awards with a moderate level of risk (awards over \$500,000 and up to \$5,000,000), SBA has selected a statistically significant sample at 95% confidence level with a 9% margin of error. For awards with a high level of risk, (awards over \$5,000,000), SBA has selected a statistically significant sample at a 95% confidence level with an 8% margin of error. Monitoring of this sample is ongoing.

Monitoring events include:

- an assessment of how eligibility and grant amount were determined, as applicable;
- a review of the Grantee's final reporting documents;

Appendix IV: Comments from the Small
Business Administration

- a request for, and review of, the Grantee's supporting documents;
- an assessment of Grantee's use of funds, as applicable;
- a submission of monitoring reports and documents; and
- final reporting and resolution of findings.

The SBA will also require **nonprofit** grantees who expended \$750,000 or more in federal funds within a single fiscal year to submit a single or program-specific audit, as applicable, to both the SBA and the Federal Audit Clearinghouse.

For-profit grantees who recognize \$750,000 or more in federal funds within a fiscal year will be required to submit an audit report to SBA.

Closing Thoughts

We appreciate the opportunity to review and comment on this draft report and recommendations. In addition to SBA's response to GAO's two recommendations, SBA has also provided additional "[Items of Context & Clarification](#)" via technical comments, which highlights areas in the report where additional context will provide a clearer comprehensive picture of program history.

SBA again thanks GAO for acknowledging in their report that despite many unique and significant challenges, SVOG's implementation was a success overall.

SBA looks forward to working with the GAO to overcome the challenges identified in their two recommendations.

Sincerely,



Francisco Sánchez, Jr.
Associate Administrator
Office of Disaster Assistance
U.S. Small Business Administration

Accessible Text for Appendix IV: Comments from the Small Business Administration

September 20, 2022

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

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This success was achieved by SVOG's stakeholders and SBA working together to overcome the significant challenges that threatened to wipe out our country's cultural lifeblood during the unprecedented industry disruptions caused by the COVID-19 pandemic.

As the Draft Report recognizes, SVOG is unique among Disaster programs in that it is a grant program, national in scope, which serves a specific industry. Unique eligibility requirements for each of the six eligible entity types (list types) based on a statute that Congress changed as late as a month before the planned opening of the program. Applicants were also concerned that funds would be limited, putting pressure on them to apply as soon as the application portal opened just weeks after the final changes to the statute.

Taken together, these issues did present both communications challenges and application processing challenges -- SBA recognizes there are lessons to be learned from this experience. Despite these challenges, the program's success is clearly demonstrated by the number of businesses served (over 17,000), the amount of grants made (over 13,000 totaling \$14.57 billion), and the demonstrated impact of strengthening the arts and entertainment industry. Moreover, 90% of these awards were made to small businesses with 50 or fewer employees.

SBA thanks GAO for acknowledging in their report that despite these unique and significant challenges, SVOG successfully set up controls to protect against fraud and bad actors, specifically stating that GAO did not identify significant weaknesses in SVOG's controls.

The Draft Report discusses (1) how applicants viewed SVOG communications and the application process; (2) characteristics of SVOG applicants and recipients; (3) steps SBA took to identify ineligible and fraudulent applications and manage fraud risk; and (4) how SBA measures SVOG program performance. The Report makes two recommendations, with which SBA partially agrees.

SBA's responsive comments to GAO's two recommendations are detailed below. SBA would also like to address the instances where the agency has identified issues warranting additional context and clarification within the Draft Report. These concerns are addressed in "Appendix A: Items of Context & Clarification" after the signature block.

SBA will continue to work with the GAO to overcome the challenges identified in their two recommendations.

SBA Response to Recommendations

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Recommendation 1: Develop a more comprehensive strategy for communicating with applicants of future emergency assistance programs.

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SBA maintains two plans that guide communication and disaster response related to ODA's emergency assistance programs. Due to the nature of programs SBA has historically implemented, these plans did not previously encompass best practices for nationally targeted, disaster-response grants, and were not tailored to the

performing arts industry and related entities, including non-profit organizations. SBA will incorporate lessons learned into future iterations of communications plans to ensure a more comprehensive approach to new emergency assistance programs.

Best practices identified by SBA include:

- email outreach to applicants addressing updated program guidance
- monthly webinars highlighting program updates
- guidance targeted to specific processing phases
- technical assistance offerings posted to SBA.gov
- weekly office hours for industry stakeholders and SBA support offices
- refined procedures to facilitate escalation of applicant or grantee inquiries from SBA's Customer Support Center to the program office's High-Level Support team
- enhancements to grantee portal user-experience to address feedback from applicants and grantees

In addition to changes already implemented, SBA will continue to support SVOG grantees with Technical Assistance resources through a combination of direct outreach with applicants and stakeholders, updates to SBA.gov, and outreach via SBA's District Offices and Program Offices.

SBA agrees with GAO that existing grant regulations governing agency administration initially prevented SBA staff from answering specific questions related to application submittals. SBA also identified internal standard procedures related to Grant evaluation which acted as a barrier to providing necessary technical support to disaster survivors.

SBA requested a waiver to existing SOPs which limited the program's ability to support applicants. Once approved, these waivers enabled the program office to establish a high-level support team to assist applicants with clerical issues within their application and implement "technical corrections" during the application phase to reconcile technical deficiencies in the application of otherwise eligible applicants.

SBA would recommend that the concerns discussed herein be brought before the Office of Management and Budget for clarification in its Uniform Guidance for grants administration; codifying additional flexibility for communications in disaster-assistance grants and other urgent areas is needed to ensure future federal efforts do not meet similar obstacles—especially when "performance" is measured in terms of survival.

Recommendation 2: Ensure that its Shuttered Venue program post-award monitoring procedures specifically address the risks the agency has identified.

The SBA partially agrees with this recommendation and offers the following information for additional context and clarification.

SBA pre-award controls for the application process reflected some leading practices for fraud risk management. For example, to verify identity and eligibility SBA designed controls to check applicant information against third party databases. The same preventative measures which resulted in only 1.45% of all the successfully submitted applications being referred to OIG during the award-making phase continue to be employed in the post-award monitoring procedures to address the risks previously identified by the agency.

SBA takes a risk-based approach to its program-wide, post-award, grant monitoring. This approach aligns monitoring activities with the identified level of risk for the grant amount. Award recipients are required to submit a final budget and subsequent final expense report detailing how the award funds were expended by allowable cost category. These final reports assist SBA in determining which grantees will be subject to additional monitoring procedures. SBA has identified heightened risks, such as certain allocations in budget cost categories, certain uses of funds, as well as flags raised during evaluation of eligibility or award amount. These individual awards are monitored for the specific concerns raised.

Random Sampling Methodology has been employed to select Grantees for monitoring as set forth in the Audit & Oversight Plan submitted to Congress. This takes place in addition to the risk-based monitoring described above. For awards identified as having a low level of risk (awards between \$1 and \$500,000), SBA has selected a statistically significant sample at a 90% confidence level with a 10% margin of error. For awards with a moderate level of risk (awards over \$500,000 and up to \$5,000,000), SBA has selected a statistically significant sample at 95% confidence level with a 9% margin of error. For awards with a high level of risk, (awards over \$5,000,000), SBA has selected a statistically significant sample at a 95% confidence level with an 8% margin of error. Monitoring of this sample is ongoing.

Monitoring events include:

- an assessment of how eligibility and grant amount were determined, as applicable;
- a review of the Grantee's final reporting documents;
- a request for, and review of, the Grantee's supporting documents;

- an assessment of Grantee's use of funds, as applicable;
- a submission of monitoring reports and documents; and
- final reporting and resolution of findings.

The SBA will also require nonprofit grantees who expended \$750,000 or more in federal funds within a single fiscal year to submit a single or program-specific audit, as applicable, to both the SBA and the Federal Audit Clearinghouse.

For-profit grantees who recognize \$750,000 or more in federal funds within a fiscal year will be required to submit an audit report to SBA.

Closing Thoughts

We appreciate the opportunity to review and comment on this draft report and recommendations. In addition to SBA's response to GAO's two recommendations, SBA has also provided additional "Items of Context & Clarification" via technical comments, which highlights areas in the report where additional context will provide a clearer comprehensive picture of program history.

SBA again thanks GAO for acknowledging in their report that despite many unique and significant challenges, SVOG's implementation was a success overall.

SBA looks forward to working with the GAO to overcome the challenges identified in their two recommendations.

Sincerely,

Francisco Sánchez, Jr.
Associate Administrator
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Appendix V: GAO Contact and Staff Acknowledgements

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Staff Acknowledgments

In addition to the contact name above, Lisa Moore (Assistant Director), Davis Judson (Analyst in Charge), Meghana Acharya, Jim Ashley, Irina Carnevale, Chelsea Carter, Denise Cook, Ranya Elias, Daniel Flavin, Toni Gillich, Rob Graves, Jill Lacey, Nick Lessard Chaudoin, Ying Long, Lydie Loth, John McGrail, Maria McMullen, Colleen Moffatt Kimer, Afsana Oreen, Barbara Roesmann, Jena Sinkfield, and Monique Williams made key contributions to this report.

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