

Payment Integrity Scorecard

Program or Activity

504 Certified Development Loans Approvals

Reporting Period

Q3 2023

FY 2022 Overpayment Amount (\$M)*

\$199

*Estimate based a sampling time frame starting 4/2021 and ending 3/2022



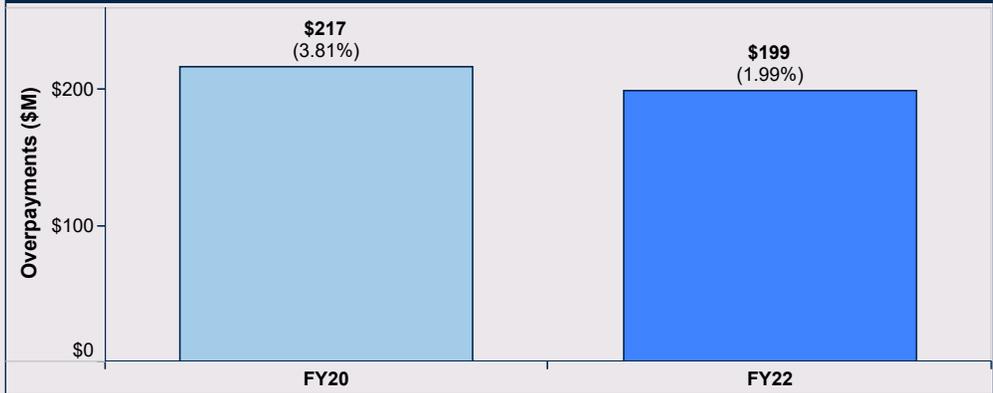
SBA

504 Certified Development Loans Approvals

Brief Program Description & summary of overpayment causes and barriers to prevention:

The 504 Certified Development Loans program, made available through Certified Development Companies (CDCs), provides small businesses with long-term, fixed rate financing for major assets that promote business growth and job creation. CDCs are the SBA's community-based partners: non-profit corporations certified and regulated by the Small Business Administration to package, process, close, and service 504 loans in order to promote economic development within their communities.

**Historical Payment Rate and Amount (\$M)
(Overpayment as Percentage of Total Outlays)**



Discussion of Actions Taken in the Preceding Quarter and Actions Planned in the Following Quarter to Prevent Overpayments

The detection and remediation of improper payments is a priority for the Agency. SBA monitors and reviews for improper payments and implements improvements that will reduce improper payment rates. The SBA also continually seeks opportunities to enhance and implement internal controls to reduce the risk for improper payments. As a means to reduce and/or eliminate the occurrence of future improper payments, a Corrective Action Plan has been formalized for the 504 approval center. Specific corrective actions are determined based upon the primary reason for the improper payment with the purpose of both remedying the improper payment and preventing recurrence. Plans for improvement include the following: • Collaborating with the Office of Credit Risk Management (OCRM) to recommend specific lender deficiencies be monitored and incorporated into Risk Based Reviews; • Collaborating with the Office of Financial Assistance (OFA) to inform the office of deficiencies identified for potential incorporation into policy, regulatory, or standard operating procedure rewrite or update; and • External training for lenders to ensure appropriate documentation is obtained and analyzed prior to loan approval and to ensure that policy requirements are met.

Accomplishments in Reducing Overpayment

Date

1	• The Improper Payment rate has continued to decrease since FY2020 when the rate was 3.81 percent; in FY2021 the improper payment rate was 3.07% (the unknown payment rate in FY2021 was 0.50%); and in FY2022, the improper payment rate was 1.99%, and unknown of 0.02%	Jun-23
2	Because 504 loans are reviewed prior to monies being disbursed, resolution of an identified improper payment is usually through obtaining additional documentation from the CDC to remedy the potential improper payment or through cancellation of the loan	Jun-23

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Goals towards Reducing Overpayments	Status	ECD	Recovery Method	Brief Description of Plans to Recover Overpayments	Brief Description of Actions Taken to Recover Overpayments
<p>1</p> <p>Reducing the IP and UP estimates and meeting the reduction target</p> <p>To reduce and/or eliminate the occurrence of future improper payments, a Corrective Action Plan has been developed.</p> <p>The OFPO will continue to share the loan level and lender deficiencies identified during the reviews with the OFA and the OCRM.</p> <p>The OFPO will also continue its efforts to ensure CDC deficiencies are monitored and incorporated into lenders' Risk Based Reviews.</p> <p>External training will be provided in FY 2022.</p>	On-Track	Sep-23	1 Recovery Activity	Resolution of improper payments occurs by obtaining additional documentation or through cancellation of the loan. Resolved through obtaining additional documentation, loan modification, or cancellation of the loan.	All improper payments identified as a result of the FY 2022 PIIA reviews have been resolved through obtaining additional documentation, loan modification, or cancellation of the loan.

Amt(\$)	Root Cause of Overpayment	Root Cause Description	Mitigation Strategy	Brief Description of Mitigation Strategy and Anticipated Impact
\$199M	Overpayments outside the agency control that occurred because of an Inability to Access the Data/Information Needed.	CDC's failure to (1) authenticate compliance with loan program requirements at origination, (2) determine proper amount of equity injection, (3) determine appropriate occupancy percentage; and, (4) provide proper documentation for prior technical defaults.	Training – teaching a particular skill or type of behavior; refreshing on the proper processing methods.	As a means to reduce and/or eliminate the occurrence of future improper payments, a Corrective Action Plan has been formalized for the 504 approval center. Specific corrective actions are determined based upon the primary reason for the improper payment.