

U.S. Small Business Administration Office of Inspector General

Semiannual Report to Congress Fall 2011



April 1, 2011 – September 30, 2011



**U.S. SMALL BUSINESS ADMINISTRATION
OFFICE OF INSPECTOR GENERAL
WASHINGTON, D.C. 20416**

I am pleased to present the U.S. Small Business Administration (SBA) Office of Inspector General's (OIG) *Fall 2011 Semiannual Report to Congress*, which provides a summary of the OIG's activities from April 1, 2011 to September 30, 2011. As our statistics indicate, the OIG's efforts to eliminate fraud, waste, and abuse in SBA programs during this period continues to significantly benefit taxpayers.

During this reporting period, the OIG issued 9 reports containing 34 recommendations for improving SBA operations and reducing fraud and unnecessary losses in the Agency's programs. In addition, OIG investigations resulted in 44 indictments and 30 convictions. Overall, the OIG achieved monetary recoveries and savings of nearly \$43 million from recommendations that funds be put to better use agreed to by management, disallowed costs agreed to by management, court ordered and other investigative recoveries and fines, and loans or contracts not made as a result of investigations and name checks.

In achieving these results, the OIG dedicated its auditing and investigative resources toward the principal program areas of the SBA. A few noteworthy reviews included in this report are highlighted below.

- On one audit, we found that the SBA did not properly fund at least one relevant information technology (IT) and software contract because it obligated \$3.151 million during FY 2009 and FY 2010 by issuing contract modifications without identifying specific requirements for IT hardware and software. Because the SBA did not use these obligated annual funds to purchase IT hardware or software during FY 2009 and FY 2010, we determined that the SBA was inappropriately obligating annual funds that otherwise would not have been available for use in a subsequent fiscal year.
- In another audit, originating from a complaint, we found that the lender did not adequately assess repayment ability when the lender accepted unrealistic projected annual revenue figures as a basis for demonstrating the ability of the certain franchises to repay their debts. As of December 2010, there were 10 loans with an aggregated outstanding SBA balance of \$2.1 million that had been transferred to liquidation. We recommended that the SBA seek recovery of the loan guaranties, flag all Banco Popular HLC loans in the Loan Accounting System to ensure the identified underwriting deficiencies are considered in the event of future default, and that the SBA implement a plan to ensure the completeness and accuracy of data pertaining to existing franchise loans.
- An additional report identified documentation deficiencies found in 24, or 40 percent, of a sample of sixty 7(a) Recovery Act loans reviewed, which resulted in inappropriate or unsupported loan approvals of approximately \$14.2 million. Based on the sample results, we estimated that at least 1,996 of the loans in the possible universe of 6,467 were not originated and closed in compliance with SBA's policies and procedures. While most of these loans have not gone into default, the true scope of the loss to the government is unknown, but could potentially result in at least \$869.5 million in inappropriate or unsupported loan approvals.

I would like to thank the OIG's employees for their outstanding efforts to promote economy, efficiency, effectiveness, and integrity in SBA programs and operations. We look forward to continuing to work with Administrator Mills and SBA's management to address the issues and challenges facing the agency.

Peggy E. Gustafson
Inspector General

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Overview of SBA and the OIG

The Small Business Administration

The mission of the Small Business Administration (SBA) under the Small Business Act, as amended, is to maintain and strengthen the Nation's economy by enabling the establishment and vitality of small businesses and assisting in the economic recovery of communities after disasters. The Agency's 2011-2016 strategic plan has three overarching goals:

- Growing businesses and creating jobs
- Building an SBA that meets needs of today's and tomorrow's small businesses
- Serving as the voice for small business

The SBA is organized around four key functional areas: financial assistance (e.g., loan programs); contracting assistance; technical assistance (e.g., entrepreneurial development), and disaster assistance. The Agency also represents small businesses through an independent advocate and an ombudsman. SBA headquarters is located in Washington, D.C., while its business products and services are delivered with the help of 10 regional offices, 68 district offices, their corresponding branch offices, 4 disaster field offices, and a vast network of resource partners in all 50 states, the District of Columbia, Puerto Rico, American Samoa, the U.S. Virgin Islands, and Guam.

The Office of Inspector General

Pursuant to the Inspector General Act of 1978 (the IG Act), as amended, the Office of Inspector General (OIG) provides independent, objective oversight to improve the integrity, accountability, and performance of the SBA and its programs for the benefit of the American people. The OIG seeks to improve SBA programs by identifying key issues facing the Agency, ensuring that corrective actions are taken, and promoting a high level of integrity. The Office's efforts and accomplishments during the second half of Fiscal Year 2011 focused on the critical risks facing the SBA, including (1) risks due to limited oversight and controls in SBA lending programs; (2) risks affecting SBA's oversight of contracts for small and disadvantaged businesses; and (3) risks associated with the SBA's information security controls and other operations.

Audit and other reports issued by the OIG during this reporting period are listed in Appendix I. Investigative actions are summarized in Appendix X. Copies of OIG reports and other work products are available on the OIG's website at <http://www.sba.gov/office-of-inspector-general>.

Small Business Access to Capital

The SBA has a financial assistance portfolio of guaranteed and direct loans of nearly \$100 billion. The Agency's largest lending program, the Section 7(a) Loan Guaranty program, is the agency's principal vehicle for providing small businesses with access to credit that cannot be obtained elsewhere. This program relies on numerous outside parties (e.g., borrowers, loan agents, and lenders) to complete loan transactions, with approximately 80 percent of loans being made by lenders to whom SBA has delegated loan-making authority. Additionally, the SBA has centralized many loan functions and reduced the number of staff performing these functions, placing more responsibility on, and giving greater independence to, its lenders. As a result, the OIG continues to identify weaknesses in the SBA's lender oversight process that has increased proportionally with the greater independence granted to the lenders.

The SBA's 504 Loan Program provides small businesses with long-term, fixed-rate financing for the purchase of land, buildings, machinery, and other fixed assets. Local economic development organizations approved by SBA are known as Certified Development Companies (CDCs). The CDCs package, close and service these loans, which are funded through a mix of funds from private sector lenders, proceeds from the sale of SBA-guaranteed debentures, and borrower equity investment.

The Microloan Program provides small (\$50,000 or less), short-term loans and technical assistance to small business concerns as well as non-profit child-care centers through SBA-funded, intermediary lenders. These lenders are non-profit, community-based organizations with experience in lending and providing management and technical assistance to businesses.

Through the Small Business Investment Company (SBIC) Program, the SBA licenses and makes funds available to venture capitalists known as SBICs. The SBICs lend or otherwise invest in small businesses using participating securities made up of contributions from SBA and private investors or funds generated through the sale of SBA-guaranteed debentures.

Audit of Purchased 7(a) Recovery Act Loans Results in Questioned Costs

The OIG continued its review of purchased 7(a) Recovery Act loans during this reporting period. The American Recovery and Reinvestment Act (Recovery Act) provided the SBA with \$730 million to expand the agency's lending and investment programs and create new programs to stimulate lending to small businesses. As directed by this Act, the SBA temporarily increased the maximum guaranty that SBA would offer on most 7(a) loans to 90% of loan value. Our examination focused on whether lenders had properly originated and closed loans, that later went into default, in accordance with SBA rules and regulations and commercially prudent lending standards.

Our review identified four early-defaulted loans that were approved for \$500,000 or more that had been purchased as of September 30, 2010. We found that the SBA had improperly honored its guaranty on three of the four loans when full denial of the guaranty should have been pursued due to material noncompliance with SBA requirements, such as:

- Inadequate verification of equity injection;
- Inadequate verification of financial information;

Small Business Access to Capital

- Inadequate business valuation;
- Questionable repayment ability, and
- Inappropriate change of ownership.

In a subsequent report, we identified five additional early-defaulted loans that resulted in questioned costs of \$2.7 million. Under the IG Act, Questioned Costs are those questioned by the OIG because of:

- (A) an alleged violation of a provision of a law, regulation, contract, grant, cooperative agreement, or other agreement or document governing the expenditure of funds;
- (B) a finding that, at the time of the audit, such cost is not supported by adequate documentation, or
- (C) a finding that the expenditure of funds for the intended purpose is unnecessary or unreasonable.

These five loans were part of a judgmental sample of 25 Recovery Act loans, approved for \$500,000 or more, that had been purchased as of September 30, 2010. Of the total \$2.7 million questioned in this report, we recommended recovery of approximately \$1 million, while the remaining \$1.7 million cannot be recovered because the deficiencies are attributed to the SBA's origination of these loans, not the lenders.

Audit of Recovery Act 7(a) Loans Identifies Documentation Deficiencies in Origination

During this reporting period, the OIG issued another in a series of reports related to the origination of loans made under the Recovery Act. In the latest report, we identified documentation deficiencies in twenty-four of sixty 7(a) loans reviewed. This resulted in inappropriate or unsupported loan approvals of approximately \$14.2 million. The documentation in the loan files was inadequate to show that the loans were made to creditworthy borrowers, met SBA's eligibility criteria, and had adequate evidence of equity injection, use of proceeds, or Internal Revenue Service (IRS) verification. The results of the randomly selected and statistically valid samples were projected to the universe of 6,467 7(a) Recovery Act loans with gross loan approvals totaling approximately \$3.9 billion. Based on the sample results, we estimated that at least 1,996 of the loans in the universe were not originated and closed in compliance with SBA's policies and procedures. This estimate suggested at least \$869.5 million in inappropriate or unsupported loan approvals. However, because many of these loans had not gone into default, the corresponding amount of loss to the Government is not known.

Allegation of Lenders Improperly Originating SBA Guaranteed Loans Reviewed

The OIG conducted an audit based on a complaint alleging that lenders improperly originated SBA-guaranteed loans made to Huntington Learning Center (HLC) franchises by approving loans based on inflated gross revenue projections submitted by loan brokers on the SBA loan applications. The OIG found that the complainant's lender did not adequately assess repayment ability for 12 SBA-guaranteed HLC franchise loans when approving the loans. Specifically, the lender accepted unrealistic projected annual revenue figures that ranged from \$483,000 to \$650,025 as a basis for demonstrating the ability of the HLC franchises to repay their debts. The lender disregarded relevant and available data, which indicated that the franchises' revenue projections were unrealistic. This was due, in part, to the lender's perception that these loans required a lesser degree of due diligence because of the established business model of franchise systems. Had the lender complied with SBA's requirements to assess the feasibility of projections, the 12 loans should have been declined.

Small Business Access to Capital

As of December 2010, there were 10 loans with an aggregated outstanding SBA balance of \$2.1 million that had been transferred to liquidation. We recommended that the Agency seek recovery of the loan guaranties, less any recoveries, paid in connection with the 10 defaulted loans. We also recommended that the SBA flag all Banco Popular HLC loans in the Loan Accounting System to ensure the identified underwriting deficiencies are considered in the event of future default. The SBA agreed to review the 10 defaulted loans and seek recovery as appropriate, and to flag all HLC franchise loans originated by Banco Popular to ensure that they receive heightened scrutiny if submitted for purchase.

We also noted that the SBA's loan database did not accurately track franchise loans guaranteed by the Agency. The incomplete nature of franchise loan data negatively affects the Agency's ability to assess whether franchise loans presented a higher than average risk of financial loss, and identify potential risks with certain franchise brands. This data reliability issue could also negatively influence decisions made by lenders for loan approval and prospective borrowers considering franchise opportunities. The OIG recommended that the SBA implement a plan to ensure the completeness and accuracy of data pertaining to existing franchise loans and those made in the future, but the agency only partially agreed with this recommendation.

Multi-Year Loan Fraud Investigation Continues to Result in Legal Actions

In 2007, the arrests of 18 individuals by the OIG and U.S. Secret Service (USSS) marked the unraveling of a major scheme in which a lender's former executive vice president and others conspired to fraudulently qualify loan applicants for SBA-guaranteed loans. The scheme involved at least 91 fraudulent loans totaling approximately \$85 million. Thus far, 39 individuals have been indicted or otherwise charged, and 31 have been convicted. Three defendants are international fugitives. To date, court-ordered restitution, civil settlements, SBA recoveries of loan guaranties from the lender and potential cost savings from the withdrawal of loan guaranties total approximately \$98 million. The following legal actions occurred during the recent six-month reporting period.

- A Michigan title company owner was sentenced to 12 months and one day incarceration and ordered to pay nearly \$6 million in joint restitution. He had previously pled guilty to conspiracy to commit wire fraud in connection with a scheme in which a broker recruited "straw buyers" and conspired to obtain SBA-guaranteed loans through false statements. The title company owner, while employed as a closing agent for another title company, falsified loan disbursements, and equity injections on Department of Housing and Urban Development settlement statements. The fraudulent loan proceeds were then wire transferred to his employer's company. This was a joint investigation with the USSS.
- In a related matter, a Michigan title company president was sentenced to one day of incarceration, four years of supervised release, and payment of an \$8,000 fine after pleading guilty to conspiracy to commit wire fraud. The plea included the forfeiture of approximately \$492,000 in illicit proceeds held by the president and her now defunct firm. The former president had conspired with others and developed a scheme, unbeknownst to lenders, to pay kickbacks to brokers and realtors if they used her title company to conduct loan closings. The OIG conducted this investigation jointly with the USSS.

Small Business Access to Capital

Criminals Defraud Loan Guaranty Program through an Array of Techniques

Criminals fraudulently obtain—or induce others to obtain—SBA-guaranteed loans through a variety of techniques, such as submitting fraudulent documents, making fictitious asset claims, manipulating property values, using loan proceeds contrary to the terms of the loans, and failing to disclose debts or prior criminal records. The result is a greater chance of financial loss to the Agency and its lenders. The following examples illustrate some of these criminal techniques.

- A California businessman was sentenced to 36 months in prison and 36 months supervised release. He was also ordered to pay nearly \$2.4 million, including over \$766,000 to SBA for fraudulently obtained loans and over \$1.6 million to victim companies that had leased restaurant equipment and real estate to him. The businessman had made false statements on three SBA loan applications by not disclosing two civil lawsuits that resulted in judgments against him, as well as numerous outstanding debts.
- Two Texas men were indicted for conspiracy to commit arson, use of fire to commit a felony, aiding and abetting, and conspiring to burn, and/or torch three business structures in order to fraudulently receive insurance proceeds. One of the men was also indicted individually for federal arson, aiding and abetting, and making false statements to a bank. The same man had received a nearly \$1,725,000 SBA-guaranteed loan through a bank for the construction of a restaurant and gas station after failing to disclose that he had been arrested 22 times. This is a joint investigation with the Bureau of Alcohol, Tobacco, Firearms, and Explosives.
- A Utah business president and his partner pled guilty to money laundering after an investigation revealed that they had recruited “straw borrowers” and used the borrowers’ names and good credit to obtain four SBA loans and two regular bank loans totaling \$335,000. Using the promise of future rewards, the two men caused the “straw borrowers” to submit documents indicating that they owned thriving businesses, when in fact the businesses only existed on paper. This investigation was based on a referral from the SBA Utah District Office and is being conducted jointly with the IRS Criminal Investigation Division (CID).

Loan Funds Diverted to Personal Accounts

The former vice president of a Missouri bank pled guilty to bank fraud after an investigation revealed that he engaged in numerous fraudulent transactions involving both SBA and non-SBA loans in order to divert funds to his personal accounts. His actions resulted in a nearly \$452,000 loss to the bank. This is a joint investigation with the Federal Deposit Insurance Corporation OIG and the Federal Bureau of Investigation (FBI).

Small Business Access to Capital

False Identities and Documents Used to Obtain Credit

A former New Jersey bank manager was sentenced to 18 months in prison, 36 months' probation, and over \$199,000 in restitution. He had helped secure loans for a group of Korean nationals who obtained credit cards and loans (including SBA loans) from lending institutions by using false identities, documents, and business names. For example, he falsified site visit forms on behalf of sham businesses, causing the bank to originate two SBA-guaranteed loans totaling \$150,000. He ultimately brokered 10 loans totaling approximately \$800,000 with current losses of roughly \$630,000. This was a joint investigation with the IRS CID, the Englewood (New Jersey) Police Department, and the Bergen County Prosecutor's Office.

False Equity Injection Places Business Loan Programs at Risk

Equity (or capital) injection is a borrower's own financial stake in a business. If an individual personally has something at risk in the business, he or she is less likely to default on a loan. When required by lenders to inject such money into projects financed by guaranteed loans, some borrowers try to avoid this requirement by falsifying the amount or source of these injections, as demonstrated by the following examples:

- An owner of a day care center in Georgia pled guilty to conspiracy to defraud the United States. In 2008, the center was supposedly sold via a loan package worth \$3,175,000. However, the owner orchestrated the deal as a "straw" transaction with an unindicted co-conspirator pretending to be the borrower. The owner never intended to relinquish possession of the center and used the loan proceeds to continue to operate the business. She also caused the co-conspirator to falsely state that the sale would be supported by a \$296,200 equity injection even though the borrower would provide no equity. This is a joint investigation with the FBI.
- Three individuals in Texas were indicted for bank fraud and conspiracy to commit bank fraud. The attorney was also charged with witness tampering. The individuals allegedly conspired to fraudulently induce two banks to make loans to one of them. At stake were a \$1.835 million SBA-guaranteed loan to purchase a laundromat and two commercial loans, totaling over \$1.3 million, to purchase land. The individuals allegedly misrepresented assets, the source of the equity injection, and down payment funds. The attorney allegedly engaged in witness tampering by attempting to persuade one of the individuals to lie and withhold information if she were interviewed by the FBI at a later date. This is a joint investigation with the FBI.
- A Texas loan broker pled guilty to conspiracy to commit bank fraud. On 45 loan origination packages, she represented to financial institutions that the borrowers had made their required cash injections when they had not. She also instructed the borrowers to write checks to her company for the amounts of the required injections, photocopied and returned the checks to the borrowers, and presented the copies at the loan closings as evidence of payment. Both she and the borrowers knew the checks would not be cashed, and most of the borrowers did not have the funds in their accounts. The broker would receive one percent to three percent of the value of each loan closed. To date, approximately \$8 million has been charged off by financial institutions and the SBA, and an additional \$6.762 million is in liquidation. The three SBA loans totaled \$3.7 million. This is a joint investigation with the FBI.

Disaster Loan Program

The Disaster Loan Program plays a vital role in the aftermath of disasters by providing long-term, low-interest loans to affected homeowners, renters, businesses of all sizes, and non-profit organizations. There are two primary types of disaster loans: (1) physical disaster loans for permanent rebuilding and replacement of uninsured disaster-damaged privately owned real and/or personal property, and (2) economic injury disaster loans to provide necessary working capital to small businesses until normal operations resume after a disaster. The Disaster Loan Program is particularly vulnerable to fraud and unnecessary losses because loan transactions are expedited in order to provide quick relief to disaster victims.

SBA's Response to the Deepwater Horizon Oil Spill Could Have Been More Cost Effective

Beginning with the drilling rig explosion on April 20, 2010, and lasting for three months, the Deepwater Horizon drilling off the coast of Louisiana was the largest accidental marine oil spill in the history of the petroleum industry and the second widespread disaster to affect the Gulf Coast region within five years. The spill caused extensive damage to marine and wildlife habitat as well as the Gulf's fishing and tourism industries. In response to a congressional request, the OIG reviewed SBA's strategy for developing economic relief to small business owners impacted by the Deepwater Horizon oil spill to determine whether the agency's disaster response was most cost effective and targeted toward the needs of those concerned.

The U.S. Government identified British Petroleum (BP) as the responsible party, and committed to holding the company accountable for all cleanup costs and other damages. However, it was unknown how quickly BP could provide financial assistance to local businesses impacted by the disaster. Governors from Louisiana, Alabama, Florida, and Mississippi petitioned SBA to declare this event an economic injury disaster and provide financial assistance to the numerous small businesses affected. In response to the Governors' requests, in May 2010, SBA issues Economic Injury disaster declarations for specific regions in the affected states.

Because the Deepwater Horizon oil spill was an extraordinary event, the Agency was not able to obtain accurate projections of the number of businesses impacted by the disaster. Therefore, SBA relied upon requests made by local and state government officials to determine where assistance was needed. In May 2010, SBA initially established 27 Business Recovery Centers (BRCs) in 4 states; however, the number of open centers fluctuated during the six-month period they were operational. The SBA closed the last BRC on November 18, 2010. During the six-month period in which they were operational, a significant number of small businesses were contacted and informed of the availability of SBA assistance. Ultimately, however, relatively few businesses sought SBA assistance.

As of February 9, 2011, the agency received 1,767 applications (822 were initially accepted at the BRCs) for Economic Injury Disaster Loans (EIDLs) of which 410 were approved, totaling approximately \$37.2 million. The EIDLs are working capital loans to help small businesses, small agricultural cooperatives, and most private, non-profit organizations of all sizes meet their ordinary and necessary financial obligations that cannot be met as a direct result of the disaster. An additional 1,098 prior disaster loans were deferred. In contrast, BP indicated that by November 2010, they had received over 315,000 claims of which 92,000 had been paid or approved for payments totaling \$1.7 billion.

Disaster Loan Program

The OIG concluded that the SBA's response to the Deepwater Horizon Oil spill did not appear to be most cost effective. The Agency was slow to adjust staffing levels despite a continuously low workload. This occurred because the Agency was tasked with maintaining a steady presence in the region, despite the limited demand for SBA financial assistance. The OIG recommended that the agency establish (1) performance metrics to assess workload and appropriate onsite staffing levels, and (2) guidelines for monitoring onsite productivity and adjusting staffing levels in a timely manner.

SBA Did Not Consistently Make Appropriate Decisions to Release Collateral

An OIG review found that the SBA Disaster Loan Servicing and Processing Centers in Birmingham, Alabama and El Paso, Texas did not consistently make appropriate decisions to release the Agency's security interest in collateral on active disaster loans. Based on a review of a statistical sample of collateral releases, we determined that 55 of 120, or approximately 46 percent, of the collateral release decisions made by the servicing centers, for collective property values of at least \$3.1 million, were inappropriate. As a result, the remaining collateral for some loans was not sufficient to protect the Agency's interests because the loan balance exceeded the value of the property. The inappropriate collateral release decisions occurred because the Agency did not perform a full collateral analysis, which would have included obtaining an appraisal or other acceptable property valuation and evaluating whether the retained collateral value was sufficient in relation to the outstanding loan balance. As a result of these inappropriate collateral releases, we projected that at least \$3.9 million of loan balances could be insufficiently protected, exposing the Agency to a higher risk of loss. To resolve these deficiencies effectively, the servicing centers should consistently perform a full collateral analysis to ensure that the value of collateral retained is adequate to protect the loan balance.

OIG and Others Combat Fraud Years after Gulf Coast Hurricanes

In 2005, Hurricanes Katrina, Wilma, and Rita caused major loss of life and property destruction on the Gulf Coast. In response, Federal agencies provided massive aid, with SBA approving billions of dollars in disaster assistance loans. The need to disburse these loans quickly, however, may have created opportunities for dishonest applicants to commit fraud.

The OIG, along with other law enforcement organizations, formed what is now known as the National Center for Disaster Fraud (NCDF). From FY 2006 through FY 2011, the OIG, in conjunction with the NCDF, has thus far produced 81 arrests, 95 indictments, and 87 convictions related to wrongdoing in SBA's Disaster Loan program for these three hurricanes. Moreover, OIG investigations in the disaster area to date have resulted in over \$5.5 million in court-ordered restitution and related recoveries. The OIG has also assisted SBA in denying almost \$4.5 million in loans to potentially fraudulent borrowers.

The following examples illustrate both OIG cases and the tactics used by criminals to take advantage of Gulf Coast hurricane relief efforts.

- A Mississippi couple was indicted for conspiracy, wire fraud, and theft of government funds in connection with a \$1 million disaster assistance loan that had been provided for the repair of business properties damaged by Hurricane Katrina. The couple allegedly did not use the loan proceeds as stated in the loan authorization agreement, submitted fraudulent receipts to SBA, and used nearly \$390,000 of the loan proceeds to purchase a yacht.

Disaster Loan Program

This indictment resulted from a joint proactive NCDF investigation targeting individuals who make false claims for government disaster assistance. The investigation is being conducted jointly with the FBI

- A Texas man was sentenced to 15 months in prison and four years supervised release in connection with a \$196,300 business loan for Hurricane Rita damage. He submitted fictitious receipts and estimates to SBA for equipment that had not been purchased. Moreover, on his SBA loan application, he lied about his criminal history, failing to disclose the fact that he had been arrested numerous times and convicted of various crimes, including possession of a controlled substance, burglary, resisting arrest, destruction of property, malicious mischief, burglary of a vehicle, and assault. Finally, a review of bank records revealed that he had used SBA loan funds to pay for his Chapter 13 bankruptcy, college tuition for his daughter, new furniture, a car for his wife, and loans to his family and friends. The investigation determined that he only spent approximately \$50,000 of the \$196,300 SBA loan on actual business property and expenses.
- A Louisiana church pastor was indicted for mail fraud and theft of government funds involving an SBA disaster loan provided following Hurricane Katrina. The \$500,000 SBA loan was to be used for replacing equipment and rebuilding the church at which the pastor was employed at the time. He later requested and received a loan increase of nearly \$464,000 due to rising construction costs, for a total loan amount of \$963,900. Instead of using the loan funds for their intended purpose, the pastor allegedly purchased two luxury vehicles, two pieces of real estate, certificates of deposit, designer clothing, fine jewelry, and other items for his personal use.

Hurricanes Ike and Gustav Rebuilding Efforts Attract Fraud

In 2008, Hurricanes Ike and Gustav became two of the costliest natural disasters in U.S. history. As in the case of other hurricanes, the need to approve and disburse SBA disaster assistance loans quickly may have contributed to some applicants illegally profiting from the crisis, as shown in the following examples:

- A Texas property manager pled guilty to conspiracy. He, along with the property owner and the owner's brother had been previously indicted for conspiracy and fraud in connection with a major disaster. They allegedly devised a false invoice scheme involving approximately \$1 million in SBA home and business disaster loans. The property manager falsely claimed that Hurricane Ike had damaged a rental property, but the investigation determined that the damage had been caused by an intentional fire set prior to the hurricane. The owner allegedly also submitted to SBA inflated and false invoices for repairs to his residence and rental properties. Moreover, his brother allegedly verified \$680,000 in fictitious repairs that he claimed his company had completed. The SBA Disaster Assistance Processing and Disbursement Center in Fort Worth, TX, referred the allegation to the OIG. The case is a joint investigation with the Department of Homeland Security (DHS) OIG.

Disaster Loan Program

- A Louisiana couple pled guilty to conspiracy to commit wire fraud. The charges involved a \$126,300 SBA loan that a second couple received in order to rebuild and repair their residence, which had been damaged by Hurricane Ike. The second couple gave power of attorney to a financial group, owned by the wife from the first couple, for the purpose of negotiating and finalizing their SBA loan. Her husband was the manager of the company responsible for the repairs to the borrowers' residence. A review of documents submitted to SBA by the wife in support of loan disbursement determined that the items listed on the invoices had never been purchased and the cancelled checks were fraudulent.

Small Business Development, Contracting, Education and Training

The SBA works to maximize opportunities for small, woman, or minority-owned and other disadvantaged businesses to obtain federal contract awards through its government contracting programs. These programs include, among others, the Historically Underutilized Business Zone (HUBZone) Empowerment Contracting Program and the Small Disadvantaged Business (SDB) Certification Program. The SBA also negotiates with other federal agencies to establish procurement goals for contracting with small, disadvantaged, women-owned, service-disabled veteran-owned, and HUBZone businesses. The current government-wide goal is for small businesses to receive 23 percent of the total value of prime contracts awarded each fiscal year.

To help small disadvantaged businesses gain access to federal and private procurement markets, the SBA's Section 8(a) Business Development Program offers a broad range of business development support, such as mentoring, procurement assistance, business counseling, training, financial assistance, surety bonding, and other management and technical assistance. The SBA also provides assistance to existing and prospective small businesses through a variety of counseling and training services offered by partner organizations. Among these partners are Small Business Development Centers (SBDCs), the Service Corps of Retired Executives (SCORE), and Women's Business Centers (WBCs). Most of these are grant programs that require effective and efficient management, outreach, and service delivery.

Businesses Falsify Eligibility to Receive Contracting Preferences

Some firms seek preferences in obtaining federal contracts by misrepresenting their eligibility for the Service-Disabled Veteran-Owned (SDVO) Small Business Concern, Historically Underutilized Business Zone (HUBZone), Section 8(a) Business Development, and Alaska Native Corporation (ANC) programs. Investigations by the OIG and other federal organizations have uncovered schemes in which companies owned or controlled by non-disadvantaged persons falsely claim to be disadvantaged firms or use actual disadvantaged firms as fronts. The following cases illustrate the problem.

- The president and chief executive officer of a New York construction company was found guilty of mail fraud, major fraud against the United States, making false statements, and tampering with a victim, witness or an informant. The company falsely claimed status as an SDVO business and was awarded a \$5,698,000 veteran-owned set-aside contract and three SDVO set-aside contracts totaling \$10,980,690. The evidence revealed that the owner is neither a veteran nor a service-disabled veteran. This was a joint investigation with the Department of Veterans Affairs OIG and the U.S. Army CID.
- The owner of an Alabama maintenance company was indicted for misrepresentation. He allegedly and falsely obtained an SBA HUBZone certification because the company's principal office was not located within a HUBZone, nor did 35 percent of its employees reside within a HUBZone, as required by program regulations. As a result of his misrepresentations to SBA, the company was awarded 28 federal contracts valued at nearly \$2.6 million from 2006 to 2009. The firm would not have been eligible to receive these contracts if it had not falsified its HUBZone status. The OIG is conducting this investigation jointly with the U.S. Army CID and the Defense Criminal Investigative Service (DCIS).

Small Business Development, Contracting, Education and Training

- Two Florida men were indicted for conspiracy and wire fraud. The indictment also contained forfeiture allegations notifying them that the United States intends to seek a \$100 million monetary judgment and to call for forfeiture of assets including \$8.1 million previously seized from bank accounts and real property. The men allegedly devised a scheme whereby they created an undisclosed affiliate of a larger company for the purpose of obtaining a \$100 million small business set-aside contract with the Department of Defense (DoD). They allegedly used a nominee owner to create the appearance that the new company was not affiliated with a consultant firm that they controlled and that had been the incumbent contractor on a previous DoD contract. The men also allegedly submitted false and misleading information about the relationship between the two companies after the firms' affiliation was challenged during a size protest submitted to the SBA. This is a joint investigation with DCIS.
- The owner of an 8(a) certified design and remodeling business in the District of Columbia was sentenced to 18 months in prison, 36 months' probation, nearly \$390,000 in restitution, and 360 hours of community service. She previously had pled guilty to conspiracy and false claims. The owner had conspired to submit falsified information to the General Services Administration (GSA) in the course of obtaining an 8(a) contract with DHS Immigration and Customs Enforcement (ICE). Consequently, ICE suffered a loss of nearly \$390,000. The OIG conducted the investigation jointly with the DHS ICE, the GSA OIG, and the Department of Justice Antitrust Division.
- The owner of an 8(a) certified business in Virginia pled guilty to unlawful procurement of citizenship or naturalization and to making false statements. His firm received over \$3 million in contracts set aside for 8(a) certified businesses. The investigation disclosed that he obtained falsified U.S. citizenship documents from a DHS employee and used the documents to obtain a DoD security clearance. He used the same falsified documents as a basis for his claim that he was a U.S. citizen on his firm's 8(a) application. This is a joint investigation with the DHS OIG, the DHS ICE, the Department of State Diplomatic Security Service, and the Department of Labor OIG.
- A research company agreed to pay the United States \$200,000 to resolve a civil case regarding its HUBZone status. The firm stated that it qualified under the HUBZone program to receive government contracts when it bid on and received three Department of the Navy contracts. In addition, the firm submitted claims for and received payment under these contracts. The investigation found that company was not qualified for the HUBZone program because its principal office was not located within a HUBZone at the time it bid on and received these contracts.

Small Business Development, Contracting, Education and Training

Legislation Requires Approval of SBDC Surveys

In December 2004, Congress amended section 21(a) (7) of the Small Business Act to restrict the disclosure of information regarding individuals or small businesses that have received assistance from an SBDC, and further restricts the Agency's use of such information. The provision also requires the Agency to issue regulations regarding disclosures of such information for use in conducting financial audits or SBDC client surveys. In 2009, the Agency represented to the OIG that it would issue regulations as required by the statute, and later prepared proposed regulations. However, the Agency has not yet issued these regulations.

In addition, paragraph 21(a)(7)(C)(iii) of the Small Business Act states that, until the issuance of such regulations, any SBDC client survey and the use of such information shall be approved by the Inspector General, who shall include such approval in the OIG's Semiannual Report to Congress. According to a report from the Agency, the SBA used an OIG-approved questionnaire to survey SBDC clients during the second half of FY 2011.

Agency Management

Agency management includes activities of the Offices of the Chief Financial Officer (CFO), the Chief Information Officer (CIO), and Management and Administration. These activities encompass financial reporting and performance management, human resources, procurements and grants, space and facilities, and maintenance of the SBA's information systems and related security controls.

Contracts for Procurement of Information Technology Hardware and Software Improperly Funded

During this reporting period, the OIG issued a second report on an ongoing review of the SBA's Procurement of Information Technology Hardware and Software from Isika Technologies, Inc. (iTechnologies). The OIG previously issued a report on the planning and award of contracts to iTechnologies. The second report addressed whether SBA officials properly funded contracts awarded to iTechnologies for the procurement of IT hardware and software.

During fiscal year (FY) 2009 and FY 2010, the SBA awarded two indefinite-quantity (IDIQ) contracts, a Blanket Purchase Agreement (BPA), and five purchase order contracts totaling nearly \$7,600,000 to iTechnologies. These types of contracts are appropriate for procuring supplies and services when the government anticipates recurring requirements but cannot determine the precise quantities that will be needed within a specific period.

In the case of an IDIQ contract, the government incurs a legal liability in the amount of the guaranteed minimum at the time of contract award. An inappropriate obligation of funds arises when an agency obligates fixed-period funds on a contract in an attempt to both extend the life of those funds beyond their availability and to circumvent appropriations law. Inappropriately obligated funds are then used to procure goods or services in a subsequent fiscal year in the mistaken belief that the funds are no longer subject to the appropriation's expiration and remain available indefinitely. As a result, agencies risk violating the Anti-Deficiency Act (ADA), which prohibits agencies from making or authorizing an expenditure or obligation under an appropriation or fund in excess of the amount available.

The OIG found that contracting and OCIO personnel did not properly fund one IDIQ contract because they obligated \$3.151 million during FY 2009 and FY 2010 by issuing contract modifications. Further, because the SBA did not use these obligated annual funds to purchase IT hardware or software during FY 2009 and FY 2010, the SBA was inappropriately obligating annual funds that otherwise would not have been available for use in a subsequent fiscal year. As a result, the SBA: 1) violated the bona fide needs rule relating to its FY 2009 and FY 2010 annual appropriations; 2) risked violating the Anti-Deficiency Act by obligating expired FY 2010 annual funds during FY 2011 with no assurance that the agency had funds available to cover these inappropriate expenditures; and 3) reported the inappropriate obligation of funds to the Federal Procurement Data System – Next Generation (FPDS-NG), which resulted in an overstatement of obligations to Small Disadvantaged Businesses (SDBs) in the FY 2009 Small Business Goaling Report and may also lead to incorrect SDB reporting in the FY 2010 Small Business Goaling Report. The OIG recommended that the CFO establish procedures to discontinue the SBA's practice of inappropriately obligating funds on contracts in anticipation of future needs, de-obligate inappropriately obligated funds, develop and provide training on the bona fide needs rule, determine whether the SBA violated the ADA and take appropriate action if a violation exists, review all ongoing SBA IDIQ contracts to ensure that task orders are being issued in accordance with FAR Subpart 16.505, and, based on the

Agency Management

IDIQ contracts review results, determine whether administrative actions are warranted against the contracting officers. The OIG also recommended that the CFO revise FPDS-NG data to ensure that inappropriately obligated funds are not included in the FY 2010 Small Business Goaling Report.

SBA Gift Authority

Section 4(g)(2) of the Small Business Act, as amended, provides that any gift, devise, or bequest of cash accepted by the Administrator under Section 4(g) shall be held in a separate account and shall be subject to semiannual audits by the Inspector General, who shall report his findings to Congress. During this reporting period, the SBA reported that it had not received any cash gifts.

Co-sponsorships and Fee-Based Administration Sponsored Events

Section 4(h) of the Small Business Act, as amended, requires the OIG to report to Congress on a semi-annual basis regarding the Agency's use of its authority in connection with co-sponsorships and fee-based Administration-sponsored events. The SBA's Office of Strategic Alliances provided information to the OIG related to co-sponsorships, including the names, dates, and locations of the cosponsored events and the names of the cosponsors. This information was not verified by the OIG. As shown in Appendix IX, between April 1, 2011 and September 30, 2011, there were 41 cosponsored events.

Other Significant OIG Activities

Character Screening Reduces Potential Program Fraud

Participants in SBA programs involving business loans, disaster assistance loans, Section 8(a) certifications, surety bond guarantees, SBICs, and CDCs must meet Agency character standards. To help ensure that this occurs, the OIG's Office of Security Operations utilizes name checks and, where appropriate, fingerprint checks to determine criminal background information. During this reporting period, the OIG processed 2,416 external name check requests for these programs.

The OIG also refers applicants who appear ineligible because of character issues to program officials for adjudication. The referrals are based on data from the OIG's on-line connection with the FBI. As a result of OIG referrals during this reporting period, SBA business loan program managers declined 25 applications totaling over \$10.8 million and disaster loan program officials declined 6 applications totaling over \$265,000. In addition, the Section 8(a) program declined 10 applications for admission and the Surety Bond Guaranty program declined one application for admission.

During this reporting period, the OIG also initiated 189 background investigations and issued 29 security clearances for Agency employees and contractors. The OIG also adjudicated 120 background investigative reports and coordinated with SBA's Office of Disaster Assistance to adjudicate 132 derogatory background investigation reports. Finally, the OIG processed 852 internal name check requests for Agency activities such as success stories, "Small Business Person of the Year" nominees, and disaster assistance new hires.

OIG Promotes Debarment and Administrative Enforcement Actions

As a complement to the OIG's criminal and civil fraud investigations, the OIG continually promotes the use of suspensions, debarments and other administrative enforcement actions as a means to protect taxpayer funds from those who have engaged in fraud or otherwise exhibited a lack of business integrity. The OIG regularly identifies individuals and organizations for debarment and other enforcement actions and submits detailed recommendations with supporting evidence to the responsible SBA officials.

During this reporting period, the OIG sent 25 suspension and debarment referrals to SBA. (The Statistical Highlights section of this Report contains additional suspension and debarment statistics). Most OIG administrative referrals involve the abuse of SBA's loan and preferential contracting programs. Where appropriate, the OIG recommends that the SBA suspend the subject of an ongoing OIG investigation given program risk presented by the continued participation of those individuals and entities.

Examples of OIG suspension and debarment referrals during the reporting period include:

- Based upon an OIG referral, the SBA suspended an 8(a) contractor and its owner based on evidence the contractor's owner used a U.S. Passport obtained with false citizenship documentation to demonstrate United States Citizenship required by the 8(a) Business Development Program. The OIG coordinated with the DHS OIG on this referral and sent the suspension recommendations to SBA prior to the indictment of the contractor's owner.

Other Significant OIG Activities

- As a result of an OIG referral, the SBA debarred a bank employee who was working as a loan officer for receiving a personal loan from the proceeds of an SBA guaranteed business loan. The debarred party was the bank's loan officer for the SBA guaranteed loan and using SBA guaranteed loan proceeds for a personal loan was an impermissible use of funds.

Additionally, during the reporting period, the OIG continued its work to encourage the SBA to implement a more robust debarment and suspension program, and to implement a program to prevent dishonest loan agents from participating in SBA's business loan programs. Although SBA has made some progress in both areas, the Agency needs to continue to strengthen these enforcement programs.

Finally, the OIG has been an active participant in the Council of Inspectors General on Integrity and Efficiency (CIGIE) Working Group on Suspensions and Debarments. The OIG made significant contributions to a report that the Working Group issued identifying effective practices within the OIG community for promoting suspension, debarment, and other enforcement actions.

OIG Reviews of Proposed Agency Regulations and Initiatives Lead to Improved Program Controls to Reduce Fraud, Waste, Abuse and Inefficiencies

As part of the OIG's proactive efforts to promote accountability and integrity and reduce inefficiencies in SBA programs and operations, the OIG reviews changes that SBA is proposing to make to its program directives such as regulations, internal operating procedures, agency policy notices, and SBA forms that are completed by the public. Frequently, the OIG identifies material weaknesses in these proposals and works with the Agency to implement recommended revisions to promote controls that are more effective and deter waste, fraud, or abuse. During the reporting period, the OIG reviewed 54 proposed revisions of program management or agency reorganization documents and submitted comments on 34 of these initiatives.

Many of the initiatives that the OIG commented upon were issued in response to the various program changes mandated by the Small Business Jobs Act of 2010 or new programs implemented by SBA. For example, in response to OIG comments, the Agency implemented revisions to strengthen controls, and reduce the potential for waste, fraud, abuse, and inefficiencies in the 504 Program first-lien loan pooling program, and 504 debt refinancing and Intermediary Lending Pilot Program. The OIG also pointed out concerns with SBA's proposed revisions of various standards to measure small businesses. Additionally, OIG recommendations in connection with several information technology security and quality assurance guidance documents also led to more robust controls in and enhancements to these program documents.

OIG Conducts Fraud Awareness Briefings

During this reporting period, the OIG conducted 9 fraud awareness presentations for approximately 515 attendees, including loan officers, bank security officers, law enforcement representatives, and SBA employees. Topics included types of fraud, fraud trends, the False Claims Act, and the Service-Disabled, Veteran-Owned SBA program.

Statistical Highlights

6-Month Productivity Statistics April 1 - Sept. 30, 2011

Summary of Office-Wide Dollar Accomplishments

Totals

A. Potential Investigative Recoveries and Fines	\$24,394,468
B. Loans/Contracts Not Approved or Canceled as Result of Investigations.....	\$925,000
C. Loans Not Made as a Result of Name Checks	\$11,106,927
D. Disallowed Costs Agreed to by Management	\$4,956,977
E. Recommendations that Funds Be Put to Better Use Agreed to by Management.....	\$1,242,400
Total	\$42,625,772

Efficiency and Effectiveness Activities Related to Audit and Other Reports

A. Reports Issued	9
B. Recommendations Issued	34
C. Dollar Value of Costs Questioned.....	\$9,536,794
D. Dollar Value of Recommendations that Funds be Put to Better Use.	\$0
E. Collections as a Result of Questioned Costs	\$4,820,579

Audit and Report Follow-up Activities

A. Recommendations for which Management Decisions were made During the Reporting Period	52
B. Disallowed Costs Agreed to by Management	\$4,956,977
C. Dollar Value of Recommendations that Funds Be Put to Better Use Agreed to by Management	\$1,242,400
D. Recommendations without a Management Decision at End of Reporting Period	32

Legislation/Regulations/Standard Operating Procedures (SOPs)/Other Reviews

A. Legislation, Regulations, Standard Operating Procedures, and Other Issuances * Reviewed	54
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* This category includes policy notices, procedural notices, Administrator's action memoranda, and other Agency initiatives, which frequently involve the implementation of new programs and policies.

Statistical Highlights

6-Month Productivity Statistics April 1 - Sept. 30, 2011

Indictments, Convictions, and Case Activity

A. Indictments from OIG Cases.....	44
B. Convictions from OIG Cases.....	30*
C. Cases Opened.....	48
D. Cases Closed.....	14

Recoveries and Management Avoidances as a Result of Investigations and Related Activities

A. Potential Recoveries and Fines as a Result of OIG Investigations.....	\$24,394,468*
B. Loans/Contracts Not Approved or Canceled as Result of Investigations.....	\$925,000
C. Loans Not Approved as a Result of the Name Check Program.....	\$11,106,927
Total.....	\$36,426, 395

*May include actions from prior reporting periods.

SBA Personnel Actions Taken as a Result of Investigations

A. Dismissals.....	0
B. Resignations/Retirements.....	1
C. Suspensions.....	1
D. Reprimands.....	0
E. Other.....	0

Debarment and Suspension Actions

A. Suspensions and/or Debarments Recommended to the Agency.....	25
A.1. Suspensions and/or Debarments based on convictions, judgments or indictments.....	16
A.2. Suspensions and/or Debarments not based on convictions, judgments or indictments.....	9
B. Suspensions and/or Debarments Pending at the Agency**.....	27
C. Proposed Debarments Issued by the Agency.....	10
D. Final Debarments Issued by the Agency.....	9
E. Suspensions Issued by the Agency.....	9
F. Proposed Debarments Declined by the Agency.....	0
G. Actions by Other Agencies Resulting from Investigations in which the OIG Participated.....	9

**SBA has initiated administrative proceedings in fourteen of the twenty-seven pending cases.

OIG Hotline Operation Activities

A. Total Hotline Complaints.....	390
B. Total Complaints Referred to OIG Investigations Division.....	145
C. Total Complaints Referred to SBA or Other Federal Investigative Agencies.....	123
D. Total Complaints Referred to Other Entities.....	8
E. Total Complaints Needing No Action.....	28
F. Total Complaints Being Reviewed by Hotline for Possible Referral or Other Resolution.....	91
G. Total Complaints Referred to OIG Counsel Division.....	19
H. Total Complaints Referred to OIG Auditing Division.....	4

Statistical Highlights

Full Year Productivity Statistics Oct.1, 2010 – Sept. 30, 2011

Summary of Office-Wide Dollar Accomplishments

Totals

A. Potential Investigative Recoveries and Fines	\$30,512,507
B. Loans/Contracts Not Made as Result of OIG Investigations	\$5,425,000
C. Loans Not Made as Result of Name Checks	\$24,759,839
D. Disallowed Costs Agreed to by Management	\$6,009,787 ¹
E. Recommendations that Funds Be Put to Better Use Agreed to by Management.....	\$54,242,400 ²
Total	\$120,949,533

Efficiency and Effectiveness Activities Related to Audit and Other Reports

A. Reports Issued	24
B. Recommendations Issued	136
C. Dollar Value of Costs Questioned.....	\$12,254,937
D. Dollar Value of Recommendations that Funds Be Put to Better Use.....	\$0
E. Collections as a Result of Questioned Costs	\$5,389,929

Audit and Report Follow-up Activities

A. Recommendations for which Management Decisions were made During the Reporting Period	168
B. Disallowed Costs Agreed to by Management	\$6,009,787
C. Dollar Value of Recommendations that Funds Be Put to Better Use Agreed to by Management	\$54,242,400
D. Recommendations without a Management Decision at End of Reporting Period	32

Legislation/Regulations/Standard Operating Procedures (SOPs) and Other Reviews

A. Legislation, Regulations, Standard Operating Procedures, and Other Issuances ³ Reviewed.....	133
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¹ Management agreed to \$1,033,850 in the spring SAR but the full amount can only be determined at the time a loan defaults.

² Includes \$53 million in Funds for Better Use, agreed to by Management in March 2011, not reported in spring 2011.

³ This category includes policy notices, procedural notices, Administrator's action memoranda, and other Agency initiatives, which frequently involve the implementation of new programs and policies.

Statistical Highlights

Full Year Productivity Statistics Oct. 1, 2010 – Sept. 30, 2011

Indictments, Convictions, and Case Activity

A. Indictments from OIG Cases.....	69
B. Convictions from OIG Cases.....	47
C. Cases Opened	85
D. Cases Closed	53

Recoveries and Management Avoidances as a Result of Investigations and Related Activities

A. Potential Recoveries and Fines as a Result of OIG Investigations.....	\$30,512,507
B. Loans/Contracts Not Approved as a Result of OIG Investigations.....	\$5,425,000
C. Loans/Contracts Not Approved as a Result of the Name Check Program	\$24,759,839
Total	\$60,697,346

SBA Personnel Actions Taken as a Result of Investigations

A. Dismissals	0
B. Resignations/Retirements.....	1
C. Suspensions	1
D. Reprimands	0
E. Other	0

Debarment and Suspension Actions

A. Suspensions and/or Debarments Recommended to the Agency.....	41
A.1. Suspensions and/or Debarments based on convictions, judgments or indictments ⁴	20
A.2. Suspensions and/or Debarments not based on convictions, judgments or indictments ⁴	21
B. Suspensions and/or Debarments Pending at the Agency ⁴	38
C. Proposed Debarments Issued by the Agency	18
D. Final Debarments Issued by the Agency	16
E. Suspensions Issued by the Agency.....	14
F. Proposed Debarments Declined by the Agency	3
G. Actions by Other Agencies Resulting from Investigations in which the OIG Participated	24

OIG Hotline Operation Activities

A. Total Hotline Complaints	550
B. Total Complaints Referred to Investigations Division	169
C. Total Complaints Referred to SBA or Other Federal Investigative Agencies.....	168
D. Total Complaints Referred to Other Entities.....	17
E. Total Complaints Needing No Action.....	38
F. Total Complaints Being Reviewed for Possible Referral or Other Resolution (by Hotline)	163
G. Total Complaints Referred to OIG Counsel Division ⁴	19
H. Total Complaints Referred to OIG Auditing Division ⁴	4

⁴ New category for this reporting period.

Appendix I: OIG Reports Issued April 1 - Sept. 30, 2011

Small Business Access to Capital

Title	Report Number	Issue Date	Questioned Costs	Funds for Better Use
Banco Popular Did Not Adequately Assess Borrower Repayment Ability When Originating Huntington Learning Center Franchise Loans	11-16	7/13/11	\$2,100,000	\$0
Program Subtotal	1		\$2,100,000	\$0

Small Business Access to Capital - Recovery Act

Title	Report Number	Issue Date	Questioned Costs	Funds for Better Use
Material Deficiencies Identified in Four 7(A) Recovery Act Loans Resulted in \$3.2 Million of Questioned Costs	ROM 11-05	6/29/11	\$3,232,890	\$0
Material Deficiencies Identified in Five 7(A) Recovery Act Loans Resulted in \$2.7 Million of Questioned Costs ⁵	ROM 11-06	8/22/11	\$998,254	\$0
Origination and Closing Deficiencies Identified In 7(a) Recovery Act Loan Approvals	ROM 11-07	9/30/11	\$3,205,650	\$0
Program Subtotal	3		\$7,436,794	\$0

Disaster Loans

Title	Report Number	Issue Date	Questioned Costs	Funds for Better Use
SBA's Response to the Deepwater Horizon Oil Spill	11-12	4/7/11	\$0	\$0
Release of Collateral by the Disaster Loan Servicing Centers	11-15	6/3/11	\$0	\$0
Release of Collateral by SBA's Disaster Processing and Disbursement Center Raises Concerns	11-17	9/26/11	\$0	\$0
Program Subtotal	3		\$0	\$0

⁵ Two loans were originated by SBA for which origination deficiencies were identified therefore precluding recovery of \$1.7 million due to improper origination by the SBA.

Appendix I: OIG Reports Issued April 1 - Sept. 30, 2011

Agency Management

Title	Report Number	Issue Date	Questioned Costs	Funds for Better Use
Independent Review of SBA's Accounting of FY 2010 Drug Control Funds and Performance Summary Report	11-13	4/18/11	\$0	\$0
SBA's Funding of Information Technology Contracts Awarded to ISIKA Technologies, INC.	11-14	6/2/11	\$0	\$0
Program Subtotal	2		\$0	\$0
TOTALS (all programs)	9		\$9,536,794	\$0

Appendix II: OIG Reports with Questioned Costs

		Reports	Recommen- dations ⁶	Questioned Costs ⁷	Unsupported Costs ⁸
A.	No management decision made by March 31, 2011	2	2	\$1,530,587	\$760,532
B.	Issued during this reporting period	4	11	\$9,536,794	\$5,849,596
	Universe from which management decisions could be made in this reporting period – Subtotals	6	13	\$11,067,381	\$6,610,128
C.	Management decision(s) made during this reporting period	4	7	\$4,956,977	\$798,228
	(i) Disallowed costs	4	7	\$4,956,977	\$798,228
	(ii) Costs not disallowed	1	1	\$0	\$0
D.	No management decision made by September 30, 2011	3	6	\$6,110,404	\$5,811,900

⁶ Reports may have more than one recommendation.

⁷ Questioned costs are those, which are found to be improper.

⁸ Unsupported costs may be proper, but lack documentation. Unsupported costs are a subset of questioned costs.

Appendix III:OIG Reports with Recommendations that Funds be put to Better Use

		Reports	Recommen- dations *	Recommended Funds For Better Use
A.	No management decision made by March 31, 2011	1	1	\$1,242,400
B.	Issued during this reporting period	0	0	\$0
	Universe from which management decisions could be made in this reporting period – Subtotals	1	1	\$1,242,400
C.	Management decision(s) made during this reporting period	1	1	\$1,242,400
	(i) Recommendations agreed to by SBA management	1	1	\$1,242,400
	(ii) Recommendations not agreed to by SBA management	0	0	\$ 0
D.	No management decision made by September 30, 2011	0	0	\$0

* Reports may have more than one recommendation.

Appendix IV: OIG Reports with Non-Monetary Recommendations

		Reports	Recommendations
A.	No management decision made by March 31, 2011⁹	8	47¹⁰
B.	Issued during this reporting period	7	23
	Universe from which management decisions could be made in this reporting period – Subtotals	15	70
C.	Management decision(s) made (for at least one recommendation in the report) during this reporting period	11	44
D.	No management decision made by September 30, 2011*	7	26

⁹ Adding the number of reports for C. & D. will not result in the subtotal of A. & B. because any single report may have recommendations that fall under both C. & D.

¹⁰ Information is different from what was previously reported due to database corrections.

Appendix V: Reports from Prior Periods with Overdue¹¹ Management Decisions

Title	Report Number	Date Issued	Status
Premier Certified Lenders in the Section 504 Loan Program	10-10	3/23/10	The Agency has not responded to one recommendation in the report.
GFRS for Fiscal Year 2010	11-04	11/12/10	The Agency has not responded to three recommendations in the report.

¹¹ Overdue” is defined as more than 180 days from the date of issuance.

Appendix VI: Reports Without Final Action as of September 30, 2011

Report Number	Title	Date Issued	Date of Management Decision	Final Action Target Date
0-14	7(a) Service Fee Collections	3/30/00	8/22/00	6/30/11
3-08	SBA's Oversight of the Fiscal Transfer Agent for the 7(a) Loan Program	1/30/03	10/15/03	12/30/11
3-26	Microloan Program	5/12/03	8/28/03	12/31/11
4-34	Audit of SBA's Process for Complying with the Federal Managers' Financial Integrity Act Reporting Requirements	7/29/04	9/9/04	4/30/11
6-10	FY 2005 Financial Statements - Management Letter	1/18/06	3/7/06	9/30/12
6-25	Audit of SBA's Implementation of the Improper Payments Information Act	6/13/06	7/19/06	6/30/12
7-03	Audit of SBA's Fiscal Year 2006 Financial Statements	11/15/06	12/20/06	6/30/11
8-12	Oversight of SBA Supervised Lenders	5/9/08	6/20/08	6/30/11
8-13	Planning for the Loan Management and Accounting System Modernization and Development Effort	5/14/08	8/27/08	12/11/11
9-03	Audit of SBA's Fiscal Year 2008 Financial Statements	11/14/08	9/30/09	12/15/10
9-05	Audit of SBA's Fiscal Year 2008 Financial Statements – Management Letter	12/17/08	2/18/09	11/30/11
9-12	Review of SBA National Guaranty Purchase Center Furniture Contract	3/31/09	3/31/09	10/15/09
9-15	Participation in the 8(A) Program by Firms Owned by Alaska Native Corporations	7/10/09	*	**
9-16	SBA's Fiscal Year 2008 Improper Payment Rate for the 7(A) Guaranty Loan Program	7/10/09	*	**
9-17	Review of Allegations Concerning How the Loan Management and Accounting System Modernization Project is Being Managed	7/30/09	*	**
9-18	SBA's Management of the Backlog of Post-Purchase Reviews at the National Guaranty Purchase Center	8/25/09	10/21/09	10/21/10
10-01	Monitoring of Insurance Coverage for Disaster Loan Recipients	10/20/09	11/6/09	**
10-04	Audit of SBA's FY 2009 Financial Statements	11/13/09	12/11/09	6/1/10
ROM 10-04	Review of Controls Over Job Creation and Retention Statistics Reports by SBA Under the American Recovery and Reinvestment Act of 2009	12/4/09	*	8/31/11

* Management decision dates vary with different recommendations.

**Target dates vary with different recommendations.

Appendix VI: Reports Without Final Action as of September 30, 2011

Report Number	Title	Date Issued	Date of Management Decision	Final Action Target Date
10-06	Audit of SBA's FY 2009 Financial Statements - Management Letter	12/15/09	1/20/10	**
10-08	SBA's Efforts to Improve the Quality of Acquisition Data in the Federal Procurement Data System	2/26/10	3/29/10	**
10-10	Premier Certified Lenders in the Section 504 Loan Program	3/23/10	4/26/10	12/31/11
ROM 10-12	NFR on Material Origination & Closing Deficiencies Identified in SBA and Lender-Approved Recovery Act Loans	3/31/10	7/1/10	9/30/10
ROM 10-14	Accuracy of Recovery Act Contract Award Obligations Reported to the Federal Procurement Database System - Next Generation and Recovery.Gov	4/15/10	5/3/10	1/31/12
ROM 10-16	SBA's Planning and Award of the Customer Relationship Management Contracts	6/29/10	*	**
10-12	Audit of the Assessment of the Community Express Pilot Loan Program	8/25/10	3/28/11	11/30/11
10-13	BA's Role in Addressing Duplication of Benefits Between SBA Disaster Loans and Community Development Block Grants	9/2/10	1/12/11	12/31/11
10-14	Adequacy of Quality Assurance Oversight of the Loan Management and Accounting System Project	9/13/10	*	6/13/11
ROM 10-18	Notice of Finding and Recommendation on Lender-Approved ARC Loans to Affiliates	9/22/10	*	**
ROM 10-19	Material Deficiencies Identified in Early-Defaulted and Early-Problem Recovery Act Loans	9/24/10	*	**
10-15	Colorado District Office's Servicing of 8(a) Business Development Program Participants	9/30/10	*	**
11-02	Usefulness of the Small Business Innovation Research Tech-Net Database	11/12/10	*	**
11-03	Audit of SBA's FY 2010 Financial Statements	11/12/10	*	**
11-05	Audit of SBA's FY 2010 Financial Statements - Management Letter	12/15/10	*	**
ROM 11-02	Improper Allotment of Recovery Act Apportionments	12/15/10	2/9/11	2/28/11
11-06	Weaknesses Identified During the FY 2010 FISMA Review	1/28/11	3/28/11	**
11-07	Processing of Insurance Recovery Checks at the Disaster Loan Servicing Centers	2/10/11	*	**

* Management decision dates vary with different recommendations.

**Target dates vary with different recommendations.

Appendix VI: Reports Without Final Action as of September 30, 2011

Report Number	Title	Date Issued	Date of Management Decision	Final Action Target Date
11-08	SBA's Procurement of Information Technology Hardware and Software Through Isika Technologies, Inc.	2/25/11	3/30/11	**
ROM 11-03	America's Recovery Capital Loans Were Not Originated and Closed in Accordance with SBA's Policies and Procedures	3/2/11	3/31/11	**
ROM 11-04	Quality of SBA's Recovery Act Data on Public Websites	3/22/11	10/6/11	**
11-10	Management Advisory Report on Records Management and Documentation Process at the Disaster Loan Servicing Centers	3/29/11	6/20/11	**
11-11	Effectiveness of SBA's Surveillance Review Process	3/31/11	*	12/31/11
11-12	SBA's Response to the Deepwater Horizon Oil Spill	4/7/11	4/22/11	9/30/11
11-15	Release of Collateral by the Disaster Loan Servicing Centers	6/3/11	6/20/11	9/30/11
ROM 11-05	Material Deficiencies Identified in Four 7(A) Recovery Act Loans Resulted in \$3.2 Million of Questioned Costs	6/29/11	7/19/11	12/30/11
11-16	Banco Popular did not adequately assess Borrower Repayment Ability when Originating Huntington Learning Center Franchise Loans	7/13/11	*	**
ROM 11-06	Material Deficiencies Identified in Five 7(A) Recovery Act Loans Resulted in \$2.7Million of Questioned Costs	8/22/11	9/30/11	3/31/12

* Management decision dates vary with different recommendations.

**Target dates vary with different recommendations.

Appendix VII: Summary of Significant Recommendations from Prior Semiannual Reporting Periods without Final Action as of September 30, 2011

Report Number	Date Issued	Recommendation	Date of Management Decision	Final Action Target Date
9-15	7/10/09	As part of the recommended program review, determine whether 8(a) firms owned by ANCs and tribes should continue to be exempt from the cap on total sole source awards in CFR 124.519 and, if not, remove the exemption from this regulation.	8/2/09	6/30/11
9-12	3/31/09	Establish internal controls that ensure that OBO and OPGM are unable to modify contracts without the appropriate supporting documentation, including a statement of work.	3/31/09	9/30/09
9-15	7/10/09	Conduct a program review to evaluate whether the growth in ANC 8(a) obligations has adversely impacted, or will adversely impact, other 8(a) firms and the overall effectiveness of the 8(a) program and, if so, make programmatic revisions to minimize the adverse impact.	8/4/09	9/30/12
9-15	7/10/09	As part of the recommended program review, determine whether 8(a) firms owned by ANCs and tribes should continue to be exempt from the cap on total sole source awards in CFR 124.519 and, if not, remove the exemption from this regulation.	8/2/09	6/30/11
9-16	7/10/09	Seek recovery of \$2.3 million from lenders on the loans listed in the appendices of this report.	8/27/09	6/30/10
9-16	7/10/09	Report the revised improper rate calculated by the OIG for FY 2008 to OMB.	9/26/09	11/15/09
9-17	7/30/09	Take steps to modify the contract to require the QA/IV & V contractor to report all findings and recommendations to the Program Manager and an independent QA Manager designated by the CIO.	8/28/09	9/30/09
9-17	7/30/09	Establish a process for reviewing and accepting LMAS deliverables that complies with SDM requirements.	8/28/09	9/30/09
9-17	7/30/09	Take steps to ensure that a well-defined deliverable acceptance process is established for the LMAS project in accordance with SBA's Enterprise Quality Assurance Plan.	9/3/09	4/30/11
9-18	8/25/09	Seek recovery of \$1,250,088 on the guaranties paid on the 6 loans listed in this report.	10/21/09	10/21/10
10-01	10/20/09	Determine the actions needed to achieve compliance with statutory flood insurance monitoring requirements and the cost implications of achieving compliance.	11/6/09	5/31/12

Appendix VII: Summary of Significant Recommendations from Prior Semiannual Reporting Periods without Final Action as of September 30, 2011

Report Number	Date Issued	Recommendation	Date of Management Decision	Final Action Target Date
10-01	10/20/09	Develop and execute a plan for achieving compliance on existing and future loans. Alternatively, if achieving compliance is determined to be not cost effective, seek additional funding or a legislative change to the statutory flood insurance requirement.	11/6/09	5/31/12
10-01	10/20/09	Revise SOP 50-52 to clarify what action(s) servicing center personnel should take when borrowers refuse to obtain required hazard insurance.	11/6/09	5/31/12
10-04	11/13/09	Implement a process to monitor the audit logs of all financial applications on a regular basis.	12/11/09	6/1/10
ROM 10-04	12/4/09	Implement the necessary controls to check the reasonableness of data, including user prompts, range checks, and the prevention of negative figures in E-Tran to ensure the accuracy of lender-reported job creation and retention statistics.	2/17/10	8/31/11
ROM 10-04	12/4/09	Implement a data quality review and testing process to determine if job data is properly recorded, classified, and reported.	2/2/10	8/31/10
10-08	2/24/10	Either update the FY 2008 Data Quality Plan or revise the information notice to include explicit steps that will be taken to ensure data is reviewed for accuracy and completeness.	3/29/10	5/1/11
10-08	2/24/10	Conduct an independent review to ensure that the Data Quality Plan or information notice requirements have been fully implemented.	3/29/10	1/31/12
10-08	2/24/10	Ensure that Office of Business Operations contracting personnel are held accountable for the accuracy of FPDS data.	3/29/10	3/30/11
10-10	3/23/10	Evaluate the need to establish monetary or other guidelines on the level of excess funds that CDCs should retain as a reserve for future operations and/or invest in other local economic development activities.	4/26/10	12/31/11
ROM 10-12	3/31/10	Implement the appropriate system controls to automatically identify the outstanding balances of all SBA loans made to a borrower to ensure SBA lending limits will not be exceeded upon the approval of a subsequent loan.	7/1/10	9/30/10

Appendix VII: Summary of Significant Recommendations from Prior Semiannual Reporting Periods without Final Action as of September 30, 2011

Report Number	Date Issued	Recommendation	Date of Management Decision	Final Action Target Date
ROM 10-14	4/15/10	Reconcile Recovery Act contract awards reported to FPDS-NG and Recovery.Gov and report to Recovery.Gov all non-competitive contract awards previously not reported to Recovery.Gov including the eight contract actions identified by the Office of Inspector General.	5/3/10	1/31/12
ROM 10-16	6/29/10	Take steps to ensure that no procurement action is taken prior to the approval of an acquisition plan by the AA for M&A.	3/29/11	6/30/11
ROM 10-16	6/29/10	Exclude the CRM contract awarded to Copper River from SBA calculations used to determine the number of 8(a) program contracts and small business contracts for fiscal year 2009.	3/28/11	9/30/11
ROM 10-16	6/29/10	Work with the OCIO to establish measurable outcomes for the CRM initiative and identify the likelihood that a contractor could meet measurable outcomes in contract evaluation criteria for any future contracts under this initiative.	3/28/11	5/15/11
10-12	8/25/10	Repair \$18,960 in guaranties on the 4 loans purchased above the 50-percent guaranty level for which technical assistance was not completed.	3/28/11	5/31/11
10-13	9/2/10	Coordinate with FEMA and HUD to formalize a memorandum of understanding with HUD, which defines the functions of each agency in a manner that is consistent with FEMA's duplicate benefits regulation and other applicable regulations.	1/12/11	12/31/11
10-13	9/2/10	Coordinate with HUD to develop more appropriate procedures to reduce duplication of benefits, including the development of a duplication of benefits instructional guide to be incorporated into HUD's Information Toolkit provided to grantees.	1/12/11	12/31/11
10-14	9/13/10	Revise the LMAS QA plan to incorporate all the components required by the enterprise-wide QA plan.	10/21/10	6/13/10

Appendix VII: Summary of Significant Recommendations from Prior Semiannual Reporting Periods without Final Action as of September 30, 2011

Report Number	Date Issued	Recommendation	Date of Management Decision	Final Action Target Date
10-14	9/13/10	Take steps to hold TestPros accountable for performing the activities specified in its contract.	10/19/10	6/13/10
ROM 10-18	9/22/10	Review each of the 38 identified loans to determine if they were made to eligible companies.	12/17/10	4/30/11
ROM 10-18	9/22/10	Cancel the loan guaranties and collect any associated interest paid to the lenders for any loans that SBA determines were made to ineligible companies.	4/1/11	12/31/11
ROM 10-18	9/22/10	Conduct additional reviews of ARC loans outside the scope of this NFR to identify other loans made to affiliated companies that were inappropriately approved under delegated authority.	12/17/10	4/30/11
ROM 10-19	9/24/10	Reexamine the credit-scoring matrix used by one lender that made 18 of the 32 loans with material deficiencies to ensure it complies with SBA requirements.	10/28/10	3/31/11
ROM 10-19	9/24/10	Implement a process for providing feedback to SBA employees and lenders when deficiencies are identified.	12/17/10	9/30/11
ROM 10-19	9/24/10	Require the lenders to bring the 25 purchased loans with material deficiencies into compliance and recover the \$375,259 in guaranties paid.	4/1/11	12/30/11
ROM 10-19	9/24/10	Flag the other loans that have not yet been purchased to ensure the loan deficiencies are properly addressed at the time of the purchase review.	6/29/11	11/30/11
10-15	9/30/10	Review staffing levels of all the district offices to ensure that BDSs can devote the time needed to adequately service their 8(a) participants.	3/23/11	9/30/11
11-02	11/12/10	Add the mandatory "Minority Code" data field to Tech-Net.	3/2/11	7/31/11
11-02	11/12/10	Designate the "Principal Investigator" and "Agency Solicitation Topic Code" as required data fields ² and inform participating agencies of these designations.	3/2/11	7/31/11

Appendix VII: Summary of Significant Recommendations from Prior Semiannual Reporting Periods without Final Action as of September 30, 2011

Report Number	Date Issued	Recommendation	Date of Management Decision	Final Action Target Date
11-02	11/12/10	Add a database control that prevents agencies from submitting their award data when any of the mandatory data fields are left blank.	3/5/11	4/15/11
11-02	11/12/10	Require participating agencies to submit award information to SBA and other participating agencies at the time of award, as required by SBIR Policy Directive, Section 7(a) (iii).	3/4/11	3/30/12
11-03	11/12/10	Coordinate with SBA program offices to: improve the vulnerability tracking and monitoring process to fully address high and medium risk vulnerabilities for key financial systems; ensure that the vulnerability reports are reviewed and analyzed on a regular basis; periodically monitor the existence of necessary services and protocols running on servers and network devices; and develop a more thorough approach to track and mitigate patch management and configuration management vulnerabilities identified during monthly scans.	12/8/10	4/20/11
11-03	11/12/10	Develop a comprehensive security education and training program for all IT security personnel and a method for monitoring the training program.	2/7/11	6/1/11
11-03	11/12/10	Implement and enforce the procedures documented in SOP 90.47.2 for sanitizing media to be disposed and for maintaining a log of employees who sanitize media to validate the appropriateness of the sanitization process.	3/23/11	4/15/11
11-03	11/12/10	Coordinate with program offices using end-user programs containing sensitive data, such as Personally Identifiable Information and financial data, to implement end-user computing procedures in accordance with the guidance.	1/3/11	4/15/11
11-03	11/12/10	Enforce an organization-wide configuration management process, to include policies and procedures for maintaining documentation that supports testing and approvals of software changes.	2/7/11	4/30/11
11-03	11/12/10	Coordinate with SBA program offices to prevent users from anonymously connecting unauthorized devices by developing and implementing procedures to ensure mandatory domain authentication for IP address issuance.	2/10/11	4/15/11

Appendix VII: Summary of Significant Recommendations from Prior Semiannual Reporting Periods without Final Action as of September 30, 2011

Report Number	Date Issued	Recommendation	Date of Management Decision	Final Action Target Date
11-03	11/12/10	Coordinate with SBA program offices to improve the POA&M review and approval process for key financial systems. In addition, include all unresolved weaknesses on the POA&M (including vulnerabilities identified at service providers).	2/9/11	3/1/11
11-03	11/12/10	Coordinate with SBA program offices to develop and implement procedures for user access reviews to ensure that proper access rights are set for financial subsystems.	2/10/11	4/29/11
11-03	11/12/10	Implement procedures and conduct audits of financial system software changes to ensure all changes are sufficiently approved and tested.	12/8/10	1/31/11
11-05	12/15/10	Update the system's program logic to ensure that qualifying loans with executed due process notices will be automatically referred.	2/10/11	7/14/11
11-05	12/15/10	Work with the Chief Information Officer to perform an analysis of loans charged-off in prior years to identify and correct any DCIA non-compliance issues noted.	2/9/11	7/14/11
11-05	12/15/10	Continue to allocate resources as required to timely address charge-offs.	3/7/11	3/7/11
11-05	12/15/10	Work with the HubZone Program Office Director to develop and implement controls to more effectively monitor the execution of its policies and procedures, particularly related to the authorization of payroll transactions and the performance of leave audits, to ensure that they are being followed (e.g., develop policies that require quarterly audits of leave discrepancies).	3/31/11	12/31/11
11-05	12/15/10	Revise the current methodology to maintain and periodically update SBA's organizational structure, functional statements, and charts. Further, the revised methodology should be documented in the SOP.	3/31/11	9/30/11
11-05	12/15/10	Reinforce, through management training, the importance of properly and fully completing the Separation Checklist.	3/31/11	9/30/11
11-05	12/15/10	Continue work with Colson to implement consistent edit checks so that a meaningful monthly comparison and reconciliation can be made between the errors identified by Colson and those identified by SBA.	4/25/11	1/31/12

Appendix VII: Summary of Significant Recommendations from Prior Semiannual Reporting Periods without Final Action as of September 30, 2011

Report Number	Date Issued	Recommendation	Date of Management Decision	Final Action Target Date
11-05	12/15/10	Work with the Chief Information Officer to conduct an in-depth analysis of the existing Treasury referral protocol to identify and correct the program coding that is preventing the 139 charged-off loans from being automatically referred.	2/10/11	7/14/11
11-05	12/15/10	Work with the Chief Information Officer to implement interim, quarterly monitoring reviews to identify all charged-off loans where the automatic referral did not occur.	2/9/11	7/14/11
ROM 11-01	12/15/10	Ensure the newly implemented Funds Control System has adequate system controls in place to prevent allotments from exceeding apportioned amounts.	2/9/11	2/28/11
11-06	1/28/11	Update the list of Major Systems to include all the interfaces between each system and all other systems and networks, including those not operated by, or under the control of the agency and obtain written Interconnection Security Agreements for every SBA system that has an interconnection to another system.	3/28/11	9/30/11
11-06	1/28/11	Enforce SOP 90-47 2 requirements for contractor background investigations and perform periodic reviews to ensure that SBA contractors have completed the clearance process prior to accessing sensitive information.	3/28/11	3/31/11
11-06	1/28/11	Establish a program at SBA to manage, control and monitor system interconnections throughout their lifecycle. The program should encompass planning, establishing, maintaining, and terminating system interconnections, including enforcement of security requirements.	3/28/11	9/30/11
11-06	1/28/11	Develop configuration management policies and procedures that address purpose, scope, roles, responsibilities, management commitment, coordination among organizational entities, and compliance.	3/28/11	9/30/11
11-06	1/28/11	Develop and maintain a centralized inventory of all agency hardware and software.	3/28/11	9/30/11
11-06	1/28/11	Revise the SBA Certification and Accreditation Program Description procedural document to reflect the risk management framework approach established in NIST SP 800-37, Rev.1, and the current POA&M process.	3/28/11	6/30/11

Appendix VII: Summary of Significant Recommendations from Prior Semiannual Reporting Periods without Final Action as of September 30, 2011

Report Number	Date Issued	Recommendation	Date of Management Decision	Final Action Target Date
11-06	1/28/11	Modify the POA&M reporting tool to comply with the requirements set forth in OMB Memorandum 04-25.	3/28/11	4/30/11
11-06	1/28/11	Develop and test system disaster recovery plans for all of SBA's major systems at least annually and initiate any necessary corrective actions based on test results.	3/28/11	7/30/11
11-07	2/10/11	Recover \$625,880 of DOBs identified in this audit that were improperly returned to borrowers and \$529,444 of DOBs identified in this audit that were outside of the scope of the sample.	4/7/11	12/31/11
11-07	2/10/11	Identify and recover other DOBs improperly returned during FY 2008, FY 2009, and FY 2010.	4/7/11	4/30/12
11-07	2/10/11	Assign the processing of insurance recovery checks to selected individual(s) at each center and provide them training to allow them to become proficient in calculating duplication of benefits.	4/7/11	4/30/12
11-07	2/10/11	Ensure the servicing centers document all of the information related to the decision to return or retain each check for future reference.	4/19/11	4/30/12
11-08	2/25/11	Instruct the contracting officer to immediately terminate contracts: SBAHQ-09-D-0009, SBAHQ-10-D-0001, and Blanket Purchase Agreement (BPA) SBAHQ-10-A-0001 and re-solicit the information technology (IT) hardware and software requirement using full and open competition procedures.	3/30/11	7/1/11
11-08	2/25/11	Implement and provide annual training to contracting personnel on acquisition planning, the appropriate use of North American Industry Classification System (NAICS) codes and the Non-manufacturer Rule.	3/30/11	1/31/12
11-08	2/25/11	Exclude contracts SBAHQ-09-D-0009, SBAHQ-10-D-0001, and Blanket Purchase Agreement (BPA) SBAHQ-10-A-0001 and all associated delivery orders and BPA calls from SBA calculations used to determine the number of 8(a) program contracts and small business contracts for fiscal years 2009 and 2010.	3/30/11	1/31/12

Appendix VII: Summary of Significant Recommendations from Prior Semiannual Reporting Periods without Final Action as of September 30, 2011

Report Number	Date Issued	Recommendation	Date of Management Decision	Final Action Target Date
11-08	2/25/11	Conduct a comprehensive review of data submitted to the Federal Procurement Data System – Next Generation (FPDS-NG) for SBA contracts awarded to iTechnologies, reconcile all discrepancies identified, and correct any inaccurately reported data.	3/30/11	1/31/12
ROM 11-03	3/2/11	Flag all 56 loans to ensure the deficiencies are properly addressed if the loans default and are submitted for purchase. Further, notify the Office of Inspector General of any denials, repairs, withdrawals, or cancellations of SBA’s guaranties made as a result of the deficiencies identified during the purchase reviews.	3/31/11	10/31/11
ROM 11-03	3/2/11	Notify the loan-servicing center responsible for purchasing defaulted ARC loans of the high number of deficiencies identified and require the center to carefully review all ARC loans for compliance with SBA’s requirements during its purchase review.	3/31/11	10/31/11
ROM 11-03	3/2/11	Notify the improper payment review team of the high rate of improper ARC loan guaranties identified during this audit to ensure the proper estimation of improper payments in the ARC loan program.	3/31/11	10/31/11
ROM 11-04	3/22/11	Research the \$21,627,140 in this report to determine whether the award has been made or the funds should be deobligated. This research should result in these actions being posted to FPDS.gov.	10/6/11	6/30/12
ROM 11-04	3/22/11	Perform periodic reviews of grants data reported to USASpending.gov to ensure that data is accurate and complete in compliance with the Transparency Act.	10/6/11	9/30/11
ROM 11-04	3/22/11	Work collaboratively with the CFO to develop and implement a data quality plan that documents processes to ensure timely, accurate, and complete submission of grants data to USASpending.gov.	10/6/11	9/30/11
ROM 11-04	3/22/11	Deploy an independent statistical verification and validation of all SBA transactions awarded and subsequently reported to FPDS.gov.	10/6/11	6/30/12

Appendix VII: Summary of Significant Recommendations from Prior Semiannual Reporting Periods without Final Action as of September 30, 2011

Report Number	Date Issued	Recommendation	Date of Management Decision	Final Action Target Date
ROM 11-04	3/22/11	Research the \$695,157 in this report to determine the disposition of these awards and whether Recovery Act funds were actually used to fund the awards. If not, these awards need to be corrected in PRISM, FPDS.gov, and the contract files.	10/6/11	1/31/12
ROM 11-04	3/22/11	Develop and implement a data quality plan that documents processes to ensure timely, accurate, and complete submission of contracts data to USASpending.gov.	10/6/11	6/30/12
ROM 11-04	3/22/11	Implement continuous monitoring procedures to ensure that contractor-reported information is correct and accurate, and that all prime contractors are accurately reporting the use of subcontractors.	10/6/11	12/31/11
ROM 11-04	3/22/11	Resolve the \$14,792,496 discrepancy shown in this report to determine whether the award has been made or the funds should be deobligated.	10/6/11	9/30/11
ROM 11-04	3/22/11	Deploy vigorous quality controls such utilizing system generated reports to ensure that grant awards are validated and released prior to transmitting grants data to USASpending.gov.	10/6/11	9/30/11
11-10	3/29/11	Develop record designation and retention requirements for all loan servicing documents and coordinate with the Office of Management & Administration to incorporate this guidance into SOP 50 52. The requirements should specify which documents should be designated as records, and therefore retained, and for how long.	6/20/11	8/31/11
11-10	3/29/11	Revise SOP 50 52 to include a requirement to preserve the analyses performed to conduct all servicing actions. A summary of the analysis should be present on the Form 327 and the detail of the analysis should accompany the SBA Form 327 action. The analysis should include sufficient detail to permit an outside party, not connected with the transaction, to verify the accuracy of the decision.	6/20/11	8/31/11
11-10	3/29/11	Refine the electronic recordkeeping system to facilitate usability so that all documents of a specific type and for a specific range of dates can be located and retrieved.	6/20/11	4/15/12

Appendix VII: Summary of Significant Recommendations from Prior Semiannual Reporting Periods without Final Action as of September 30, 2011

Report Number	Date Issued	Recommendation	Date of Management Decision	Final Action Target Date
11-10	3/29/11	Develop written procedures pertaining to the electronic recordkeeping system and specify that all documents associated with active loans are to be included in the electronic recordkeeping system.	6/20/11	8/31/11
11-11	3/31/11	Take the appropriate steps to amend SBA's selection criteria to include errors identified in GC's anomaly reports, data on 8(a) contracting activity, and inquiries to SBA's 8(a) Business Development staff on suspected problems on 8(a) contract execution.	7/7/11	12/31/11
11-11	3/31/11	Take the appropriate steps to amend SBA's selection criteria to eliminate those criteria that do not indicate risk with the contracting activity, i.e. availability to staff within commuting distance.	7/12/11	12/31/11
11-11	3/31/11	Take the appropriate steps to develop and implement a strategy that ensures contracting activities that meet SBA's selection criteria are identified, prioritized on a nation-wide basis, and targeted for a surveillance review.	7/7/11	12/31/11
11-11	3/31/11	Take the appropriate steps to determine (a) the level of effort needed to establish an effective monitoring process for small business procurement activities and (b) the amount of resources needed to implement such a process.	7/7/11	12/31/11
11-11	3/31/11	Take the appropriate steps to request resources from the Agency or through the annual budget process as appropriate (Based on the results from Recommendation #3).	7/7/11	12/31/11
11-11	3/31/11	Revise Chapter 4, How Do I Perform a Surveillance Review? and corresponding appendices, and update SOP 60 02 7, Prime Contracts Program, to modify definitions of rating categories to minimize subjectivity within each rating category, including examples of major and minor deficiencies.	7/7/11	12/31/11
11-11	3/31/11	Revise Chapter 4, How Do I Perform a Surveillance Review? and corresponding appendices, and update SOP 60 02 7, Prime Contracts Program, to include (1) 8(a) Business Development Program specific requirements as identified in the Partnership Agreements and Procedural Notice 8000-632; and (2) 8(a) Business Development Program in Appendix 7, Analysis of Contract Files and Appendix 8, Interview Questions.	7/7/11	12/31/11

Appendix VII: Summary of Significant Recommendations from Prior Semiannual Reporting Periods without Final Action as of September 30, 2011

Report Number	Date Issued	Recommendation	Date of Management Decision	Final Action Target Date
11-11	3/31/11	Revise Chapter 4, <i>How Do I Perform a Surveillance Review?</i> and corresponding appendices, and update SOP 60 02 7, <i>Prime Contracts Program</i> , to establish a formal follow-up process that ensures PCRs receive copies of final reports and follow-up on deficiencies and recommendations.	7/7/11	12/31/11
11-11	3/31/11	Issue written instructions to remind surveillance review teams to address all interview and contract review checklist questions.	7/7/11	12/31/11
11-11	3/31/11	Issue written instructions to remind surveillance review teams to evaluate whether contracting activities are monitoring the performance of work requirements on the contracts that they administer.	7/7/11	12/31/11
11-11	3/31/11	Develop and implement a plan to ensure that surveillance review reports are issued to the contracting activity that was reviewed within a specific timeframe.	7/7/11	12/31/11

Appendix VIII: Summary of Significant Recommendations April 1 - Sept.30, 2011

Date Issued	Report Number	Title	Recommendation
4/7/11	11-12	SBA's Response to the Deepwater Horizon Oil Spill	Develop written procedures to establish performance metrics to assess workload and appropriate onsite staffing levels.
4/7/11	11-12	SBA's Response to the Deepwater Horizon Oil Spill	Establish guidelines for monitoring onsite productivity and adjusting staffing levels in a timely manner.
6/2/11	11-14	SBA's Funding of Information Technology Contracts Awarded to Isika Technologies, Inc.	Establish procedures to discontinue SBA's practice of inappropriately obligating funds on contracts in anticipation of future needs.
6/2/11	11-14	SBA's Funding of Information Technology Contracts Awarded to Isika Technologies, Inc.	Review all ongoing SBA indefinite delivery/indefinite quantity contracts as a part of good financial management practices to ensure that task orders are being issued in accordance with Federal Acquisition Regulation Subpart 165.505 and not as a tool to inappropriately obligate funds.
6/2/11	11-14	SBA's Funding of Information Technology Contracts Awarded to Isika Technologies, Inc.	Determine whether contracting officers violated FAR Subpart 1.602, "Contracting Officers", and if so, take appropriate administrative actions.
6/3/11	11-15	Release of Collateral by the Disaster Loan Servicing Centers	Provide official written notification to direct the Servicing Centers to discontinue the practice of automatically releasing collateral upon borrower request when the loan balance falls at or below the unsecured threshold.
6/3/11	11-15	Release of Collateral by the Disaster Loan Servicing Centers	Provide additional training to servicing center staff to increase proficiency in performing appropriate release of collateral.
6/3/11	11-15	Release of Collateral by the Disaster Loan Servicing Centers	Instruct the approving official to only approve collateral releases that comply with the SOP requirements.
6/3/11	11-15	Release of Collateral by the Disaster Loan Servicing Centers	Instruct the servicing centers to apply net proceeds from the sale of damaged properties to applicable SBA disaster loans.
6/3/11	11-15	Release of Collateral by the Disaster Loan Servicing Centers	Instruct servicing center personnel that when releasing collateral in order to execute a determination initiated by the Processing and Disbursement Center, they accurately report and document the decision.
6/3/11	11-15	Release of Collateral by the Disaster Loan Servicing Centers	Instruct servicing center personnel execute the release of collateral on paid-in-full loans in a timely manner as required by the specific state laws in which the property is located.

Appendix VIII: Summary of Significant Recommendations April 1 - Sept.30, 2011

Date Issued	Report Number	Title	Recommendation
6/29/11	ROM 11-05	Material Deficiencies Identified in Four 7(A) Recovery Act Loans Resulted in \$3.2 Million of Questioned Costs	Seek recovery of \$37,696, plus interest, from UniBank on the guaranty paid by SBA for the loan to Y&C Enterprise, Inc.
6/29/11	ROM 11-05	Material Deficiencies Identified in Four 7(A) Recovery Act Loans Resulted in \$3.2 Million of Questioned Costs	Seek recovery of \$373,532, plus interest, from Chetco Federal Credit Union on the guaranty paid by SBA for the loan to The Henry Group of Oregon, LLC.
6/29/11	ROM 11-05	Material Deficiencies Identified in Four 7(A) Recovery Act Loans Resulted in \$3.2 Million of Questioned Costs	Seek recovery of \$1,445,021, plus interest, from Excel National Bank on the guaranty paid by SBA for the loan to Super 8.
6/29/11	ROM 11-05	Material Deficiencies Identified in Four 7(A) Recovery Act Loans Resulted in \$3.2 Million of Questioned Costs	Seek recovery of \$1,376,641, plus interest, from Excel National Bank on the guaranty paid by SBA for the loan to Days Inn & Super 8.
7/13/11	11-16	Banco Popular did not adequately assess Borrower Repayment Ability when Originating Huntington Learning Center Franchise Loans	Seek recovery of the loan guaranties, less any recoveries, paid in connection with the 10 defaulted loans and their associated lines of credit.
8/22/11	ROM 11-06	Material Deficiencies Identified in Five 7(A) Recovery Act Loans Resulted in \$2.7Million of Questioned Costs	Seek recovery of \$506,250, plus interest, from Heritage Oaks Bank on the guaranty paid by the SBA for the loan to EP&S Enterprises Inc.
8/22/11	ROM 11-06	Material Deficiencies Identified in Five 7(A) Recovery Act Loans Resulted in \$2.7Million of Questioned Costs	Seek recovery of \$191,702, plus interest, from First Coast Community Bank on the guaranty paid by the SBA for the loan to Apex Rentals & Events, LLC and Deonas Boat Works, Inc.
8/22/11	ROM 11-06	Material Deficiencies Identified in Five 7(A) Recovery Act Loans Resulted in \$2.7Million of Questioned Costs	Seek recovery of \$193,500, plus interest, from Valley Bank on the guaranty paid by the SBA for the loan to CAC Leasing, Inc. and CAC, Inc.
8/22/11	ROM 11-06	Material Deficiencies Identified in Five 7(A) Recovery Act Loans Resulted in \$2.7Million of Questioned Costs	Seek recovery of \$106,802, plus interest, from Foster Bank on the guaranty paid by the SBA for the loan to Cover The World Import & Export, Inc.

Appendix VIII: Summary of Significant Recommendations April 1 - Sept.30, 2011

Date Issued	Report Number	Title	Recommendation
8/22/11	ROM 11-06	Material Deficiencies Identified in Five 7(A) Recovery Act Loans Resulted in \$2.7Million of Questioned Costs	Ensure all SBA loan officers involved in the loan approval and purchase processes understand and implement the steps necessary to identify all affiliates and determine their impact on repayment ability, size, and SBA's guaranty percentage.
9/26/11	11-17	Release of Collateral by SBA's Disaster Processing and Disbursement Center Raises Concerns	Provide official written notification to the PDC to discontinue the practice of considering duplication of benefits as the determinant of whether or not to obtain the sales proceeds from the sale of damaged properties.
9/30/11	ROM 11-07	Origination and Closing Deficiencies Identified In 7(a) Recovery Act Loan Approvals	Flag the 10 lender-approved loans with identified deficiencies that pose an approximate \$3 million risk of loss to the SBA to ensure the deficiencies are properly addressed if the loans default and are submitted for purchase. Further, notify the OIG of any denials, repairs, withdrawals, or cancellations of SBA's guaranties made as a result of the deficiencies identified during the purchase reviews.
9/30/11	ROM 11-07	Origination and Closing Deficiencies Identified In 7(a) Recovery Act Loan Approvals	Notify the improper payment review team of the high rate of improper 7(a) loan guaranties identified during this audit to ensure the proper estimation of improper payments in the 7(a) loan program.

Appendix IX: Cosponsored and Other Activities April 1 - Sept. 30, 2011

Event Date	Event Location	Name or Subject of Event	Name of Cosponsor(s)
5/12/11	Chamberlain, SD	Generating Opportunities Under the Small Business Jobs Act of 2010	South Dakota DO - South Dakota Bankers Association, Federal Reserve Bank of Minneapolis, Federal Deposit Insurance Corporation, United States Department of Agriculture, Comptroller of the Currency
6/7/11	Newark, DE	2011 Small Business Week Awards Event	Delaware DO - Delaware Community Development Corporation, DelVal Business Finance Corporation, Mid-Atlantic Business Finance Company
6/3/11	Milwaukee, WI	US SBA 2011 Awards Breakfast	Wisconsin DO - SCORE Southeast WI, Reinhart Boerner Van Deuren s.c., The Business Journal of Greater Milwaukee, Associated Bank
5/12/11	Portland, OR	SBA Small Business Week Celebration & Awards Ceremony	Portland DO - Portland SCORE Chapter #11, U.S. Bank, Wells Fargo, Umpqua Bank, Columbia Credit Union, West Coast Bank, Northwest Small Business Finance Corporation, Evergreen Business Capital, Northwest Business Development Association, Skanska USA Building, Columbia State Bank, Genentech #35, Oregon Small Business Development Center Network, KeyBank, Port of Portland, KBNP Radio 1410, Oregon Business Magazine
5/24/11	New Haven, CT	2011 Small Business Week Celebration	Connecticut DO - Connecticut Small Business -Key to the Future
9/20/11 – 5/21/12	Worland, WY	Worland Business Roundtables	Wyoming DO - Big West Auto Plex, Pascalite, Inc., Northwest College
9/22/11	Torrington, CT	WOW "Women of the World"	Connecticut DO - Northwest CT Chamber of Commerce
5/11/11	Arlington, VA	Small Business Awards Event	Washington DC DO - Tuvin and Tuvin, Ltd.
6/1/11	Albuquerque, NM	New Mexico Small Business Week Awards Event 2011	New Mexico DO - Santa Fe Community College through New Mexico SBDC
5/25/11	Bismarck, ND	Generating Opportunities Under the Small Business Jobs Act of 2010	North Dakota DO - North Dakota Bankers Association, Federal Reserve Bank of Minneapolis, Federal Deposit Insurance Corporation, United States Department of Agriculture - Rural Development, Comptroller of the Currency
6/3/11	Milwaukee, WI	Matchmaking event for small businesses and lenders	Wisconsin DO - WI Housing and Economic Development Authority
6/7/11	Los Angeles, CA	Small Business Week Awards Luncheon	Los Angeles DO - Los Angeles Area Chamber of Commerce

Appendix IX: Cosponsored and Other Activities April 1 - Sept.30, 2011

Event Date	Event Location	Name or Subject of Event	Name of Cosponsor(s)
8/18/11	Denver, CO	12th Annual Small Business Resource Fair	Colorado DO - Denver Public Library, Minority/Women Chambers' Coalition, Denver SCORE Chapter, The State of Colorado, Office of Economic Development and International Trade - Colorado Small Business Development Center, Colorado Office of Economic Development and International Trade - Colorado Minority Business Office, Mi Casa Resource Center Women, Inc. – Women Business Center, Denver Office of Economic Development - Division of Small Business Opportunity
9/27/11 - 9/30/11	Washington, DC	MED Week 2011	HQ/GCBD - Minority Business Development Agency
6/17/11	Plymouth, MA	Entrepreneurial and Educational Expo for Veterans	Massachusetts DO - Plymouth Area Chamber of Commerce
7/11-12/11	San Francisco CA, Charlotte NC, New York NY, Des Moines IA, Providence RI, Toledo, OH	SBA Women's Entrepreneurial Summit Series	HQ/OED - Visa & SCORE
7/11-8/11	World Wide Web	SBA/IRS Telephone/Internet Tax Workshop	North Carolina DO - Internal Revenue Service - North Carolina
7/20/11	Denver, CO	Annual SBA Small Business Newspaper Insert	Colorado DO - Denver Business Journal
7/11-12/11	Honolulu, HI	Doing Business with the Government	Hawaii DO - State of Hawaii Department of Transportation, Honolulu Minority Business Center
8/31/11	Columbia, SC	Small Business Matchmaking: Connecting Small Business Owners with Capital Opportunities	South Carolina DO - South Carolina Department of Commerce - Small & Existing Business Division, South Carolina Bankers Association, South Carolina Credit Union League, U.S. Department of Agriculture, Federal Reserve Bank of Richmond - Charlotte Branch, University of South Carolina - Moore School of Business - South Carolina Small Business Development Center, South Carolina Chamber of Commerce, National Federation of Independent Business – South Carolina

Appendix IX: Cosponsored and Other Activities April 1 - Sept.30, 2011

Event Date	Event Location	Name or Subject of Event	Name of Cosponsor(s)
9/13/11	Albany, NY	2011 Albany Matchmaker	Syracuse DO - New York Business Development Corporation, University at Albany thru the Small Business Development Center, The Business Review, The Albany-Colonie Chamber of Commerce, State Farm Insurance Companies, New York State Contract Reporter
8/29/11	Greensboro, Raleigh, Asheville, NC	Veterans Small Business Conference	North Carolina DO - Fayetteville State Veteran Business Outreach Center
9/29/11	Mission Viejo, CA	SBA High Tech - High Growth Small Business Day	Santa Ana DO - City of Mission Viejo, Mission Viejo Community Foundation
9/19/11-9/21/11	Washington, DC	Women's Business Centers Annual Training Conference	HQ/ED - SCORE, AT&T
8/11/11	Jacksonville, FL	Veterans Small Business Procurement Conference	North Florida DO - University of North Florida SBDC, University of North Florida PTAC
8/18/11	Santa Barbara, CA	Sprit of Small Business Awards Luncheon 9th Annual	Los Angeles DO - Pacific Coast Business Time
8/24/11 9/13/11 9/20/11 9/21/11	Bay County, Okaloosa County, Escambia County, FL	Veterans Small Business Workshops	North Florida DO - Veterans Business Outreach Center, University of West Florida PTAC Pensacola
9/7/11	St. Louis, MO	Empowering Veterans, Inspiring Lives, Improving Our Community	St. Louis DO - BEGIN New Venture Center, Veterans Business Resource Center
9/22/11	Cypress, CA	City of Cypress and the SBA Present Market Insights for Small Business	Santa Ana DO - City of Cypress Economic Development Department
9/14/11	Barre, VT	Barre Small Business Conference	Vermont DO - Vermont Women's Business Center, Barre Area Development, Inc., The Barre Partnership
8/20/11 9/20/11 9/22/11	Billings MT, Bangor, ME, Lac du Flambeau, WI	Growing Economies in Indian Country: Taking Stock of Progress and Partnership Workshops	HQ/ONAA - Federal Reserve Bank of San Francisco
9/11/11-9/14/11	Scottsdale, AZ	"Tribal Tourism: An Economic Force in Indian Country"	HQ/ONAA - American Indian Alaska Native Tourism Association

Appendix X: Legal Actions Summary April 1 - Sept. 30, 2011

State	Program	Jointly with	Alleged Violation(s) Prosecuted	Legal Action
AL	BL	None	The seller of a gas station presented false tax information to SBA and the buyer in order to inflate, artificially, the annual sales revenues of the gas station. The buyer was utilizing an SBA Express loan of \$76,000 to purchase the business.	Seller sentenced to 2 weekends in jail, 12 months home detention, 5 years' probation, 100 hours of community service, and \$120,486.66 in restitution.
AL	GC	Army/CID, DCIS	The owner of a maintenance company is alleged to have falsely obtained HUBZone certification for his company. As a result of the owner's misrepresentations, the company was awarded 28 federal contracts valued at over \$2.5 million, which the company would not have been eligible to receive without HUBZone status.	Owner indicted.
CA	BL	None	The president of three pizza restaurants falsely reported that neither he, nor his businesses, were involved in any pending lawsuits or had any business indebtedness. He made these representations on three separate loan applications for SBA-guaranteed 7(a) loans in the amounts of \$300,000, \$488,000, and \$250,000.	Individual sentenced to 36 months in prison, 36 months supervised release, and was ordered to pay \$2,374,266.44 in restitution.
DC	IA	None	A former SBA program manager used a government travel card to rent automobiles for personal use and forged a supervisor's signature on travel authorizations and vouchers. Because of the employee's false claims, the government paid fraudulent travel costs totaling \$7,919.68.	The former SBA employee pled guilty and was removed from the SBA.
DC	GC	DHS/ICE, GSA/OIG, DOJ/AT	The owner of a design/remodeling business misrepresented her company's background and qualifications and created fictitious documentation of the company's past performance in order to obtain an 8(a) contract with ICE worth approximately \$1.3 million. Once the contract was obtained, the owner submitted invoices to GSA that falsely overstated the number of hours the company had worked on the contract. The falsely inflated invoices resulted in a loss to the government of \$389,738.	Owner pled guilty and was sentenced to 18 months in prison, 36 months' probation, 360 hours of community service, and \$389,738 in restitution.
DC	GC	None	A contractor falsely represented that his company's principal office was located in a HUBZone. Based on this false representation, the company was awarded three contracts with the Department of the Navy.	Company agreed to pay the United States \$200,000 to resolve a civil case.

Appendix X: Legal Actions Summary April 1 - Sept. 30, 2011

State	Program	Jointly with	Alleged Violation(s) Prosecuted	Legal Action
FL	GC	DCIS	Two individuals allegedly created an undisclosed affiliate of a larger company in order to bid on government small business set-aside contracts. The undisclosed affiliate obtained a \$100 million set-aside contract with the Department of Defense for language instruction.	Two individuals indicted.
GA	BL	FBI	The owner of a day care facility conspired with her sister to orchestrate what appeared to be the sale of the school, via a 504 loan package worth \$3,175,000. In reality, the owner never intended to relinquish possession of the school and used the proceeds of the loan to continue to operate the business.	Owner pled guilty to criminal information.
IL	IA	FBI	A former SBA lender relations officer recommended selling 25 delinquent loans for substantially less than they were worth to his stepbrother and his son-in-law. He did not disclose to the SBA the true value of each loan or the familial relationships when making the recommendations.	Former lender relations officer pled guilty. Stepbrother signed a pretrial diversion agreement.
KS	GC	DCIS, GSA/OIG, VA/OIG	The owner of a construction company allegedly falsified his service disability in order to falsely claim that the construction company was a certified Service-Disabled Veteran-Owned (SDVO) small business. In addition, he, along with three other individuals, allegedly misrepresented the relationship between the construction company and a second firm.	Company and four individuals indicted.
LA	DL	HUD/OIG, DHS/OIG, FBI	An individual provided false statements on applications for Hurricane Katrina disaster assistance. Although she owned the property that she claimed as her primary residence, the house was considered unlivable prior to the storm. As a result of her representations, she received \$219,000 in disaster loan funds from the SBA, as well as assistance from FEMA and the Louisiana Road Home Program.	Individual sentenced to 60 months' probation and restitution of \$351,098.69.
LA	DL	None	A pastor was approved for an SBA disaster loan totaling \$969,900 to rebuild his church, which sustained severe damage as a result of Hurricane Katrina. It is alleged that the pastor used loan proceeds to purchase real estate, luxury vehicles, fine jewelry, designer fashions, and other items for his personal use.	Pastor indicted.

Appendix X: Legal Actions Summary April 1 - Sept. 30, 2011

State	Program	Jointly with	Alleged Violation(s) Prosecuted	Legal Action
LA	DL	HUD/OIG	An individual submitted fraudulent documents to the SBA as proof of repairs made to his rental properties, which had been damaged by Hurricane Katrina. He received multiple loan disbursements totaling \$103,100 from the SBA.	Individual indicted and pled guilty.
LA	DL	HUD/OIG, DHS/OIG, USPS/OIG	An individual created fraudulent receipts and documents to reflect repair expenses that she had supposedly sustained as a result of Hurricane Katrina, but which she had not actually incurred. As a result of the fraudulent documents, the SBA increased her disaster loan from \$85,400 to \$108,000.	Individual sentenced to 36 months' probation and immediate restitution of \$46,300.
LA	DL	HUD/OIG	An individual was approved for a \$141,800 SBA disaster loan based on damages to his home caused by Hurricane Katrina. The individual allegedly submitted false receipts to the SBA resulting in him receiving a loan disbursement of \$31,800.	Individual indicted.
LA	DL	None	The manager of a construction company and his wife, the owner of a financial services company, submitted fraudulent cancelled checks and false invoices in support a \$126,300 SBA loan made to their clients, the SBA borrowers. The borrowers received the loan to rebuild and repair their residence, which had been damaged by Hurricane Ike. The borrowers hired the wife's company to negotiate and finalize the SBA loan through a power of attorney agreement. The husband's company was responsible for the repairs to the borrowers' residence.	The manager of the construction company and his wife, the owner of the financial services company, pled guilty.
MD	BL	None	The vice president of a restaurant conspired with the owner of a restaurant equipment outlet to obtain a \$417,000 SBA-guaranteed loan and use some of the proceeds for personal use. The vice president falsely represented that \$295,000 of the loan amount was to be used for renovating leased space; even though, he had already entered into an agreement with the contractor for the work to be performed for \$145,000. The contractor returned \$97,000 of the loan proceeds back to the borrower.	Vice president of restaurant sentenced to 30 months in prison, 3 years supervised release, and restitution of \$150,000.
ME	BL	None	When applying for a \$1.3 million SBA-guaranteed loan, the owner of a medical supply company falsely indicated on the SBA Form 912 that he had no prior criminal convictions.	Owner convicted in a jury trial.

Appendix X: Legal Actions Summary April 1 - Sept. 30, 2011

State	Program	Jointly with	Alleged Violation(s) Prosecuted	Legal Action
MI	BL	USSS	The president of a title company conspired with others to pay kickbacks to brokers and realtors in exchange for them utilizing her title company to conduct residential loan closings.	President sentenced to 1 day in prison, 4 years of supervised release, and an \$8,000 fine.
MI	BL	USSS	The owner of a title company conspired with a loan broker, who recruited “straw buyers” to obtain SBA loans. The owner, while employed as a closing agent at another title company, falsified loan disbursements and equity injections on Housing and Urban Development Settlement statements. The fraudulent loan proceeds were then wire transferred to his employer’s company.	Owner sentenced to 12 months and 1 day in prison and joint restitution of \$5,977,941.57.
MI	BL	USSS	A businessman falsely stated that neither he, nor his company, had ever received an SBA loan. In reality, he had previously received two SBA-guaranteed Express Lines of Credit.	Businessman pled guilty.
MO	BL	FDIC/OIG, FBI	A former bank vice president engaged in approximately 15 fraudulent transactions involving both SBA and non-SBA loans, in order to divert funds to his own personal accounts. His activity resulted in a loss of \$451,763 to the bank.	Former bank vice president pled guilty to a criminal information.
MS	DL	FBI	A husband and wife obtained a \$1 million Hurricane Katrina disaster business loan, and allegedly misused the proceeds, including almost \$390,000 to purchase a 43-foot yacht.	Couple indicted.
MS	DL	HUD/OIG, DHS/OIG, MSGA	An individual allegedly misrepresented the location of his primary residence when applying for Hurricane Katrina disaster assistance from multiple agencies. He was approved for an SBA loan of \$88,000, but only \$10,000 was disbursed.	Individual charged by criminal information.
MS	DL	HUD/OIG, DHS/OIG, MSAO	An individual claimed addresses on her applications for disaster assistance following Hurricane Katrina that were not her primary residence in an attempt to fraudulently receive an SBA disaster home loan of \$43,000, as well as other disaster related benefits.	Individual sentenced to 36 months’ probation and restitution of \$53,790.11. In addition, she repaid the remaining \$43,000 balance on her SBA loan.

Appendix X: Legal Actions Summary April 1 - Sept. 30, 2011

State	Program	Jointly with	Alleged Violation(s) Prosecuted	Legal Action
MS	DL	HUD/OIG, DHS/OIG, MSAO	On his SBA loan application, an individual misrepresented the location of his primary residence in order to secure a \$144,900 disaster home loan. Using the same information, he also received disaster benefits from FEMA and the Mississippi Development Authority.	Individual pled guilty.
NC	BL	USPIS	A mortgage broker, his business partner, and four other individuals were involved in a scheme to defraud the SBA Express loan program and three lending institutions of \$275,000 by obtaining nine SBA loans through the mail. The six individuals applied for small business loans over the internet; never opened any actual businesses; used a fictitious office address then used the SBA loan proceeds for personal use.	Two individuals pled guilty to criminal informations. Four individuals entered pre-trial diversion agreements.
NJ	BL	IRS/CID, ENJPD	A former branch manager of a bank assisted individuals in securing loans by falsifying site visit forms for their businesses. Of the ten loans he brokered, two loans, totaling \$150,000, were SBA-guaranteed.	Manager pled guilty to a criminal information and sentenced to 18 months in prison, 36 months' probation, and \$199,059.50 in restitution.
NJ	BL	IRS/CID, ENJPD	A member of an organized group of Korean nationals obtained a \$50,000 SBA Express loan and a \$100,000 commercial loan allegedly using the identity and financial information of another business.	Individual indicted.
NJ	BL	IRS/CID, ENJPD	A leader of an organized group of Korean nationals brokered 17 SBA-guaranteed loans, resulting in approximately \$800,000 of loss to the SBA, using false identities, documents, or business names.	Individual pled guilty.
NM	GC	FBI	A construction company employee altered another company's HUBZone certification to make it appear to be an authentic HUBZone certification from the SBA. He submitted the falsified certificate to the government in order to obtain a government set-aside contract for his company. The owner of the company knew about the fraudulent certification and encouraged the employee to press forward in order to obtain the contract.	Employee and owner both pled guilty. Employee sentenced to 48 hours in prison, 2 years unsupervised release, and a \$2,000 fine; owner sentenced to 48 hours in prison, 1 year supervised release, and a \$10,000 fine.

Appendix X: Legal Actions Summary April 1 - Sept. 30, 2011

State	Program	Jointly with	Alleged Violation(s) Prosecuted	Legal Action
NY	GC	VA/OIG, Army/CID	The president/CEO of a construction firm falsely claimed Service-Disabled Veteran-Owned (SDVO) status for his company. Based on these misrepresentations, the company was awarded one Veteran Owned (VO) set-aside contract in the amount of \$5,698,000 and three SDVO set-aside contracts totaling \$10,980,690.	President/CEO found guilty by a jury trial of all six counts against him.
TX	DL	None	When applying for a \$196,300 Hurricane Rita disaster business loan, an individual misrepresented his criminal record and submitted fictitious receipts and estimates to the SBA. Of the \$196,300 loan, he used approximately \$50,000 on actual business property and expenses. The remainder was spent to pay off a bankruptcy judgment, finance his daughter's college tuition, and buy a new car and new furniture.	Individual sentenced to 15 months in jail and 4 years supervised release.
TX	BL	FBI	Three individuals allegedly conspired to misrepresent the sources of equity injections and down payments relating to one SBA-guaranteed loan for \$1.835 million to purchase a laundromat and two commercial loans totaling over \$1.3 million to purchase land.	Three individuals indicted.
TX	BL	DHS/ATF	An individual allegedly failed to disclose on the SBA Form 912 that he had been arrested 22 times. Based on this misrepresentation, he received an SBA-guaranteed loan of \$1,724,800 to build a restaurant and gas station.	Individual indicted.
TX	DL	None	An SBA paralegal forged an applicant's signature on loan documents, altered one of her own personal checks by placing the applicant's name on it, and made false entries into an SBA database to support loan disbursement to her own personal checking account. The applicant had originally applied for a \$33,600 SBA disaster loan to replace personal property damaged as a result of Hurricane Ike, but later decided not to take the loan.	Individual sentenced to 2 years and 1 day in prison, 3 years supervised release, and \$33,600 in restitution.
TX	DL	DHS/OIG	A real estate broker, his brother, and his property manager were charged in an invoice scheme relating to approximately \$1 million in SBA disaster loans. The property manager falsely represented that Hurricane Ike had damaged a rental property belonging to the broker. In reality, the rental property had been damaged by a fire prior to Hurricane Ike. It is alleged that the broker submitted about \$680,000 in fraudulent repair receipts and that his brother verified the fictitious repairs to the SBA.	All three individuals indicted. Property manager pled guilty.

Appendix X: Legal Actions Summary April 1 - Sept. 30, 2011

State	Program	Jointly with	Alleged Violation(s) Prosecuted	Legal Action
TX	BL	FBI	A loan broker for a development company misrepresented the cash injection amounts on three separate SBA loans totaling over \$3.7 million. The broker provided the bank with copies of checks from the borrowers that were never cashed by the development company.	Loan broker pled guilty.
TX	GC	Army/CID, IRS/CID, FBI, DCIS, DOJ/AT	A married couple, both former contracting officials with the U.S. Army, allegedly accepted over \$100,000 from an 8(a) participant. In their official capacities, the couple had awarded multiple construction contracts to this 8(a) firm.	Couple indicted.
UT	BL	IRS/CID	The president of a financial services company and his business partner allegedly recruited “straw” borrowers and used the borrowers’ names and good credit to fraudulently obtain four SBA loans and two regular bank loans totaling \$335,000.	Both indicted. Company president pled guilty.
VA	GC	DHS/OIG, DHS/ICE, DOS/DSS, DOL/OIG	The owner of an information services company used falsified documents as a basis for his claim that he was a U.S. citizen when applying for 8(a) status for his company. He also used the same falsified documents to obtain a Department of Defense security clearance.	Owner pled guilty.

Program Codes: BL=Business Loans; DL=Disaster Loans; GC=Government Contracting and Section 8(a) Business Development; IA=Integrity Assurance

Joint-investigation Agency Acronyms: Army/CID=U.S. Army/Criminal Investigation Division; DCIS=Defense Criminal Investigative Service; DHS/ATF=Department of Homeland Security/Alcohol, Tobacco, Firearms, and Explosives; DHS/ICE=Department of Homeland Security/Immigration and Customs Enforcement; DHS/OIG=Department of Homeland Security/OIG; DOJ/AT=Department of Justice/Antitrust Division; DOL/OIG=Department of Labor/OIG; DOS/DSS=Department of State/Diplomat Security Service; ENJPD= Englewood New Jersey Police Department; FBI=Federal Bureau of Investigation; FDIC/OIG=Federal Deposit Insurance Corporation/OIG; GSA/OIG=General Services Administration/OIG; HUD/OIG=Department of Housing and Urban Development/OIG; IRS/CID=Internal Revenue Service/Criminal Investigations Division; MSAO= Mississippi State Auditor’s Office; MSGA= Mississippi State Grant Authority; USPIS=United States Postal Inspection Service; USPS/OIG=United States Postal Service/OIG; USSS=United States Secret Service; VA/OIG=Department of Veterans Affairs/OIG.

Appendix XI: Results of External Peer Reviews

Section 5(a) of the IG Act provides the requirements for reporting the results of peer reviews in OIG Semiannual Reports to Congress. The following information is provided in accordance with these requirements.

Auditing

Generally Accepted Government Auditing Standards (GAGAS) issued by the Government Accountability Office (GAO) require that audit organizations performing audits and attestation engagements in accordance with GAGAS must have an external peer review performed by reviewers independent of the audit organization being reviewed at least once every 3 years.

The OIG did not have a peer review conducted during this semiannual reporting period. The last peer review of the OIG was conducted by the Department of Commerce OIG, which issued its final report on December 18, 2009. The OIG received a rating of “Pass” in that report (federal audit organizations can receive a rating of Pass, Pass with Deficiencies, or Fail). There are no outstanding recommendations from previous peer reviews of the OIG.

The OIG did not conduct a peer review of another OIG during this semiannual reporting period. There are no outstanding recommendations from previous peer reviews of other OIGs conducted by the OIG.

Investigations

Section 6(e)(7) of the IG Act, *Attorney General Guidelines for Offices of Inspector General with Statutory Law Enforcement Authority*, and the CIGIE *Quality Standards for Investigations* require external peer reviews of OIG investigative functions no less often than once every 3 years.

The OIG did not have a peer review conducted during this semiannual reporting period. The last peer review of the OIG was conducted by the Department of Transportation OIG, which issued its final report on May 7, 2009. The OIG was found to be in compliance with quality standards established by the CIGIE and Attorney General guidelines (OIGs can be assessed as either Compliant or Noncompliant). There are no outstanding recommendations from previous peer reviews of the OIG.

On April 14, 2011, we completed our review of the system of internal safeguards and management procedures for the Investigative function of the Office of Inspector General at the U.S. Department of Treasury. Our review found the OIG at Treasury to be in full compliance with the quality standards established by the CIGIE and applicable Attorney General guidelines.

Appendix XII: Office of Inspector General Organization

The OIG is comprised of the Immediate Office of the Inspector General and four divisions: Auditing, Investigations, Counsel, and Management and Policy.

The Auditing Division performs and oversees audits and reviews to promote the economical, efficient, and effective administration of SBA programs and operations.

The Investigations Division manages a program to detect and deter illegal and improper activities involving SBA programs, operations, and personnel. The criminal investigations staff carries out a full range of traditional law enforcement functions. The security operations staff ensures that agency employees and contractors have appropriate background investigations and security clearances to achieve a high level of integrity in the agency's workforce, and that loan applicants and other potential program participants are of good character.

The Counsel Division provides legal and ethics advice to all OIG components; represents the OIG in litigation arising out of or affecting OIG operations; assists with the prosecution of criminal, civil, and administrative enforcement matters; processes subpoenas; responds to Freedom of Information and Privacy Act requests; and reviews and comments on proposed agency policies, regulations, legislation, and procedures.

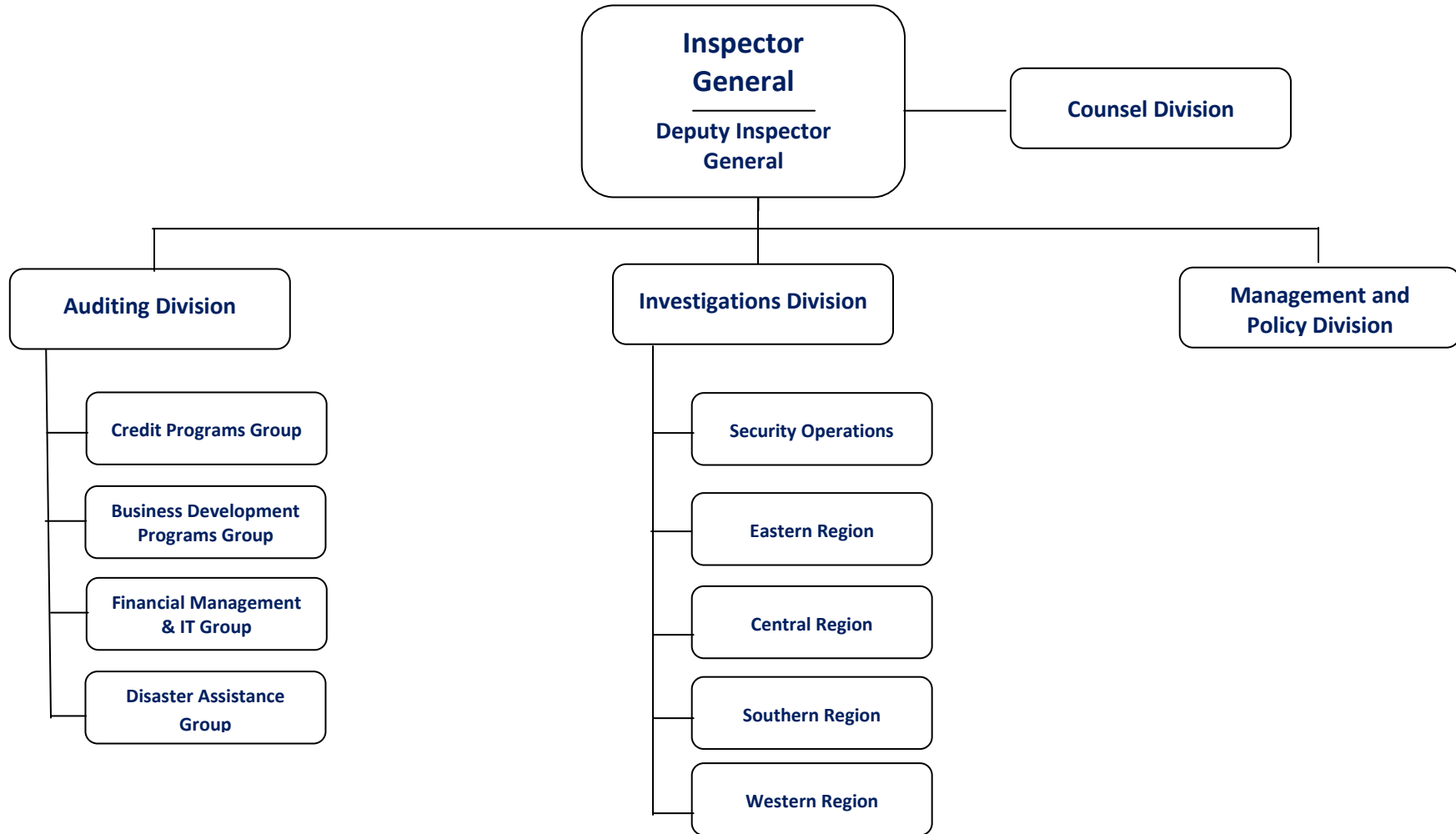
The Management and Policy Division provides business support (e.g., budget/financial management, human resources, information technology, and procurement) for the various OIG functions; coordinates preparation of the OIG's *Semiannual Report to Congress*, *Report on the Most Serious Management and Performance Challenges Facing SBA*, and other OIG-wide reports and documents; and operates the OIG's Hotline.

The OIG is headquartered in Washington, DC, and has field staff located in Atlanta, GA; Chicago, IL; Dallas/Fort Worth, TX; Detroit, MI; Denver, CO; Herndon, VA; Houston, TX; Kansas City, MO; Los Angeles, CA; Miami, FL; New Orleans, LA; New York, NY; Philadelphia, PA; Tacoma, WA; and Washington, DC.

An organization chart for the OIG is shown on page 58.

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Appendix XIII: Office of Inspector General Organization Chart



Make A Difference!

To promote integrity, economy, and efficiency, we encourage you to report instances of fraud, waste, or mismanagement to the [OIG Hotline](#).*

Online:

<http://www.sba.gov/office-of-inspector-general/2662>

Call:

1-800-767-0385 (Toll Free)

Write or Visit:

U.S. Small Business Administration
Office of Inspector General
Investigations Division
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In accordance with Sections 7 and 8L(b)(2)(B) of the Inspector General's Act, confidentiality of a complainant's personally identifying information is mandatory, absent express consent by the complainant authorizing the release of such information.