

# Office of Inspector General

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Small Business Administration

## Semiannual Report to Congress

Spring 2013



October 1, 2012 — March 31, 2013





Small Business Administration

# Office of Inspector General

Washington, DC 20416



I am pleased to present the U.S. Small Business Administration (SBA or the Agency) Office of Inspector General's (OIG) Spring 2013 Semiannual Report to Congress. The report provides a summary of the OIG's activities from October 1, 2012 — March 31, 2013. As our statistics indicate, the OIG's efforts to eliminate fraud, waste, and abuse in SBA programs during this period continue to significantly benefit taxpayers.

During this reporting period, the OIG issued 12 reports containing 97 recommendations for improving SBA operations and reducing fraud and unnecessary losses in the Agency's programs. In addition, OIG investigations resulted in 37 indictments and 23 convictions, and 16 recommendations for suspension and/or debarment. Overall, the OIG achieved monetary recoveries and savings of \$123,004,390 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, fines, and forfeitures; 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 investigations and reviews detailed in this report are highlighted below.

- ◆ The OIG issued its *Report on the Most Serious Management and Performance Challenges Facing the Small Business Administration in Fiscal Year 2013*. Overall, the SBA made improvements in accomplishing recommended actions across the challenges. Six recommended actions were elevated as a result of noted accomplishments by the Agency, while three were downgraded.
- ◆ A loan broker pled guilty to conspiracy to fraudulently obtain over \$100 million in SBA-guaranteed loans. The loan broker admitted that from 2003 until October 2011, he and others under his direction submitted SBA loan applications and supporting documentation to loan originators and underwriters on behalf of their clients that contained fraudulent documents.
- ◆ The OIG issued a report presenting the results of an audit of the SBA Improper Payment Rate for 7(a) Guaranty Purchases for Fiscal Year 2011. The OIG found the SBA reported an improper payment rate of 1.73 percent, or \$40.7 million, in its *FY 2011 Agency Financial Report*, when the rate could have been as high as 20 percent, or about \$472 million.
- ◆ The OIG issued a report pertaining to 417 unauthorized commitments made by the SBA, valued at more than \$1.4 million between November 2010 and May 2012. The OIG found that the total number of unauthorized commitments at the SBA— in the last two fiscal years— greatly exceeded the total number of unauthorized commitments at six other federal agencies of a similar size.

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.

A handwritten signature in black ink, appearing to read "Peggy E. Gustafson".

Peggy E. Gustafson  
Inspector General

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# Table of Contents

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Overview of the SBA and the OIG.....	1
Management Challenges.....	2
Small Business Access to Capital.....	3
Disaster Loan Program.....	7
Procurement Assistance.....	9
Agency Management.....	13
Other Significant OIG Activities .....	18
Statistical Highlights: October 1, 2012 –March 31, 2013.....	22
Appendix I: OIG Reports Issued October 1, 2012 –March 31, 2013.....	24
Appendix II: OIG Reports with Questioned Costs.....	26
Appendix III: OIG Reports with Recommendations that Funds Be Put to Better Use ....	27
Appendix IV: OIG Reports with Non-Monetary Recommendations.....	28
Appendix V: Reports from Prior Periods with Overdue Management Decisions .....	29
Appendix VI: Reports Without Final Action as of September 30, 2012 .....	30
Appendix VII: Summary of Significant Recommendations from Prior Reporting Periods Without Final Action of as March 31, 2013 .....	46
Appendix VIII: Summary of Significant Recommendations October 1, 2012 –March 31, 2013.....	57
Appendix IX: Cosponsored and Other Activities October 1, 2012 –March 31, 2013.....	60
Appendix X: Legal Actions Summary .....	65
Appendix XI: Results of External Peer Reviews.....	72
Appendix XII: Office of Inspector General Organization.....	73
Appendix XIII: Office of Inspector General Organization Chart.....	74

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# Overview

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## The Small Business Administration

The mission of the Small Business Administration (SBA or the Agency) 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 Fiscal Years (FY) 2011-2016 strategic plan has three overarching goals:

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

The SBA has also identified its Priority Goals for FYs 2012-2013, which are: (1) processing business loans as efficiently as possible, (2) increasing small business participation in government contracting, (3) processing disaster assistance applications efficiently, and (4) expanding access to long-term capital by committing at least \$4.3 billion of capital via the Small Business Investment Company program.

The SBA is organized around four key functional areas including financial assistance, contracting assistance, technical assistance (e.g., entrepreneurial development), and disaster assistance. The Agency also represents small businesses through an independent advocate and an ombudsman.

The SBA's headquarters is located in Washington, D.C. with staff in 10 regional offices, 68 district offices, their corresponding branch offices, and 4 disaster field offices to deliver business products and services. There are also six government contracting area offices. The SBA also maintains 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.

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## 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. While SBA's programs are essential to strengthening America's economy, the Agency faces a number of challenges in carrying out its mission, including fraudulent schemes affecting all SBA programs, significant losses from defaulted loans, procurement flaws that allow large firms to obtain small business awards, excessive improper payments, and outdated legacy information systems. The OIG plays a critical role in addressing these and other challenges by conducting audits to identify wasteful expenditures and program mismanagement, investigating fraud and other wrongdoing, and taking other actions to deter and detect waste, fraud, abuse, and inefficiencies in SBA programs and operations.

The OIG's activities also help to ensure that SBA employees, loan applicants, and program participants possess a high level of integrity. This is critical to the proper administration of the SBA's programs because it helps ensure that SBA resources are used by those who deserve and need them the most. Appendix I contains information regarding audit and other reports issued by the OIG during this reporting period. Appendix X contains summaries of investigative actions. Copies of OIG reports and other work products are available on the OIG's website at <http://www.sba.gov/office-of-inspector-general>.

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# Management Challenges

Each year the OIG identifies the most serious management and performance challenges facing the Agency. In accordance with the Reports Consolidation Act of 2000 and Office of Management and Budget (OMB) Circular A-136, the SBA reports this information in its Agency Financial Report (AFR). The Management Challenges represent areas that the OIG considers particularly vulnerable to fraud, waste, abuse, or mismanagement, or which otherwise pose significant risk to the Agency, its operations, or its credibility. Each Management Challenge generally has originated from one or more OIG or Government Accountability Office (GAO) report(s). For each Management Challenge, the OIG provides the Agency

with recommended remedial actions together with an assessment of Agency progress on each recommended action during the preceding fiscal year. If sufficient progress occurs during the previous fiscal year, the OIG awards a higher color score and the arrow indicator shows upward movement.

On October 15, 2012, the OIG issued its [Report on the Most Serious Management and Performance Challenges Facing the SBA in FY 2013](#). The following table provides a summary of those Challenges:

**Table 1 Color Score Status at End of FY 2012**

	Challenge	Status at End of FY 2012				Change from Prior Year	
		Green	Yellow	Orange	Red	Up #*	Down #**
1	Small Business Contracting	1		2		1	
2	IT Security		3	2			
3	Human Capital		1	3		1	
4	Loan Guaranty Purchase		1				
5	Lender Oversight	1	1	1		1	
6	8(a) Business Development Program		1	1	1		
7	Loan Agent Fraud	1	1			1	
8	Loan Management and Accounting System		1		3	1	3
9	Improper Payments – 7(a) program		2	2		1	
10	Improper Payments – Disaster Loan program		1				
11	Acquisition Management (NEW)						
	<b>TOTAL</b>	<b>3</b>	<b>12</b>	<b>11</b>	<b>4</b>	<b>6</b>	<b>3</b>

\*“Up” refers to the number of recommended actions in the challenge that improved..

\*\*“Down” refers to the number of recommended actions in the challenge that declined from a higher color rating.



# Small Business Access to Capital

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The SBA has a financial assistance portfolio of guaranteed and direct loans of nearly \$102 billion. The Agency's largest lending program, the [Section 7\(a\) Loan Guaranty Program](#), is the SBA's principal vehicle for providing small businesses with access to credit that cannot be obtained elsewhere. Proceeds from a 7(a) loan may be used to establish a new business or to assist in the acquisition, operation, or expansion of an existing business. This program relies on numerous outside parties (e.g., borrowers, loan agents, and lenders) to complete loan transactions, with the majority of loans being made by lenders to whom the 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. The OIG continues to identify weaknesses in the SBA's lender oversight processes.

The SBA's [Section 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 the 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.

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## **Criminals use a wide array of methods to fraudulently obtain—or induce others to obtain—SBA-guaranteed loans.**

These techniques include 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. Consequently, there is a greater chance of financial loss to the Agency and its lenders. Some of the methods are described below.

- ◆ The president of a California business was indicted for bank fraud. She allegedly submitted a loan application that failed to disclose personal and corporate debts in order to obtain a \$1,750,000 SBA-guaranteed Recovery Act loan.
- ◆ A Louisiana couple was indicted for conspiracy to commit mail and wire fraud, submitting a false document to a department or agency of the United States, and making a false statement to the SBA. Each of them was also charged with a forfeiture allegation seeking proceeds from the alleged crime. The couple had obtained a \$560,000 SBA-guaranteed loan to purchase a furniture store. However, they allegedly misrepresented the value of the collateral for the loan, sold the collateral business personal property without the lender's knowledge, and falsified their personal financial statements. This case was based on a referral from the SBA National Guaranty Purchase Center.

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## **Early Fraud Detection Working Group and Audit Information Leads to Convictions**

A Virginia man pled guilty to misprision of a felony in connection with a \$1,715,650 SBA loan made to an Ohio tire recycling firm to finance its purchase of tire shredding equipment. The investigation found that he had concealed certain felonies, such as making false statements on a loan application, wire fraud, and bank fraud. He also concealed those felonies from authorities while collaborating with the owner and manager of the Ohio recycling firm. The two men had planned to prepare, manipulate, and submit fraudulent financial documents, packing lists,

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commercial invoices, and bills of lading to a bank and the SBA. In addition, the Ohio man was found guilty of conspiracy, bank fraud, and wire fraud. He had provided false and fictitious application documents, invoices, and other paperwork to a bank and the SBA in order to secure the loan. This case was based on information received from the OIG Early Fraud Detection Working Group and the OIG Auditing Division. This was a joint investigation with the Federal Bureau of Investigation (FBI).

### **Chicago-Area Loan Agent Pleads Guilty to Fraud**

A Chicago-area loan agent pled guilty to bank fraud in connection with multiple residential and commercial loan fraud schemes. One scheme involved a \$1.760 million SBA loan for the purchase of a Chicago gas station and convenience store. The loan agent recruited an unqualified buyer for the station and prepared counterfeit investment account statements, cashier's checks, and a bogus management résumé to make the buyer appear qualified to the lender and the SBA. He also recruited a third party to provide the down payment funds needed by the buyer at closing and directed the use of loan proceeds to repay that third party after the loan closing. The parties inflated the business' contract sales price and used a bogus second mortgage from the seller to obtain 100% financing for the buyer. After loan disbursement, the buyer made one interest-only payment, and the loan defaulted immediately. After liquidation of assets, the total loss to the bank and the SBA exceeded \$1.232 million. The OIG's Early Fraud Detection Working Group provided this referral. This is a joint investigation with the U.S. Postal Inspection Service.

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### **False Equity Injection Places Business Loan Programs at Risk**

A borrower's own financial stake in a business is known as equity (or capital) injection. An individual is less likely to default on a loan if he or she personally has something at risk in the business. When lenders require an injection of such money into pro-

jects financed by guaranteed loans, some borrowers try to avoid this obligation by falsifying the amount or source of these injections, as shown by the following examples.

- ◆ A Texas couple was indicted for conspiracy and wire fraud, and the husband was also charged with making false statements. The indictment included a notice of criminal forfeiture of at least \$280,000 associated with the alleged crimes. The couple had received a \$420,000 SBA-guaranteed loan to purchase a convenience store. However, an anonymous complainant alleged that they did not have adequate funds to pay the required cash injection, thus triggering the investigation. The husband represented to the lender that most of the nearly \$146,400 cash injection was coming from the sale of a previously owned convenience store. In reality, the couple had depleted most of those funds prior to closing on the SBA loan. Moreover, the wife had secured lines of credit from two banks by using different company names. Over \$91,000 of the cash injection was derived directly from these lines of credit. The couple allegedly did not disclose these additional debts to the lender.
- ◆ An Alabama man pled guilty to conspiracy to commit loan fraud in connection with a \$1,529,000 SBA-guaranteed loan used to fund the sale of a business. The \$260,000 equity injection that the buyer was required to pay was actually paid by the seller. The buyer and seller created and submitted false bank statements, checks, and certificate of deposit receipts to represent that the funds used to pay the equity injection were originally a gift from the buyer's grandmother. The OIG's Early Fraud Detection Working Group originally identified this loan for further review because it had defaulted quickly with over \$1,380,000 as the outstanding balance.

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### **Arizona Man Pleads Guilty to Bank Fraud Conspiracy**

An Arizona man pled guilty to conspiracy to commit bank fraud. He falsely obtained two mortgage loans and an SBA loan by using his father's identity. To get the loans approved, he falsely represented that his father owned various properties and businesses, had large amounts of cash on hand, and earned an annual salary of \$110,000. He also submitted altered bank statements and false rental agreements in conjunction with the loan applications. The total loss relating to the SBA Section 504 loan is over \$2,402,000. This is a joint investigation with the FBI.

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### **Virginia Man Pleads Guilty to Conspiracy Including Money Laundering**

A Virginia businessman pled guilty to conspiracy to defraud the United States, conspiracy to commit money laundering, and structuring currency transactions. His earlier indictment stated that the United States will seek a \$17.7 million money judgment against him. To satisfy this judgment, he will forfeit assets including bank accounts and real property. The businessman engaged in a multi-million dollar scheme involving bogus treasury checks and tax returns. He also misrepresented his citizenship status on Section 504 loan documents. The OIG is conducting this investigation jointly with the FBI.

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### **Multiple Legal Actions Result From \$100 Million Scheme**

Seven individuals and one company have been indicted or sentenced during the reporting period in connection with a scheme to fraudulently obtain SBA-guaranteed loans. Specifically, a multiple-count superseding indictment charged a loan brokerage company and four individuals—the two brothers who owned the company, a former owner of a Maryland title company, and an attorney who owns a Virginia title company—for their role in the scheme. The resulting losses totaled over \$100 million.

- ◆ The loan brokerage company and its two owners were each charged with bank fraud, conspiracy to commit bank fraud, money laundering, aiding and abetting, and criminal forfeiture, with one owner having pled guilty to conspiracy to commit bank fraud.
- ◆ The former Maryland title company owner and the attorney were each charged with bank fraud, money laundering, aiding and abetting, and criminal forfeiture. The loan brokerage company—referred to above—had specialized in securing loans for individuals interested in purchasing or refinancing small businesses in the Mid-Atlantic area. One brother encouraged prospective borrowers to use the company's services to apply for SBA 7(a) business loans. He and others allegedly submitted SBA loan applications and supporting documentation containing fraudulent personal financial statements and monthly bank statements to loan originators and underwriters on behalf of the company's clients. The borrower's net worth and equity injection amounts were overstated on the documentation to falsely enhance their creditworthiness.
- ◆ Three individuals in Maryland were each sentenced for conspiracy to commit bank fraud. The first person received 36 months in prison and 3 years supervised release, and agreed to \$13,432,000 in criminal forfeiture. The second person was sentenced to one year and one month in prison, 5 years supervised release, and over \$216,400 in restitution. She also agreed to \$15,725,000 in criminal forfeiture. The third person was sentenced to 36 months in prison, 5 years supervised release, and over \$1,888,200 in restitution. He agreed to a criminal forfeiture of \$18,764,900. The three individuals had altered bank statements, cashiers' checks, and Internal Revenue Service documents to make it appear that the prospective borrowers had more money for their equity injections than they actually did. The OIG is conducting this investigation jointly with the FBI and the U.S. Postal Inspection Service.

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## **IPERA Reporting and the 7(a) Program**

During this reporting period, the OIG's Auditing Division continued its review of SBA's Improper Payments reporting under the Improper Payments Information Act and the Improper Payments Elimination and Recovery Act. The OIG found that the SBA underestimated its improper payment rate related to 7(a) Guaranty Purchases for FY 2011.

The OIG issued a report presenting the results of its audit of the Small Business Improper Payment Rate for 7(a) Guaranty Purchases for Fiscal Year 2011. The OIG audited the improper payment review process that the SBA used to estimate its FY 2011 improper payment rate on purchased loans to determine the accuracy of the Agency's estimate. Specifically, the OIG re-performed the SBA's review of 30 guaranty purchases totaling approximately \$8.9 million from the Agency's sample of 303 guaranty purchases, which totaled \$129.5 million. All of these purchases were made between April 1, 2010, and March 31, 2011, the period that the SBA used to perform its improper payment review for FY 2011.

The OIG found that for 6 of the 30 sampled loans, the SBA did not detect improper payments for estimating its FY 2011 improper payment rate for 7(a) guaranty purchases. This occurred because improper payment reviewers were unfamiliar with or misinterpreted Agency policies, or did not have adequate time to conduct reviews. As a result, the SBA reported an improper payment rate of 1.73 percent, or \$40.7 million, in its FY 2011 Agency Financial Report, when the rate could have been as high as 20 percent, or about \$472 million.

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# Disaster Loan Program

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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. As part of a massive aid effort from Federal agencies, the SBA approves billions of dollars in disaster assistance loans. Unfortunately, the need to disburse such loans quickly may create opportunities for dishonest applicants to commit fraud.

## National Center for Disaster Fraud

The OIG, in conjunction with other law enforcement organizations, formed what is now known as the National Center for Disaster Fraud (NCDF). From FY 2006 through the first half of FY 2013, the OIG, in collaboration with the NCDF, has produced 86 arrests, 95 indictments, and 93 convictions related to wrongdoing in SBA's Disaster Loan program for the Gulf Coast hurricanes. Moreover, OIG investigations in the disaster area to date have resulted in over \$6.6 million in court-ordered restitution and related recoveries. The OIG has also assisted the SBA in denying almost \$4.5 million in loans to potentially fraudulent borrowers.

- ◆ In one case, a Louisiana man pled guilty to making a false statement. He had obtained a \$430,500 SBA disaster loan for the repair of his dental practice, which was destroyed by Hurricane Katrina. According to the SBA Loan Authorization and Agreement, his collateral included the property on which he would operate a surgical practice, as well as the fixtures and equipment that he would purchase using loan funds. However, the property to be used as collateral was in disrepair, with no furnishings, fixtures, or equipment. The man submitted nearly \$56,450 in fraudulent invoices to the SBA

and used Agency funds for living expenses and gambling. He also received \$150,000 from the Louisiana Road Home program based on an application he filed for damages to a home he did not live in at the time of Hurricane Katrina. This is a joint investigation with the U.S. Department of Housing and Urban Development OIG and the FBI.

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## Elaborate Fraud Schemes Persist after Hurricanes Ike and Gustav

Hurricanes Ike and Gustav in 2008 were two of the costliest natural disasters in U.S. history. As with other catastrophes, some individuals devised elaborate schemes to illegally profit from the crisis. For example, a former real estate broker and Houston area bank director was sentenced to 108 months imprisonment and three years of supervised release, and was ordered to pay a \$30,000 fine. He had been approved for \$999,700 in SBA home and business disaster loans. The business loan was approved to repair or replace more than 40 rental properties damaged by Hurricane Ike. However, he submitted inflated and false invoices for repairs to his residence and rental properties to the SBA's Fort Worth (TX) Processing and Disbursement Center (PDC). As a result of his subsequent effort to manipulate property appraisals, the judge revoked his pre-trial release and remanded him into custody for obstruction of justice. This is a joint investigation with the Department of Homeland Security (DHS) OIG. This case was referred to the OIG by the PDC.

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## Texas Man Indicted for Conspiracy and Fraud

The former owner of a bowling alley was indicted for conspiracy to commit offenses against the U.S., fraud in connection with a major disaster, and making a false statement in connection with a federally insured loan. The SBA approved the man's application for a \$998,500 disaster loan related to Hurricane Humberto and an \$885,600 disaster loan related to Hurricane Ike. The owner allegedly submitted false and inflated construction contractor invoices, as well as fabricated check payments supposedly made to

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the contractor. It is also alleged that some of the payments actually made to the contractor by the SBA were kicked back to the owner for his use and benefit. This is a joint investigation with the FBI.

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### **Civil Settlement Results from Arkansas Fraud**

An Arkansas man entered into a \$200,000 civil settlement with the U.S. Attorney's Office (USAO) to resolve issues involving a \$180,400 SBA disaster loan the man obtained for property damage supposedly sustained during the 2008 Arkansas flood. The investigation determined that he made false claims to the SBA by claiming damages to his Arkansas property when his primary residence was in Illinois at the time of the disaster. The settlement stipulated that the SBA would receive nearly \$168,000 for the loan balance and the USAO would receive over \$32,000 in civil penalties.

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### **Disaster Recovery Plan**

In June 2008, Congress enacted the Small Business Disaster Response and Loan Improvements Act of 2008 (the Act). The Act placed new requirements on the SBA to better ensure it was prepared to respond to catastrophic disasters, which included a requirement for the SBA to conduct a disaster simulation exercise at least once every two years.

On April 7, 2010, the Agency conducted the Senior Leader's Seminar and Tabletop Exercise to test the Disaster Recovery Plan and the SBA's readiness to respond to disasters from multiple perspectives. During this reporting period, the OIG issued a report related to the SBA's Disaster Recovery Plan that included one finding and four recommendations

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### **Insufficient Staffing and Mobilization Strategies Impair SBA's Disaster Readiness**

This report addressed the SBA disaster assistance program's staffing and mobilization activities to determine its readiness to respond to a large-scale event. Specifically, the OIG examined whether the SBA maintained a sufficient workforce to respond to a catastrophic event equivalent to the 2005 Gulf Coast Hurricanes. The OIG determined that it would be a challenge for the SBA to provide timely, quality assistance to disaster victims during a catastrophe similar to the 2005 Gulf Coast Hurricanes. Based on the Agency's projections, the Office of Disaster Assistance (ODA) would need to acquire an additional 2,400 employees to respond effectively to a disaster of such magnitude. The OIG also determined that the ODA does not have a process or written procedures to accurately identify the number of reserve staff available to respond to disasters.

The OIG recommended that the Agency (1) develop a plan that ensures the biennial simulation exercise includes an assessment of human capital necessary to respond to the level of disaster selected for the simulation exercise scenario, (2) implement a corrective action plan to address deficiencies identified during the biennial simulations, (3) develop a process that accurately identifies the total number of reserve staff available for mobilization and specifies the frequency of such an analysis, and (4) develop written procedures that define ODA's process for determining the number of reserve staff available to respond to disasters.

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# Procurement Assistance

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## Small Business Development & Contracting Programs

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 Section 8(a) Business Development Program.

The SBA also negotiates with other federal agencies to establish agency-specific goals for small business 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.

### **Major Bribery Case Involving Over \$2 Billion in U.S. Army Corps of Engineers (USACE) Contracts Continues**

An ongoing multi-agency investigation thus far has resulted in 8 individuals having been sentenced and 16 individuals and one company having been charged in a scheme involving more than \$30 million in bribes and kickback payments. The conspiracy included the use of a \$1.3 billion Alaska Native Corporation (ANC) sole source contract to pay for the bribes and the planned steering of a \$780 million government contract to a favored Section 8(a) program participant.

The individuals involved have thus far pled guilty to bribery, conspiracy, money laundering, and other charges. They include a government official, executives of 8(a) contractors, and employees of the ANC contractor. This is a joint investigation with the FBI, Internal Revenue Service (IRS) Criminal Investigation (CI), U.S. Army Criminal Investigation Command (CID), and the Defense Criminal Investigative Service (DCIS). The following legal actions illustrate the extent and complexity of the conspiracy.

- ◆ The owner of a Virginia construction management firm was sentenced to 70 months of incarceration, 36 months of supervised release, and over \$9.4 million in joint restitution. The man had conspired to conduct financial transactions and to conceal from law enforcement and tax authorities the proceeds of a bribery scheme. He also conspired to use such proceeds unlawfully to obtain real property, vehicles, and luxury items for his personal benefit. Finally, he caused his firm to submit fictitious purchase orders and invoices to a prime contractor in order to obtain payments from the U.S. Army Corps of Engineers (USACE) for government contracts. The prime contractor is an SBA-certified ANC program participant.
- ◆ The president of a Maryland technology firm was sentenced to 33 months of incarceration, 36 months of supervised release, and nearly \$985,000 in restitution. The man had used the firm to directly and indirectly pay approximately \$626,000 of fraudulent proceeds to a USACE program manager. Subsequently, the program manager directed the business to retain approximately \$245,000 of the fraudulent proceeds. The business is an SBA-certified 8(a) program participant.
- ◆ The director of contracts of an ANC was sentenced to 87 months of incarceration, 36 months of supervised release, and over \$9.4 million in restitution to be paid jointly and severally with two co-conspirators. The director had given, offered, and promised over \$7 million, directly and indirectly, to the USACE program manager in return for his approval of contracts and sub-

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contracts through the USACE and the ANC to a construction management firm. In addition, the director of contracts, as a prime contractor employee, solicited, accepted, and attempted to accept kickbacks in excess of \$1 million from subcontractors in exchange for awarding contracts and providing favorable treatment.

- ◆ The owner of two technology firms was sentenced to 27 months incarceration, 36 months supervised release, and 500 hours of community service. The owner and others enriched themselves through awards made by the USACE to the two firms. He gave the program manager \$290,000 in return for approving the award of contracts and subcontracts to the two firms, one of which is an SBA-certified 8(a) program participant.
- ◆ A Maryland business owner was sentenced to 24 months of incarceration, 36 months of supervised release, and nearly \$612,000 in restitution to be paid jointly and severally with two other defendants. He and others had conducted financial transactions in an effort to conceal bribe payments from law enforcement and tax authorities. The bribe payments were made to USACE officials in return for preferential treatment on 8(a) contracts. He had conspired to unlawfully transmit or cause to be transmitted nearly \$612,000. Of that amount, his company retained over \$83,000 and paid approximately \$528,500 to his brother, who was a USACE official.
- ◆ The son of a former USACE program manager was sentenced to 37 months of incarceration, 36 months of subsequent supervised release, and \$401,000 in restitution. He had conspired with his father to launder the proceeds of this scheme. His father, as a public official, had received and accepted things of value personally and for other persons in return for funding and approving contracts. The father also provided preferential treatment to these contractors and subcontractors for contracts awarded and to be awarded through the USACE.

- ◆ Three officers of technology firms and one of the firms itself were charged in connection with the bribery scheme involving USACE officials and their preferential treatment for 8(a) contracts. First, an officer was charged with bribery of a public official, conspiracy to commit bank fraud, aiding and abetting, and causing an act to be done. He was also charged with defrauding lenders by obtaining mortgage loans on properties using false loan applications, forged documents, and fraudulent settlements to generate large cash proceeds. He later pled guilty. Second, an 8(a) company was charged with conspiracy and bribery of a public official. Third, the president of that company was charged with conspiracy to commit bribery of a public official. Finally, an officer of another firm was charged with conspiracy to commit wire fraud. He later pled guilty.

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To gain preferences in obtaining federal contracts, some businesses misrepresent their eligibility for the Service-Disabled Veteran-Owned Small Business (SDVOSB), Historically Underutilized Business Zone (HUBZone), and Section 8(a) Business Development Programs. Investigations by the OIG and other federal organizations have identified 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 demonstrate the nature of the problem.

- ◆ The co-owner of a Massachusetts construction firm was indicted for wire fraud and conspiracy to defraud the United States. Allegedly the company falsely claimed SDVOSB status and has been awarded over \$100 million in SDVOSB set-aside contracts. Moreover, the co-owner is alleged to have falsely certified that service-disabled veterans were the president and majority owner(s) of the firm when he was the one who actually founded and operated the business. He is neither veteran nor service-disabled. This is a joint investigation with the



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Department of Veterans Affairs (VA) OIG, General Services Administration (GSA) OIG, and Army CID.

- ◆ The owner of a Kansas construction firm was sentenced to 87 months in prison and 3 years of supervised release in addition to a personal forfeiture judgment of over \$6.8 million. He had previously pled guilty to conspiracy, major program fraud, wire fraud, money laundering conspiracy, and making false statements. He and his business fraudulently claimed SDVOSB status to obtain 11 federal government contracts valued at approximately \$6.8 million, which they would otherwise not have been entitled to receive. The owner also admitted to providing the VA contracting officer with a fraudulent résumé in which he claimed to have served three tours in Southeast Asia as a highly decorated U.S. Army officer. Government records showed that he never left Missouri during his service in the Army and Missouri National Guard. This is a joint investigation with the GSA OIG, the VA OIG, and DCIS.
- ◆ The owner of a Texas firm was indicted for wire fraud and aggravated identity theft. A referral from the GAO alleged that the firm was falsifying documents to establish its status as an SDVOSB and as an architectural and engineering firm. The owner allegedly falsified the credentials of his company's engineers, as well as his company's office locations, number of employees, and past projects. The VA awarded the firm an SDVOSB set-aside contract and ten task orders with a cumulative value of nearly \$1.6 million. The OIG is conducting this investigation jointly with the VA OIG.
- ◆ Two firms and their owners agreed to pay \$6,250,000 to resolve allegations that they submitted false statements to the SBA and false claims to the U.S. Army. The settlement resolves allegations that the companies and their owners made false statements to the SBA to obtain certification as a HUBZone company. The firms and their owners then used this certification to wrongfully obtain Army contracts to

build a courthouse in Kentucky and to complete maintenance/repairs to Army facilities. One firm submitted an application to the SBA representing itself as a small business with its principal place of business in a HUBZone even though the firm's office identified on the application was vacant office space with no employees. The firm actually operated out of the second business's headquarters, which was not located in a HUBZone area. Neither owner disclosed that the first business did not operate as an independent company but instead shared facilities, equipment, personnel, insurance, and bonding with the second firm. This is a joint investigation with the DCIS.

- ◆ Five individuals pled guilty to various charges in connection with fraudulently obtaining over \$31 million dollars in 8(a) and small business set-aside contracts. The principals of two Virginia companies had falsely represented to the government that one firm was eligible for the 8(a) program when it really was operated and controlled by the second firm. The former owner of the second (and controlling) firm pled guilty to major fraud against the Government and conspiracy to commit bribery in connection with paying a DHS employee \$50,000 to help the first firm obtain DHS contracts. He also agreed to forfeit \$6.3 million in proceeds of the crime. In addition, the former president of the same firm pled guilty to major fraud against the Government, and the firm's former vice president and chief financial officer each pled guilty to conspiracy to commit major fraud against the Government. Finally, the former owner of the first firm pled guilty to major fraud against the Government and agreed to forfeit \$1.2 million in proceeds of the crime. This is a joint investigation with the National Aeronautics and Space Administration OIG, DCIS, and DHS OIG.

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**Benefits of Mentor Protégé Joint Ventures are Unknown: Robust Oversight is Needed to Avoid Abuse and Assure Success**

In an audit of the SBA’s Mentor Protégé Program, the OIG found that the SBA lacked performance measurements for joint venture arrangements and did not effectively oversee 8(a) firms that have joint venture agreements. As a result, the SBA did not have the information necessary to determine whether mentor protégé joint ventures benefitted the 8(a) participant.

This lack of information weakened SBA’s ability to effectively oversee and assess the development of 8(a) participants with mentor and protégé joint venture agreements and increased the risk of program abuse by participants.

The OIG made six recommendations that included developing measurable outcomes, oversight procedures, and an information system to ensure that protégés benefitted from joint venture agreements. The OIG also provided a sample evaluation model, as provided below.

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**Approval of SBDC Surveys**

In December 2004, Congress amended the Small Business Act to restrict the disclosure of information regarding individuals or small businesses that have received assistance from a Small Business Development Center (SBDC), and further restrict the Agency’s use of such information. The provision also re-quires 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, 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 conduct a survey of SBDC clients using a form cleared by the OIG during the first half of FY 2013.

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**Sample Model for Evaluating Joint Venture Agreements' Components**

Contexts (program setting)	Inputs (available resources)	Program Processes	Program Results
Legal Authorities	The Joint Venture Agreement (allows the establishment of the relationship)	Approval of Mentor-Protégé agreement	Output- Contract Deliverables Completed
Program Purpose-To develop the protégés' lacking capacity (i.e. management, labor, equipment)	Servicing by Specialists to 8(a) Firm	Approval of joint venture agreement	Outcome- Capacity to perform the contracts and capabilities gained by the Protégé, e.g.,
Internal Controls-SOP, Code of Federal Regulations (CFR) Requirements, Authorization and Annual Reviews	Operational Database to track the program	Internal Controls-SOP, CFR, Annual Reviews	◆ enhanced contract negotiation techniques, project management skills for larger projects,
Split Oversight Responsibility; Program Management and Field Operations	Sufficient and Qualified Staff	Specialists monitor whether mentors provide capacity needs to the joint venture arrangements	◆ proposal preparation, learning more complex accounting systems, etc.

# Agency Management

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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.

## **Former SBA Employee Sentenced for Purchase Card Misuse**

An Alabama woman formerly employed by SBA was sentenced to 4 months incarceration, 36 months supervised release (including four months of home detention), and almost \$50,000 in restitution after pleading guilty to fraud by wire. The investigation revealed that she had made over \$30,000 of personal and unauthorized purchases by using the SBA Alabama District Office's government purchase card. She also filed about 59 false travel vouchers, resulting in her receipt of almost \$22,000 from the SBA that she should not have received. Finally, she made unauthorized purchases on her government travel card of over \$3,300.

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## **SBA's Inappropriate Contracting Practices to Reconfigure Space for the Office of International Trade**

The OIG issued an advisory memorandum presenting the results of the audit of the SBA's procurement process used to reconfigure space for the Office of International Trade (OIT). This was the second of two audit reports related to the reconfiguration of OIT's office space. The first report addressed the SBA's inappropriate use of the government purchase card for construction purchases. Specifically, SBA personnel with purchase card authority had inappropriately purchased \$34,044.77 in construction transactions at the SBA Washington, DC area offices. In the second report, the OIG determined that the Contracting Officer's Representative (COR) inappropriately authorized the use of an existing contract to complete the OIT reconfiguration, and in doing so exceeded his authority. Additionally, the COR did not develop a Statement of Work to ensure the requested work was completed in accordance with

SBA's requirements. Further, the COR and Contracting Officer (CO) did not review and approve the OIT invoice for the reconfiguration work in accordance with federal and SBA's policy.

The OIG made four recommendations that include implementing procedures for invoice review, maintaining supporting documentation of contract actions, and initiate appropriate administrative actions.

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## **The SBA's 417 Unauthorized Commitments Impacted Mission-Related Services and Increased Costs**

During this reporting period, the OIG issued a second report pertaining to the *Small Business Administration's Unauthorized Commitments*. The first report addressed four unauthorized commitments associated with an expired postage meter contract for which the SBA ratified the unauthorized commitments without determining whether unobligated funds were available when the unauthorized commitment initially occurred. In the second report, the OIG determined that the SBA received invoices associated with 417 unauthorized commitments, valued at more than \$1.4 million between November 2010 and May 2012.

The OIG found that the total number of unauthorized commitments at the SBA— in the last two fiscal years— greatly exceeded the total number of unauthorized commitments at six other federal agencies of a similar size. Further, the OIG believes that the 417 unauthorized commitments directly affected the ability of the Agency to procure goods and services for its daily operations legally and efficiently, and limited its ability to provide needed support to small businesses. Lastly, the process of ratifying the large number of unauthorized commitments required additional staff resources and increased operating costs for the Acquisition Division. The OIG recommended seven actions to improve contract management at the SBA and significantly decrease the total number of future unauthorized commitments.

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### **The SBA Mismanaged Certain 8(a) Information Technology Contracts**

During this reporting period, the OIG issued the third report on the SBA's Procurement of Information Technology Hardware and Software from Isika Technologies, Inc. (iTechnologies). The first report addressed the planning and award of contracts to iTechnologies, while the second report addressed whether SBA officials properly funded contracts awarded to iTechnologies for the procurement of IT hardware and software. The third report addressed whether the prime contractor and its subcontractor performed contract requirements in accordance with 8(a) program policies, guidance, and statutory requirements. The OIG also determined whether the SBA's contracting personnel administered IT contracts in accordance with federal and SBA policies, guidance, and statutory requirements.

The OIG found that the SBA did not adequately manage IT hardware and software contracts awarded to iTechnologies. Specifically, the OIG determined that:

- ◆ Contractor misrepresentations and contracting personnel's lack of due diligence caused the SBA to inappropriately award and administer 8(a) contracts to iTechnologies.
- ◆ Contracting personnel at the SBA did not properly administer the contracts, as they did not conduct price reasonableness analyses for contracts awarded to iTechnologies.
- ◆ Deficiencies within the SBA's invoicing procedures established an environment susceptible to improper payments.

As a result, the SBA overpaid for IT hardware and software by approximately \$343,854. Further, the SBA improperly paid 100 percent of iTechnologies' invoices. To address these findings the OIG made 15 specific recommendations.

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### **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 audit by the Inspector General, who shall report his findings to Congress. According to the SBA's Office of Strategic Alliances, the SBA accepted one cash gift in the amount of \$10,000 during this semiannual reporting period. The OIG will audit this gift in accordance with Section 4(g)(2).

In compliance with the Small Business Act, the OIG conducted an audit of the cash gift of \$16,786 that was recorded in the Business Assistance Trust Fund (BATF) during the previous reporting period. That report is under review and pending issuance.

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### **Cosponsorships 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 cosponsorships 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 October 1, 2012, and March 31, 2013, the Administrator—through her approved designees—fully executed 57 cosponsorship agreements.

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Each year, the OIG contracts with an Independent Public Accounting (IPA) firm to conduct the annual audit of the Small Business Administration's consolidated financial statements and accompanying reports on internal control and compliance with the laws and regulations for the fiscal year ending September 30, 2012. Three separate documents are provided in support of this work, including the Financial Statements Audit Report, the Management Letter, and the Special Purposes Financial Statements Audit Report.

### ***Financial Statements***

The OIG contracted with an independent public accounting (IPA) firm to audit the SBA's consolidated financial statements as of September 30, 2012, and for the years then ended.

The auditor's report includes an opinion on SBA's financial statements, internal control over financial reporting, and compliance and other matters that have a direct and material effect on the financial statements. The auditor issued an unqualified opinion on SBA's fiscal year 2012 consolidated financial statements. In summary, the auditor found:

- ◆ The financial statements were fairly presented, in all material aspects, in conformity with U.S. generally accepted accounting principles and no material weaknesses in internal control existed.
- ◆ A significant deficiency related to SBA's information technology security controls, which is a repeat condition.
- ◆ One instance of noncompliance with laws and regulations related to the Debt Collection Improvement Act of 1996, which is also a repeat condition.

The OIG provided a draft of the auditor's report to SBA's Chief Financial Officer (CFO) who concurred with its findings and recommendations and agreed to implement the 24 recommendations.

### ***Management Letter***

On December 12, 2012, the OIG issued the Management Letter-SBA's FY 2012 Financial Statement Audit. The IPA's management letter includes information related to non-reportable findings discovered during the IPA's audit of SBA's FY 2012 financial statements.

The IPA noted 12 matters involving internal controls and other operational matters that included: (1) inadequate review of SBA's return on assets re-estimate cash flow models; (2) improvement needed in the documentation of the obligations review process; (3) inadequate controls over the 7(a) 1502 error process; (4) inadequate documentation of policies and procedures for the microloan program; (5) loan file documentation not retained in loan files; (6) untimely processing of Microloan transactions and improper intermediary lending pilot program disbursements; (7) untimely site visits for loan defaults; (8) untimely processing of charge-off loans; (9) untimely post-purchase and charge-off reviews; (10) inadequate and untimely follow-up on corrective actions; (11) improvement needed in time and attendance authorization, review, and certification processes, and (12) improvement needed in the employee separation process. The IPA made 25 recommendations to which agency officials or designees agreed to implement or have already taken action to address the underlying conditions.

### ***Special-Purpose Financial Statements***

The IPA issued its Independent Auditors' Report on the SBA's reclassified balance sheet as of September 2012 and 2011, and the reclassified statements of net costs and changes in net position and Federal trading partner note for the year then ended. The auditor found that the statements, including the Federal trading partner note, presented fairly in all material respects, the financial position of the SBA as of September 30, 2012 and 2011. Also, the results of operations and the changes in net position for the period then ended are in accordance with U.S. generally accepted accounting principles, and in conformance with the requirements of the Treasury Financial Manual, Part 2, Chapter 4700.

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## Improvements in IT Security Found During Federal Information Security Management Act Review

Each year, the OIG reports on the effectiveness of the Agency’s information security program in accordance with OMB criteria. For FY 2012, the OIG was required to report on the: 1) continuous monitoring management; 2) configuration management; 3) identity and access management; 4) incident and response reporting; 5) risk management; 6) security training; 7) plan of actions and milestones; 8) remote access management; 9) contingency planning; 10) contractor systems, and 11) security capital planning.

The OIG found that the SBA continues to show improvement in its IT Security Program. Specifically, the SBA showed improvement in the areas of incident response and risk management, continues to meet requirements in the area of security capital planning, and needs to make significant improvement in the area of configuration management.

### Status of FISMA Compliance Areas at the End of FY 2012

Continuous Monitoring	<input type="checkbox"/>
Configuration Management	<input type="checkbox"/>
Identity Management	<input type="checkbox"/>
Incident Response	<input checked="" type="checkbox"/>
Risk Management	<input checked="" type="checkbox"/>
Security Training	<input type="checkbox"/>
POA&M	<input type="checkbox"/>
Remote Access	<input type="checkbox"/>
Contingency Planning	<input type="checkbox"/>
Contractor Systems	<input type="checkbox"/>
Security Capital Planning	<input checked="" type="checkbox"/>

Fully Met    Mostly met    Partially met    Not met

## The SBA’s Loan Management and Accounting System—Incremental Improvement Projects

During this reporting period, the OIG completed its review of the SBA’s efforts to modernize its Loan Management System and migrate off the mainframe environment. Since 2004, a significant management challenge facing the SBA has been the modernization of the loan accounting process.

The OIG found that the SBA successfully migrated the data-entry of over 44% of its loan and lending transactions from mainframe data-entry to web-based data-entry. This was the first step in fully migrating off SBA’s legacy mainframe and utilizing updated technology. During the review, the OIG also found that the:

- ◆ SBA did not have an incremental improvement project to migrate its newly created COBOL code into production.
- ◆ Root Cause Analysis Project was altered from its initially approved project.
- ◆ User Interface Migration Project screens were not security tested and validated.
- ◆ Quality Assurance and Independent Verification and Validations programs did not exist.

The OIG issued five findings that put the development of this project at risk for not meeting the needs and expectations of the SBA, the OMB, and Congress. The OIG also issued six recommendations.

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## IPERA

The Improper Payments Information Act of 2002 (IPIA) requires agencies to review and identify those programs susceptible to significant improper payments; report on the amount and causes of improper payments; and develop plans for reducing improper payments. Provisions of the Improper Payments Elimination and Recovery Act of 2010 (IPERA) amended the IPIA by providing alternative improper payments measures, expanding the requirements for corrective action plans, and increasing the scope of recapture audits for all payments and program activities in excess of \$1 million. The IPERA guidance further requires that each OIG annually review its agency's improper payments reporting within 120 days of issuing its Agency Financial Report (AFR).

During this reporting period, the OIG evaluated the adequacy of SBA's compliance with IPERA and OMB's implementing guidance. Specifically, the OIG determined whether the SBA addressed required provisions and performed limited testing of compliance with these provisions. The OIG also reviewed the completeness of improper payments disclosures in the SBA's Agency Financial Report for FY 2012, and assessed the Agency's efforts to prevent and reduce improper payments.

The OIG found that the SBA was generally compliant in meeting the minimum requirements, in accordance with OMB guidance. Further, the OIG found that the SBA's efforts to prevent and reduce improper payments have resulted in significant progress since the FY 2011 assessment. Specifically, the Disaster Assistance Loan Program made progress through the deployment of improved controls and process improvements, which reduced its improper payments rate from 28.4 percent in FY 2011 to 17.9 percent in FY 2012.

In addition, the 7(a) and 504 programs improved their testing procedures for loan guaranty approvals. The revised procedures were more robust and led to the identification of more improper payments during the testing process. As a result, the improper payments estimate increased from \$0 in FY 2011 to \$233 million and \$105 million, respectively, in FY 2012.

Notwithstanding these accomplishments, further improvement is still needed in the effectiveness and development of SBA improper payment controls and processes for all the programs or activities.

The OIG also assessed whether the SBA complied with IPERA reporting requirements, as specified in OMB guidance. This guidance requires a limited review of controls over Agency reporting. The OIG found that the SBA generally met all the IPERA reporting requirements. However, the Disaster Assistance Loan Program was not compliant since its improper payment rate exceeded the 10 percent threshold. In addition, three of the five programs or activities did not achieve their annual reduction targets. The OIG's review of the SBA's reported improper payments for acquisitions identified discrepancies in that certain payments with documentation errors were excluded from those calculations. Agency representatives have not adequately explained these exclusions.

### IPERA Evaluation by Program or Activity

SBA Program or Activity	Overall FY 2012 Assessment
Disbursements and Contracting	▣ ↑
7(a) Loan Guaranty Approvals	▣ ↑
7(a) Loan Guaranty Purchases	▣ ↑
504 Loan Guaranty Approvals	▣ ↑
Disaster Loan Disbursements	▣ ↑

#### Legend

- ▣ Outstanding Progress
- ▣ Substantial Progress
- ▣ Limited Progress
- No Progress

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# Other Significant OIG Activities

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## Character Screening Lessens Potential Fraud

Participants in SBA programs that encompass business loans, disaster assistance loans, Section 8(a) certifications, surety bond guarantees, SBICs, and CDCs must meet Agency character standards. To help accomplish this, 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 2,382 external name check requests for these programs.

In addition, the OIG refers applicants who appear ineligible because of character issues to program officials for adjudication. As a result of OIG referrals during this reporting period, SBA business loan program managers declined 19 applications totaling nearly \$13.2 million, and disaster loan program officials declined 21 applications totaling nearly \$1.4 million. Moreover, the Section 8(a) program declined five applications for admission.

During this reporting period, the OIG initiated 167 background investigations and issued 14 security clearances for SBA employees and contractors. Likewise, the OIG adjudicated 83 background investigative reports and coordinated with SBA's Office of Disaster Assistance to adjudicate 40 derogatory background investigation reports. Finally, the OIG processed 2,084 internal name check requests for SBA activities such as success stories, "Small Business Person of the Year" nominees, and disaster assistance new hires.

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## Suspensions, Debarments, and Other 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. These actions 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. 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.

During this reporting period, the OIG sent 16 suspension and debarment referrals to the SBA. Additionally, OIG investigations resulted in 13 suspension or debarment actions at other agencies. The SBA OIG also referred several other entities for program termination and other administrative enforcement actions. (The Statistical Highlights section of this Report contains additional suspension and debarment statistics.)

The following paragraphs provide examples of OIG referrals for administrative enforcement actions and other actions during the reporting period.

### 8(a) Contractor and Individual Suspended

The SBA suspended an 8(a) contractor and individual associated with that contractor for allowing the 8(a) contractor to be used as a pass-through entity. The contractor had obtained a contract set-aside for participants in the 8(a) Business Development Program, but then allowed a subcontractor to perform all of the work on the subcontract in violation of the 8(a) contractor's percentage of work requirement. Use of 8(a) contractors as front companies, such as this instance, deny legitimate program participants contract and development opportunities.

### Contractor and Contractor's President Referred for Debarment due to HUBZone Misrepresentations

The OIG referred a contractor and the president of that contractor for debarment based upon the president's conviction for wire fraud. The president admitted to submitting false information on behalf of another company in order to have that other company qualified for the HUBZone program. The HUBZone company was previously referred for debarment.



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## **Other Administrative Enforcement Actions**

In response to a management challenge issued by the OIG, the Agency updated its procedures during the reporting period for program revocation actions under 13 CFR Part 103. This regulation is principally designed to exclude loan agents and others, who commit fraud or other wrongdoing, from participating in SBA small business financial assistance programs.

Other OIG investigations during the past decade have identified loan agent fraud on several hundred million dollars of SBA-backed loans. Additionally, the SBA has added a section to its website that identifies agency-specific and government-wide administrative enforcement actions. The site now identifies individuals and entities that have been subject of a program revocation action under Part 103 and government-wide suspension and debarment actions the SBA has imposed.

### **Misrepresentation as an SBA Lender Results in Enforcement Action Referral**

The OIG referred an individual who falsely represented himself as an SBA lender to the Agency for revocation under Part 103. This individual had inappropriately obtained fees from borrowers seeking SBA loans. The SBA revoked this individual's authority to participate in SBA programs for a period of five years as a result of this referral.

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### **Training Institute Suspension and Debarment Course**

During the reporting period, OIG representatives helped to provide suspension and debarment training to auditors, inspectors, evaluators, and attorneys throughout Federal OIGs in coordination with the Council of the Inspectors General on Integrity and Efficiency (CIGIE) Training Institute. During the reporting period, two training sessions took place that included practical exercises that gave OIG employees hands-on experience with preparing suspension and debarment recommendations.

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## **Regulation Policy Reviews and Fraud Briefings**

### **Reviews of Proposed Agency Regulations**

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 the SBA proposes to make to its program directives such as regulations, internal operating procedures, agency policy notices, and SBA forms completed by the public. Frequently, the OIG identifies material weaknesses in the proposed revisions 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 53 proposed revisions of these program directives and submitted comments designed to improve 28 of these initiatives.

For example, during the reporting period, OIG recommendations on procedures and forms used by the 8(a) Business Development Program and on proposed subcontracting regulations led to improved controls to enhance program oversight and deter fraud and wrongdoing by program participants and contractors.

The OIG also provided comments on several regulations and directives for SBA's small business financial assistance programs to clarify ambiguous requirements and enhance program oversight capabilities. This included significant comments aimed at improving the Agency's procedures for servicing and liquidating loans made under the 7(a) and Section 504 loan programs and deterring fraud and other misconduct in these programs. The OIG also provided extensive comments on SBA internal procurement procedures, which has been the subject of a number of recent OIG audit reports. In addition, the OIG continued to coordinate with CIGIE Research Misconduct Working Group in providing comments on updates of the policy directives for SBA's Small Business Innovation Research Program to promote fraud deterrence.

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### Fraud Awareness Briefings

During this reporting period, the OIG conducted 9 fraud awareness presentations for over 515 attendees, including SBA and other government employees, law enforcement personnel, attorneys, and lending officials. Topics included SBA’s mission, fraud indicators and trends, and contacts for future referrals.

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### The OIG Hotline

The Hotline is staffed by OIG employees who process allegations of waste, fraud, abuse, or serious mismanagement in the SBA or its programs from employees, contractors, and the public. The Hotline also coordinates reviews with internal audit and investigative units and with SBA program offices.

The OIG receives the majority of its Hotline complaints through its electronic Hotline Complaint form located within the OIG website at <http://www.sba.gov/office-of-inspector-general>. Those who report information can do so openly, anonymously and confidentially without fear of reprisal.

During this reporting period, the Hotline received 510 complaints, which are logged into the Hotline database and tracked. Hotline staff conduct a preliminary review and analysis of all complaints received to determine the appropriate course of action. As part of the review process, Hotline staff coordinate reviews of allegations with Investigations, OIG Counsel, Auditing, and SBA Program Offices. Eighty-two percent of complaints were forwarded to the Investigations Division for additional review and analysis.

Investigations that are initiated as a result of a Hotline complaint are monitored by the Hotline staff throughout the course of the investigation. If additional investigation is not warranted, complaints may be referred to SBA program offices for appropriate action or informational purposes.

During this reporting period, the Hotline processed 510 complaints received in the following manners:

- ◆ 53% through the OIG’s online link
- ◆ 29% by email
- ◆ 12% in a letter or writing
- ◆ 6% via telephone, and
- ◆ Less than 1% in person



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# Statistical Highlights:

October 1, 2012– March 31, 2013

## Summary of Office-Wide Dollar Accomplishments

<b>As a Result of Investigations &amp; Related Activities</b>	
–Potential Investigative Recoveries & Fines	\$20,631,673
–Asset Forfeitures Attributed to OIG Investigations	\$58,870,054
–Loans/Contracts Not Approved or Canceled as a Result of Investigations	\$950,000
–Loans Not Made as a Result of Name Checks	\$14,565,153
<b>Investigations Sub-Total</b>	<b>\$95,016,880</b>
<b>As a Result of Audit Activities</b>	
–Disallowed Costs Agreed to by Management	\$2,126,145
–Recommendations that Funds Be Put to Better Use Agreed to by Management	\$40,700,000
<b>Audit Sub-Total</b>	<b>\$42,826,145</b>
<b>TOTAL</b>	<b>\$137,843,025</b>

## Efficiency and Effectiveness Activities Related to Audit, Other Reports, and Follow-Up Activities

Reports Issued	12
Recommendations Issued	97
Dollar Value of Costs Questioned	\$1,774,449
Dollar Value of Recommendations that Funds be Put to Better Use	\$40,700,000
Recommendations for which Management Decisions Were Made	97
Recommendations Without a Management Decision	39
Collections as a Result of Questioned Costs	\$858,774

**Indictments, Convictions, Case Actions**

Indictments from OIG Cases	37
Convictions from OIG Cases**	23
Cases Opened	24
Cases Closed	30

**SBA Personnel Actions Taken as a Result of Investigation**

Dismissals	0
Resignations/Retirements	1
Suspensions	1
Reprimands	0
Other	0

**Legal Reviews and Debarment and Suspension Actions**

Legislation, Regulations, Standard Operating Procedures, and Other Issuances Reviewed	53
Suspensions and/or Debarments Recommended to the Agency*	16
—Pending at the Agency	28*
Suspensions Issued by the Agency	5
Proposed Debarments Issued by the Agency	8
Final Debarments Issued by the Agency	10
Proposed Debarments Declined by the Agency	0
Administrative Agreements Entered by the Agency in Lieu of Debarment	3
Actions by Other Agencies Resulting from Investigations in which the OIG Participated**	13

\* The SBA has initiated action on 14 of the 28 referrals pending with the Agency.

# Appendix I: OIG Reports Issued

September 30, 2012, to March 30, 2013

## Small Business Access to Capital

Title	Report Number	Issue Date	Questioned Costs	Funds for Better Use
The Small Business Administration's Improper Payment Rate for 7(a) Guaranty Purchases Remains Significantly Underestimated	13-07	11/15/2012	\$1,762,376	\$40,700,000
<b>Program Subtotal</b>	<b>1</b>		<b>\$1,762,376</b>	<b>\$40,700,000</b>

## Agency Management

Title	Report Number	Issue Date	Questioned Costs	Funds for Better Use
Independent Auditor's Report on the SBA's FY 2012 Financial Statements	13-04	11/14/2012	\$0	\$0
Independent Auditor's Report on the SBA's FY 2012 Special Purpose Financial Statements	13-05	11/15/2012	\$0	\$0
Audit of the SBA's FY 2012 Financial Statements Management Letter	13-09	12/11/2012	\$0	\$0
SBA's Inappropriate Contracting Practices to Reconfigure Space for the Office of International Trade	13-12	03/26/2013	\$0	\$0
The SBA's Loan Management and Accounting System Incremental Improvement Projects	13-11	03/12/2013	\$0	\$0
Evaluation of SBA's Progress in Reducing Improper Payments in FY 2012	13-13	03/14/2013	\$0	\$0
The SBA's 417 Unauthorized Commitments Impacted Mission-Related Services and Increased Costs	13-14	03/28/2013	\$0	\$0
Briefing Report for the FY 2012 Federal Information Security Management Act Review	13-15	03/29/2013	\$0	\$0
<b>Program Subtotal</b>	<b>8</b>		<b>\$0</b>	<b>\$0</b>

**Small Business Development, Contracting, Education, and Training**

<b>Title</b>	<b>Report Number</b>	<b>Issue Date</b>	<b>Questioned Costs</b>	<b>Funds for Better Use</b>
Benefits of Mentor Protégé Joint Ventures are Unknown: Robust Oversight is Needed to Avoid Abuse and Assure Success	13-03	10/23/2012	\$0	\$0
The SBA Mismanaged Certain 8(a) Information Technology Contracts	13-08	12/03/2012	\$12,073	\$0
<b>Program Subtotal</b>	<b>2</b>		<b>\$12,073</b>	<b>\$0</b>

**Disaster Loans**

<b>Title</b>	<b>Report Number</b>	<b>Issue Date</b>	<b>Questioned Costs</b>	<b>Funds for Better Use</b>
The Small Business Administration Did Not Effectively Assess Disaster Assistance Staffing Requirements, Availability, and Readiness	13-10	01/25/2013	\$0	\$0
<b>Program Subtotal</b>	<b>1</b>		<b>\$0</b>	<b>\$0</b>
<b>TOTALS (all programs)</b>	<b>12</b>		<b>\$1,774,449</b>	<b>\$40,700,000</b>

# Appendix II: Reports

## With Questioned Costs

		Reports	Recommendations*	Questioned Costs**	Unsupported Costs***
A.	<b>No management decision made by September 30, 2012</b>	2	3	\$173,200,000	\$173,200,000
B.	Issued during this reporting period	2	7	\$1,774,449	\$1,730,560
	Universe from which management decisions could be made in this reporting period – <i>Subtotals</i>	4	10	\$174,974,449	\$174,930,560
C.	Management decision(s) made during this reporting period	3	6	\$2,143,889	\$2,100,000
	(i) Disallowed costs	3	4	\$2,126,145	\$2,100,000
	(ii) Costs not disallowed	1	2	\$17,744	0
D.	<b>No management decision made by March 31, 2013</b>	2	4	\$172,830,560	\$172,830,560

\* Reports may have more than one recommendation.

\*\* Questioned costs are those that are found to be improper.

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



## Appendix III: Reports

### With Recommendations that Funds Be Put to Better Use

		Reports	Recommendations*	Recommended Funds For Better Use
A.	No management decision made by September 30, 2012	1	1	\$43,000,000
B.	Issued during this reporting period	1	1	\$40,700,000
	Universe from which management decisions could be made in this reporting period - Subtotals	2	2	\$83,700,000
C.	Management decision(s) made during this reporting period	1	1	\$40,700,000
	(i) Recommendations agreed to by SBA management	1	1	\$40,700,000
	(ii) Recommendations not agreed to by SBA management	0	0	\$0
D.	No management decision made by March 31, 2013	1	1	\$43,000,000

## Appendix IV: Reports

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### With Non-Monetary Recommendations

		Reports	Recommendations
A.	<b>No management decision made by September 30, 2012*</b>	12	35**
B.	Issued during this reporting period	9	89
	Universe from which management decisions could be made in this reporting period – Subtotals	21	124
C.	Management decision(s) made (for at least one recommendation in the report) during this reporting period	14	90
D.	<b>No management decision made by March 31, 2013*</b>	11	34

\* 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.

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

## Appendix V: Reports

### From Prior Periods with Overdue Management Decisions

Title	Report Number	Date Issued	Status
SBA's Funding of Information Technology Contracts Awarded to ISIKA Technologies, Inc.	11-14	6/2/2011	Management has not responded to three recommendations in the report.
Small Business Administration's Rationale for Excluding Certain Types of Contracts from the Annual Small Business Procurement Calculations Needs to be Documented	12-04	12/6/2011	Management has not responded to five recommendations in the report.
The SBA's Improper Payment Review and Reporting for its Contracting Activities did not Comply with IPERA and IPIA Requirements During FY 2011	12-07	3/8/2012	Management has not responded to one recommendation in the report.
The Small Business Administration did not Maximize Recovery for \$171.1 Million in Delinquent Disaster Loans In Liquidation	12-14	7/2/2012	Management has not responded to two recommendations in the report.
A Detailed Repayment Ability Analysis is Needed on High-Dollar Early-Defaulted Loans to Prevent Future Improper Payments	12-18	8/16/2012	Management has not responded to one recommendation in the report.

\*\*Overdue" is defined as more than 180 days from the date of issuance.

# Appendix VI: Reports

Without Final Action as of March 31, 2013

Report Number	Title	Date Issued	Date of Management Decision	Final Action Target Date	Explanation as Submitted in FY 2012 AFR
0-14	7(a) Service Fee Collections	3/30/00	8/22/00	12/31/13	The recommendation is to establish receivable accounts for 7(a) loan service fees. This is part of the SF 1502 project and the team is working to determine if the establishment of a receivable account for 7(a) loan fees is to be part of the fee collection enhancement initiative. Anticipated completion date is June 2013.
3-08	SBA's Oversight of the Fiscal Transfer Agent for the 7(a) Loan Program	1/30/03	10/15/03	4/30/12	The recommendation is to the Office of Capital Access to develop SBA procedures and regulations governing the proper operation of the Master Reserve Fund. An SOP has been delayed several times while in internal clearance. The office is working to publish the SOP in 2013.
4-34	Audit of SBA's Process for Complying with the Federal Managers' Financial Integrity Act Reporting Requirements	7/29/04	9/9/04	06/30/13	The two recommendations remaining open are to the Office of the Chief Financial Officer (OCFO) to revise, clear and issue the draft SOP 00 02 3 and clearly define material weakness as it relates to SBA and at the different levels of management within the Agency. The current SOP is being rewritten. The OCFO will work with the OIG and OGC during the SOP update process and to obtain clearance. These final actions are expected to be completed by 06/30/2013.
6-10	FY 2005 Financial Statements-Management Letter	1/18/06	3/07/06	9/30/13	There is one open recommendation to the Office of the Chief Financial Officer to update the accounting SOP to include SBA's policies and procedures to reflect the FL accounts and data field updated for each transaction. The accounting pro forma on LAS transactions is available in "table format" in the CGL, but data field updates are not show. SBA will work with OCIO to develop this documentation through an automated process. This audit recommendation is expected to have final action by 09/30/2013.

Report Number	Title	Date Issued	Date of Management Decision	Final Action Target Date	Explanation as Submitted in FY 2012 AFR
6-25	Audit of SBA's Implementation of the Improper Payments Information Act	06/13/06	07/19/06	06/30/13	The recommendation is to the Office of the Chief Financial Officer (OCFO) to develop Procedure Notices or SOPs as internal guidance when changes to IPIA requirements are issued by OMB. Improper Payments is a section in the <i>Internal Controls</i> SOP. The OCFO will update this with new Improper Payments Elimination and Recovery Act (IPERA) guidance. This final action is expected to be completed by 06/30/2013.
7-03	Audit of SBA's Fiscal Year 2006 Financial Statements	11/15/2006	12/20/2006	06/30/11	The recommendation is to the chief Operating Officer, in conjunction with appropriate program officials, to ensure that policies are implemented regarding segregation of duties for FRIS, JAAMS, DCMS, and LAS. SOP 90 46 2B is undergoing revisions to incorporate configuration management controls. SOP 90 47 3 is expected to be implemented by 12/31/12.
8-12	Oversight of SBA Supervised Lenders	05/09/08	6/20/08	12/31/12	One recommendation remains open to the Office of Capital Access (OCA), to establish risk mitigation goals applicable to each loan program and the entire lending portfolio. Based on available data, OCRM proposed performance metrics to be used to evaluate program performance at the portfolio, loan and subprogram levels. By 12/31/12, OCRM intends to conduct a baseline analysis, establish acceptable risk levels, risk management action plans, and develop a quarterly reporting system. This final action is expected to be completed by 12/31/2011.

Report Number	Title	Date Issued	Date of Management Decision	Final Action Target Date	Explanation as Submitted in FY 2012 AFR
8-13	Planning for the Loan Management and Accounting System Modernization and Development Effort	5/14/08	8/27/08	12/11/11	There is one remaining open recommendation to the Office of Financial Assistance to make cost-effective remediation of mainframe vulnerabilities a priority and ensure that migration of LAS occurs before the current mainframe contract expires in 2012. The LMAS investment was revised in response to OMB Memorandum M10 26. SBA provided a copy of the schedule to come off the mainframe. Progress was noted in the migration from the mainframe but the recommendation will not be closed until the migration is complete and the Micro-focus COBOL is in full production on a separate operating platform.
9-03	Audit of SBA's Fiscal Year 2008 Financial Statements	11/14/08	09/30/09	12/15/10	The recommendation is to the Chief Operating Officer, in conjunction with program offices, to document and implement segregation of duty policies and procedures for the Loan Accounting System. SOP 90 47 2 is undergoing revisions to incorporate configuration management controls. SOP 90 47 3 is expected to be implemented by 12/31/12. This recommendation will have a final action by 12/31/12.
9-05	Audit of SBA's Fiscal Year 2008 Financial Statements: Management Letter	12/17/08	02/18/09	12/31/12	The two open recommendations are to the Office of Financial Assistance to reinforce the importance of the collateral analysis in an updated SOP and ensure that the revised Disaster Loan SOP underwent an extensive and careful review process to ensure that compliance with DCIA and other statutes [sic] were being consistently applied across all servicing/liquidation SOPs. These recommendations are expected to have final actions by 12/31/2012. al actions by 12/31/2012.

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Report Number	Title	Date Issued	Date of Management Decision	Final Action Target Date	Explanation as Submitted in FY 2012 AFR
9-12	Review of SBA national guaranty Purchase Center Furniture Contract	03/31/09	3/31/09	10/15/09	None.
9-15	Participation in the 8(a) Program by Firms Owned by Alaska Native Corporations	07/10/09	08/04/09	10/31/10	The recommendation is to Government Contracting & Business Development to determine whether 8(a) firms owned by ANCs and tribes should continue to be exempt from the cap on total sole source awards. The program office will evaluate the extent to which ANCs are bringing work into the 8(a) program that might not otherwise be available to program participants. The program office is developing a methodology in order to conduct this review. This recommendation is expected to be final by 09/30/2013.
9-17	Review of Allegations Concerning How the Loan management and Accounting system Modernization Project is being Managed	07/30/09	08/28/09	09/30/09	None.

Report Number	Title	Date Issued	Date of Management Decision	Final Action Target Date	Explanation as Submitted in FY 2012 AFR
10-01	Monitoring of Insurance Coverage for Disaster Loan Recipients	10/20/09	11/06/09	03/31/13	The recommendation is to the Office of Financial Program Operations. Determine the cost implications of achieving compliance with flood insurance statutes on existing and future loans. The program office included the standards for implementation in SOP 50 52, which will enter clearance in the first quarter of FY 2013. In addition, the office has developed a working group to analyze the best method to implement the forced placement of insurance. The expected implementation of forced placement of insurance is 03/31/2013.
10-04	Audit of SBA's FY 2009 Financial Statements	11/13/09	12/11/09	06/01/10	None.
10-10	Premier Certified Lenders in the Section 504 Loan Program	03/23/10	04/11/12	04/10/13	The recommendation is to the Office of Capital Access to require that lenders use the actual cash flow method to determine borrower repayment ability, historical salary levels to estimate officer salary, and historical sales data to make sales projections. OCA is in the process of identifying industry best practices and consulting with similar government agencies regarding methods and guidelines for repayment analysis. OCA will incorporate best practices into agency guidance by 04/10/13.



Report Number	Title	Date Issued	Date of Management Decision	Final Action Target Date	Explanation as Submitted in FY 2012 AFR
ROM 10-14	Accuracy of Recovery Act Contract Award Obligations Reported to the Federal Procurement Database System—Next Generation and Recovery.Gov	04/15/10	05/03/10	01/31/12	<p>The three recommendations are to the Office of Business Operations to 1) reconcile Recovery Act contract awards reported to FPDS-NG and Recovery.gov all non-competitive contract awards previously not reports; 2) review FPDS-NG and designate the appropriate contract type for the five Recovery Act contracts identified and report to Recovery.gov any Recovery Act contracts that were not awarded on a firm-fixed basis; and 3) correct the competition characteristic recorded in FPDS-NG for an identified contract to show that it was a “competitive delivery order.” The Data Quality Plan was updated and a contract was awarded for additional support for data quality corrections. The resources will concentrate on Data cleanup, data quality certification and correcting remaining data anomalies. The Agency completed a reconciliation between FPDS, PRISM and Oracle, and is automating this quality assurance process. SBA is not able to correct data in FPDS—NG of reported contracts in prior years and OBO is working with the auditors to resolve the issues. These recommendations are expected to have final actions by 01/31/2013.</p>

Report Number	Title	Date Issued	Date of Management Decision	Final Action Target Date	Explanation as Submitted in FY 2012 AFR
10-14	Adequacy of Quality Assurance Oversight of the Loan management and Accounting System Project	09/13/10	*	06/13/10	The three recommendations is to the Office of the Administrator to require the LMAS Quality Assurance plan to incorporate all the components required by the enterprise-wide QA plan; to take steps to hold contractors accountable for performing the activities specified in its contract; and to revise the contractor performance work statement to include IV&V responsibilities. The ITQA SOP was updated and SBA has demonstrated significant progress in implementing a quality assurance process by conducting QA reviews. The contract has been assigned to a QA manager to ensure independence and the updated SOP outlines the QA function. SBA is acquiring a vendor to perform IV&V. The expect final action is expected by September 2013.
ROM 10-19	Material Deficiencies Identified in Early-Defaulted and Early-Problem Recovery Act Loans	09/24/10	04/01/11	01/31/13	The two recommendations are to the Office of Capital Access to require the lenders have 25 purchased loans to bring the loans into compliance or recover the \$375,259 in paid guaranties; and to flag the other loans that have not yet been purchased to ensure the loan deficiencies are properly addressed if the loans are purchased. Of the 25 loans in the first recommendation, five loans are currently undergoing the evaluation process for denial or repair as recommended. Expected completed through process and potential recovery is by 01/31/13. The three loans in the second recommendation are currently being evaluated for denial or repair and expected recovery is by 03/31/13.

Report Number	Title	Date Issued	Date of Management Decision	Final Action Target Date	Explanation as Submitted in FY 2012 AFR
11-03	Audit of SBA's FY 2010 Financial Statements	11/12/10	*	**	<p>The four recommendations are to the Office of the Chief Information Officer to (1) improve the tracking and monitoring process to address risk vulnerabilities for key financial systems; (2) prevent users from anonymously connecting unauthorized devices by mandating domain authentication for IP address issuance; (3) develop a comprehensive security education and training program for IT security personnel; and (4) enforce an organization-wide configuration management process.</p> <ul style="list-style-type: none"> <li>◆ For the first recommendation, Agency-wide vulnerability tracking and monitoring policies and procedures have been approved by the auditors and monitoring tools have been purchased and are being deployed. Vulnerability reports are generated from the tools and are reviewed weekly. A project is underway to establish a process to remediate vulnerabilities according to policy and procedures. This final action is estimated to be completed by 01/31/2013.</li> <li>◆ Anonymous connections and mandatory domain authentication are enforced by CounterAct, and will prevent unauthorized devices on the network once the 802.1x standard is applied to all switches. A project is underway to implement the 802.1x solution, which includes requirements to document policies and procedures. Final action estimated to be completed by 12/31/12.</li> </ul>

Report Number	Title	Date Issued	Date of Management Decision	Final Action Target Date	Explanation as Submitted in FY 2012 AFR
					<ul style="list-style-type: none"> <li>◆ Training requirements are documented in the revised IT Security Program SOP which is in the clearance process. A vendor has been selected to provide annual computer security awareness and privacy training to all SBA employees. A second vendor is being identified to provide focused training to staff with significant IT security responsibilities. The final action is estimated to be complete by 3/28/13.</li> <li>◆ Configuration Management policy is being developed to incorporate enterprise change control. A centrally managed Agency-wide configuration management solution is being identified for procurement. Final action is estimated to be complete by 9/30/13.</li> </ul>
11-05	Audit of SBA's FY 2010 Financial Statements— Management Letter	12/15/10	02/09/11	03/15/13	The recommendation is to the Office of Capital Access to perform an analysis of loans charged off in prior years to identify and correct any DCA non-compliance issues noted. During FY2012, the DCIA Compliance Team was focused on correcting system coding and testing to ensure future referrals would be compliant. DCIA Compliance Team has begun conducting analysis of loans charged off in prior years and will develop a plan to correct any non-compliance issues. Final action is estimated to be complete by 3/15/13.
ROM 11-01	Improper Allotment of Recovery Act Apportionments	12/05/10	02/09/11	02/28/11	None.

Report Number	Title	Date Issued	Date of Management Decision	Final Action Target Date	Explanation as Submitted in FY 2012 AFR
11-06	Weaknesses Identified During the FY 2010 FISMA Review	01/28/11	03/28/11	**	<p>The eight recommendations are to the Office of the Chief Information officer to (1) require an updated list of Major Systems and their interfaces; (2) manage, control, and monitor system interconnections throughout their lifecycle; (3) develop configuration management policies and procedures; (4) develop and maintain a centralized inventory of all Agency hardware and software; (5) develop and document baseline configuration for each information system; (6) modify the POA&amp;M reporting tool to comply with OMB Memorandum 04-25; (7) develop and test disaster recovery plans; and (8) enforce contractor background investigations. Status for these recommendations include:</p> <p>(1) A total count of all interconnections was completed and Interconnection Service Agreements (ISAs) for FISMA-reportable systems are being obtained. Estimated completion of the final action is 3/28/13.</p> <p>(2) SOP 90 47 3, published 10/10/12, requires system owners to manage system interconnections in accordance with NIST requirements. SBA personnel have one year to implement the requirements of the SOP. The final action completion date is estimated to be 10/10/13.</p> <p>(3) Configuration Management policy is being developed to incorporate enterprise change control. The final action completion date is estimated to be 9/30/13.</p> <p>(4) An enterprise-wide asset management tool will be procured to centrally manage assets. The final action completion date is estimated to be 2/7/14.</p>

Report Number	Title	Date Issued	Date of Management Decision	Final Action Target Date	Explanation as Submitted in FY 2012 AFR
					<p>(5) A project is underway to establish baselines for all systems agency hardware and software. Final action completion is estimated to be 1/31/13.</p> <p>(6) MB Memo 04-25 compliant tool CSAM has replaced the previous POA&amp;M tool and is used to centrally manage POA&amp;Ms. Once cost guidance is established CSAM training will be provided to the user community. The final action completion date is estimated to be 12/30/12.</p> <p>(7) Disaster recovery tests were performed for at-risk externally hosted systems. Table top test were performed for internally-hosted systems; a solution to the inability to conduct tests internally is being researched. The final action completion date is estimated to be 9/30/13.</p> <p>(8) SOP 90 47 3 contains procedures for managing contractor background investigation and reviews are being conducted. The final action date is estimated to be 11/15/12.</p>
11-07	Processing of Insurance Recovery Checks at the Disaster Loan Servicing Center	02/10/11	04/07/11	09/30/13	The recommendation is to the Office of Capital Access to revise the SOP to provide detailed instructions for processing insurance recovery checks. SOP 50 52 is being prepared for clearance and the final action completion date is 12/31/12.

Report Number	Title	Date Issued	Date of Management Decision	Final Action Target Date	Explanation as Submitted in FY 2012 AFR
11-08	SBA's Procurement of Information Technology Hardware and Software Through Isika Technologies, Inc.	02/25/11	03/30/11	01/31/12	The two recommendations are to the Office of the Chief Financial Officer to exclude contracts used to determine 8(a) program contracts in FY 2009 and 2010 and to conduct a review of data submitted to FPDS-NG for the vendor. The Agency completed a reconciliation between FPDS, PRISM and Oracle, and is automating this quality assurance process. SBA is not able to correct data in FPDS-NG of reported contracts in prior years and OCFO is working with the auditors to resolve the issues. These recommendations are expected to have final actions by 01/31/2013.
ROM 11-04	Quality of SBA's Recovery Act Data on Public Websites	3/22/11	10/06/11	**	The six recommendations are to the Office of the Chief Financial Officer to determine if awards were made or funds should be de-obligated on 66 purchase requisitions; to perform routine reconciliation of executed awards to FPDS-NG.gov; to deploy an independent statistical verification and validation of all SBA transactions; to determine if Recovery Act funds were used to fund 13 contracts; to develop a data quality plan; and to monitor contractor reported information and prime contractor information for accuracy. The OCFO is researching data to resolve the contract funding issues and is developing procedures to ensure data accuracy in the future, including revising the existing data quality plan. Final actions for all recommendations are estimated to be 9/30/13.
11-10	Management Advisory Report on Records Management and Documentation Process at the Disaster Loan Servicing Centers	03/29/11	06/20/11	09/30/13	The two recommendations are to the Office of Financial Programs to develop record designation requirements for all loan servicing documents and incorporate the guidance into SOP 50 52 and to revise the SOP to preserve the analyses performed to conduct all servicing actions. The SOP 50 52 is being put into clearance. The final action date is estimated to be 12/31/12.

Report Number	Title	Date Issued	Date of Management Decision	Final Action Target Date	Explanation as Submitted in FY 2012 AFR
11-11	Effectiveness of SBA's Surveillance Review Process	03/31/11	*	12/31/11	The 12 recommendations are to the Office of Government Contracting and Business Development require development or update to policies and procedures to include selection criteria, an effective monitoring process, resource requests, instruction on completing checklist questions, monitoring the performance of work requirements and issuance surveillance review reports. Revisions to Chapter 4, How Do I Perform a Surveillance Review? Include 8(a) specific requirements, modification of rating categories, establishment of formal follow-up processes and update of interview questions. The SOP 60 02 7 is being updated and will be submitted for clearance. The final action date is estimated to be 9/30/13.
11-14	SBA's Funding of Information Technology contracts Awarded to ISIKA Technologies, Inc.	06/02/11	08/1/11	12/31/11	The four recommendations are to the Office of the Chief Financial Officer and require a review of funding to ensure SBA did not violate the Anti-Deficiency Act during a Continuing Resolution in 2011; a review of IDIQ contracts and task orders to ensure they are issued in compliance with FAR; and a revision of FY2009 and FY2010 FPDS-NG data. The OCFO is researching the funding issue to ensure funds were not inappropriately obligated and will review IDIQ contracts and written policies and procedures to ensure work is performed in compliance with the FAR. SBA is unable to update prior year information in FPDS-NG and is working with the auditors to resolve the issue. Final action completion date is estimated to be 6/30/13.



Report Number	Title	Date Issued	Date of Management Decision	Final Action Target Date	Explanation as Submitted in FY 2012 AFR
11-16	Banco Popular did not Adequately Assess Borrower Repayment ability when Originating Huntington Learning Center Franchise Loans	07/13/11	*	**	The two recommendations are to the Office of Capital Access to recover loan guaranties, less any recoveries, paid on ten defaulted loans; and to improve data pertaining to new franchise loans. The office is working on recovering the guarantee payments and has written a white paper which is under review. Final action completion is estimated to be 10/31/12.
12-02	Independent Auditor's Report on the SBA's FY 2011 Financial Statements	11/14/11	12/22/11	**	None.
12-05	FY 2011 Financial Statements Audit— Management Letter	12/15/11	*	**	None.
12-08	SBA's Lender Loan Report Process has Systemic Reporting Issues and Data Control Weaknesses	02/23/12	*	**	None.
12-10	FY 2011 Review of SBA's Improper Payments	03/15/12	*	**	None.

Report Number	Title	Date Issued	Date of Management Decision	Final Action Target Date	Explanation as Submitted in FY 2012 AFR
12-11R	High-Dollar Early-Defaulted Loans Require an Increased Degree of Scrutiny and Improved Quality Control at the National Guaranty Purchase Center	03/23/12	*	**	Not required since a management decision was made within the preceding year .
12-12	The SBA's Office of International Trade Inappropriately Awarded a One Million Dollar State Trade and Export Promotion (STEP) Grant to an Ineligible Recipient	03/20/12	01/18/13	09/30/17	Not required since a management decision was made within the preceding year .
12-13	Review of the SBA's Cash Gifts	03/30/12	06/19/12	06/30/13	Not required since a management decision was made within the preceding year.

Report Number	Title	Date Issued	Date of Management Decision	Final Action Target Date	Explanation as Submitted in FY 2012 AFR
12-14	The Small Business Administration did not Maximize Recovery for \$171.1 Million in Delinquent Disaster Loans in Liquidation	07/02/12	*	06/30/13	None.
12-15	Weaknesses Identified during the FY 2011 Federal Information Security management Act Review	07/16/12	08/16/12	**	Not required since a management decision was made within the preceding year.
12-16	The SBA's Inappropriate Use of the Government Purchase Card for Construction Pur-	08/06/12	09/11/12	**	Not required since a management decision was made within the preceding year.
12-18	A Detailed Repayment Ability Analysis is Needed on High-Dollar Early-Defaulted Loans	08/16/12	11/03/12	**	Not required since a management decision was made within the preceding year.

# Appendix VII: Significant Recommendations

From Prior Reporting Periods Without Final Action as of March 31, 2013

Report Number	Date Issued	Recommendation	Date of Management Decision	Final Action Target Date
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	10/15/09
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
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	3/31/13
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 10-14	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	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

<b>Report Number</b>	<b>Date Issued</b>	<b>Recommendation</b>	<b>Date of Management Decision</b>	<b>Final Action Target Date</b>
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
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 10-19	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	1/31/13
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	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
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

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 perform an analysis of loans charged-off in prior years to identify and correct any DCIA non-compliance issues noted.	2/9/11	03/15/13
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	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	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
11-08	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

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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 11-04	3/22/11	Research the \$21,627,140 in this report to determine whether the award has been made or the funds should be de-obligated. This research should result in these actions being posted to FPDS.gov.	10/6/11	6/30/12
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
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 sub-contractors.	10/6/11	12/31/11
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	9/30/13

Report Number	Date Issued	Recommendation	Date of Management Decision	Final Action Target Date
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	9/30/13
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



Report Number	Date Issued	Recommendation	Date of Management Decision	Final Action Target Date
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
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
11-14	6/2/11	Establish procedures to discontinue SBA's practice of inappropriately obligating funds on contracts in anticipation of future needs.	8/1/11	12/31/11
12-02	11/14/11	We recommend the CIO coordinate with SBA program offices to prevent users from anonymously connecting unauthorized devices by developing and implementing procedures to ensure mandatory domain authentication for Internet Protocol (IP) address issuance.	12/22/11	9/28/12
12-02	11/14/11	We recommend the CIO coordinate with SBA program offices to ensure users' access rights are authorized prior to gaining access to financial systems.	12/22/11	3/30/12

Report Number	Date Issued	Recommendation	Date of Management Decision	Final Action Target Date
12-02	11/14/11	We recommend the CIO coordinate with SBA program offices to enhance security vulnerability management processes. Specifically, SBA should: (a) redistribute procedures and train employees on the process for reviewing and mitigating security vulnerabilities, (b) periodically monitor the existence of unnecessary services and protocols running on their servers and network devices, (c) perform vulnerability assessments with administrative credentials and penetration tests on all SBA offices from a centrally managed location with a standardized reporting mechanism that allows for trending, on a regularly scheduled basis in accordance with NIST guidance, (d) develop a more thorough approach to track and mitigate configuration management vulnerabilities identified during monthly scans, and (e) monitor security vulnerability reports for necessary or required configuration changes to their environment.	12/22/11	03/31/12
12-02	11/14/11	We recommend the CIO coordinate with SBA program offices to fully implement the SBA entity wide incident management and response program and ensure that procedures are enforced.	12/22/11	2/29/12
12-02	11/14/11	We recommend the CIO coordinate with SBA program offices to ensure that information systems hosted by third parties comply with SBA policy and NIST guidance.	12/22/11	9/29/12
12-02	11/14/11	We recommend the CIO coordinate with SBA program offices to oversee the review and validation of financial system accounts on a quarterly basis.	12/22/11	4/30/12
12-02	11/14/11	We recommend the CIO coordinate with SBA program offices to implement a process to monitor the audit logs of all financial applications on a regular basis.	12/22/11	3/30/12

Report Number	Date Issued	Recommendation	Date of Management Decision	Final Action Target Date
12-04	12/16/11	We recommend that the Associate Administrator, Government Contracting and Business Development revise the <i>Goaling Guidelines</i> for the Small Business Preference Programs to include contracts awarded and/or performed overseas in the small business goaling baseline beginning with fiscal year 2011.	Overdue	Target date not established.
12-07	3/8/12	Submit to the Senate Homeland Security and Government Affairs Committee and the House Committee on Oversight and Governmental Reform within 90 days of this memorandum a plan that includes: a. Measurable milestones for becoming compliant with IPERA; b. Designation of an accountable senior agency official; and c. The establishment of an accountability mechanism, describing the actions the agency will take to become compliant.	Overdue	Target date not established.
12-08	2/23/12	We recommend that the Associate Administrator, Office of Capital Access, research and correct loans that have not been reported within the Electronic Loan Information Processing System (ELIPS) for a significant length of time (i.e. 6 months or more) which contribute to subsidy overstatements currently estimated at \$5.2 million.	5/6/12	12/31/12
12-08	2/23/12	We recommend that the Associate Administrator, Office of Capital Access, utilize the lender exception detail reports to identify and address lenders that consistently do not report loans and issue corrective action plans.	5/6/12	4/3/13
12-08	2/23/12	We recommend that the Associate Administrator, Office of Capital Access, collect the \$2.5 million in secondary market late penalty fees by either billing lenders or offsetting against any guarantee purchase amounts.	5/6/12	5/1/13

<b>Report Number</b>	<b>Date Issued</b>	<b>Recommendation</b>	<b>Date of Management Decision</b>	<b>Final Action Target Date</b>
12-10	3/15/12	We recommend that the Associate Administrator for Capital Access adjust the testing process for 7(a) loan approvals to ensure all necessary documentation is obtained and a determination is made as to whether the loans were approved in compliance with the relevant program regulations and requirements.	5/15/12	4/16/2013
12-10	3/15/12	We recommend that the Associate Administrator for Capital Access, upon revising the improper payments test procedures and estimating an accurate rate of improper payments, develop a corrective action plan for 7(a) loan approvals that correctly addresses root causes and will reduce improper payments.	5/15/12	4/16/13
12-10	3/15/12	We recommend that the Associate Administrator for Capital Access require loan officers to thoroughly evaluate creditworthiness (including repayment ability) on early default loans during both guaranty purchase and improper payment reviews	5/15/12	4/16/13
12-10	3/15/12	We recommend that the Associate Administrator for Capital Access, upon completing the revised improper payment rate projection for 7 (a) purchases, conduct a detailed and objective cost/benefit analysis for payment recapture audits of 7(a) purchases.	9/26/12	4/30/13.
12-10	3/15/12	We recommend that the Associate Administrator for Capital Access, upon completing the revised improper payment rate projection for 7 (a) purchases program, revise the corrective action plan to identify all root causes of improper payments and appropriate actions for reduction.	5/15/12	4/16/2013
12-10	3/15/12	We recommend that the Associate Administrator for Capital Access adjust the testing process for 504 loan approvals to ensure all necessary documentation is obtained and reviewed and a determination is made as to whether the loans were approved in compliance with the relevant SBA program regulations and requirements	5/15/12	4/16/2013

<b>Report Number</b>	<b>Date Issued</b>	<b>Recommendation</b>	<b>Date of Management Decision</b>	<b>Final Action Target Date</b>
12-11R	3/23/12	Establish a specialized unit of well-trained, highly experienced loan specialists to perform purchase reviews with the level of scrutiny necessary to identify all material deficiencies on early-defaulted loans approved for \$500,000 or more.	10/19/12	2/28/13
12-14	7/2/12	Take the following actions for disaster loans in liquidation status delinquent over 180 days that are secured by collateral, but not specifically exempt from referral to Treasury: <ul style="list-style-type: none"> <li>• Evaluate whether prompt foreclosure is feasible.</li> <li>• Initiate foreclosure proceedings promptly on loan collateral for which the NDLCRC has determined that foreclosure is feasible.</li> <li>• Charge off loans for which the NDLCRC has determined that foreclosure on the collateral is not feasible and ensure transfer of the debts to Treasury FMS for cross servicing.</li> </ul>	Overdue	Target date not established.
12-14	7/2/12	Immediately charge off all disaster loans in liquidation status delinquent over 180 days and not secured by collateral, or specifically exempt from referral to Treasury.	Overdue	Target date not established.
12-15	7/16/12	Develop an overall strategy to timely implement audit recommendations issued by the SBA OIG relating to FISMA security requirements.	8/16/12	10/30/12
12-18	8/16/12	Direct the NGPC to revise its purchase process for high-dollar early-defaulted loans approved by lenders to verify compliance with SBA's repayment ability requirements, including the performance of a detailed analysis of the lenders' computation of repayment ability.	Overdue	Target date not established.

# Appendix VIII: Significant Recommendations

October 1, 2012- March 31, 2013

Report Number	Title	Date Issued	Recommendation
13-03	Benefits of Mentor Protégé Joint Ventures are Unknown: Robust Oversight is Needed to Avoid Abuse and Assure Success	10/23/2012	Develop specific, measurements (outputs and outcomes) to evaluate benefits of the joint venture agreements to the protégé.
13-03	Benefits of Mentor Protégé Joint Ventures are Unknown: Robust Oversight is Needed to Avoid Abuse and Assure Success	10/23/2012	Assess the workload of the Specialists to ensure they are able to carry out all of their responsibilities related to the 8(a) program including better management and monitoring of joint venture arrangements. As part of this assessment, consider alternate approaches to service and monitor 8(a) firms with mentor protégé and joint venture agreements.
13-04	Independent Auditor's Report on the SBA's FY 2012 Financial Statements	11/14/2012	Ensure that database administrator and system administrator access is restricted through role-based segregation of duties and managed through an effective audit log review process.
13-04	Independent Auditor's Report on the SBA's FY 2012 Financial Statements	11/14/2012	Enforce an organization-wide configuration management process, to include policies and procedures for maintaining documentation that supports testing and approvals of software changes.
13-07	The Small Business Administration's Improper Payment Rate for 7(a) Guaranty Purchases Remains Significantly Underestimated	11/15/2012	Create a more comprehensive improper payment detection checklist for reviewing 7(a) guaranty purchases to address the many requirements that reviewers must be familiar with when conducting improper payment reviews.
13-07	The Small Business Administration's Improper Payment Rate for 7(a) Guaranty Purchases Remains Significantly Underestimated	11/15/2012	Seek recovery of \$1,016,116, less subsequent liquidation recoveries from American Business Lending, Inc. for loan number 3646765010 to Gregory L. Ratcliff (Pioneer Discount Furniture, Inc.).

Report Number	Title	Date Issued	Recommendation
13-07	The Small Business Administration's Improper Payment Rate for 7(a) Guaranty Purchases Remains Significantly Underestimated	11/15/2012	Seek recovery of \$714,444, less subsequent liquidation recoveries from Community South Bank for loan number 3076325004 to WaterWell Investments (Splash and Dash).
13-08	The SBA Mismanaged Certain 8(a) Information Technology Contracts	12/3/2012	Recover \$12,073 from iTechnologies for payments the contractor received in duplicate.
13-08	The SBA Mismanaged Certain 8(a) Information Technology Contracts	12/3/2012	Establish and implement an automatic interface between PRISM and JAAMS to ensure that invoice payments are tied to contract number instead of purchase order numbers.
13-08	The SBA Mismanaged Certain 8(a) Information Technology Contracts	12/3/2012	Initiate debarment proceedings for TLE and its officials to prohibit future contracting with any agency of the Executive Branch of the United States government.
13-08	The SBA Mismanaged Certain 8(a) Information Technology Contracts	12/3/2012	Conduct an internal control review of SBA's acquisition function in compliance with OMB Circular A-123 and OMB Memorandum, Conducting Acquisition Assessments under OMB Circular A-123.
13-11	The SBA's Loan Management and Accounting System Incremental Improvement Projects	3/12/2013	Adopt a new IIP under LMAS to facilitate the transfer of data and move its new COBOL code to a full production environment
13-11	The SBA's Loan Management and Accounting System Incremental Improvement Projects	3/12/2013	Ensure that the Root Cause Analysis IIP be revised so that it conforms to the scope originally approved by the BTIC. The Root Cause Analysis should identify the most critical business needs of the SBA, analyze remaining issues when each LMAS-IIP is completed, and develop plans to prioritize additional projects to address SBA's most important business needs.
13-11	The SBA's Loan Management and Accounting System Incremental Improvement Projects	3/12/2013	Implement a Quality Assurance program that reports compliance at the project level to the ESC and the BTIC, at regular intervals.

<b>Report Number</b>	<b>Title</b>	<b>Date Issued</b>	<b>Recommendation</b>
13-11	The SBA's Loan Management and Accounting System Incremental Improvement Projects	3/12/2013	Implement an Independent Verification and Validation program for the LMAS-IIP that tests and validates that each IIP meets its program and functional requirements.
13-12	SBA's Inappropriate Contracting Practices to reconfigure Space for the Office of International Trade	3/26/2013	Implement procedures to ensure that Contracting Officers and Contracting Officer Representatives properly review invoices for compliance with the terms of the contract and the scope of work.
13-12	SBA's Inappropriate Contracting Practices to reconfigure Space for the Office of International Trade	3/26/2013	For purchase order SBAHQ-11-M-0018, review all invoices and make a determination of whether all the work that was billed to the SBA was actually performed. If not, the CO should take appropriate action.
13-14	The SBA's 417 Unauthorized Commitments Impacted Mission-Related Services and Increased Costs	3/28/2013	Determine whether it is appropriate and feasible to take administrative and/or legal actions against SBA employee(s) making unauthorized commitments in instances where an unauthorized commitment cannot be ratified.
13-14	The SBA's 417 Unauthorized Commitments Impacted Mission-Related Services and Increased Costs	3/28/2013	In the short-term, issue a Procedural Notice identifying what an unauthorized commitment is and that under no circumstances should an unauthorized commitment occur. This Procedural Notice should also state that administrative and/or legal action may be taken against those employees who commit the Government without the authority to do so.
13-14	The SBA's 417 Unauthorized Commitments Impacted Mission-Related Services and Increased Costs	3/28/2013	Update and implement the Agency Standard Operating Procedures for acquisitions to include the information provided in the Procedural Notice on unauthorized commitments.



## Appendix IX: Cosponsored & Other Activities

Name/Subject of Event	Name of Cosponsor(s)	Event Location	Date Fully Executed
SBA/HCCI Small Business Development Micro Enterprise Seminar Series I and II	New York DO - Harlem Congregations for Community Improvement	New York, NY	10/12/2012
SBA/NYC LGBTQS: Partners in Small Business Development and Success Workshop Series	New York DO - New York City Lesbian, Gay, Bisexual, Transgender, Queer, Straight Chamber of Commerce, Inc.	Bronx, NY	10/12/2012
SBA/Microsoft Tweetup	HQ/OCPL - Microsoft	Portland, OR	10/31/2012
Torrington Business Roundtable	Wyoming DO - Goshen County Economic Development Corporation, Wyoming Women's Business Center	Torrington, WY	11/6/2012
Export Trade Assistance Program	Santa Ana DO - University Enterprises Corporation - California State University San Bernardino - Inland Empire Small Business Development Center, Coachella Valley Small Business Development Center, U.S Commercial Service, Riverside County Economic Development Agency - Office of Foreign Trade	Riverside, CA, Palm Springs, CA	11/6/2012
Business Roundtables	Wyoming DO - Atlantic City Federal Credit Union, Wind River Development Fund	Washakie, WY	11/6/2012
The Washington Foundation - Lil' Jacob Learning Center - Veterans Summit I	Arkansas DO-Washington Foundation	Eudora, AR	11/6/2012
Awards Ceremony and Educational Program for NH SBA Participating Lenders	New Hampshire DO - New Hampshire Bankers Association, New Hampshire Small Business Development Center - University of New Hampshire, SCORE Merrimack Valley Chapter #199, Center for Women's Business Advancement - Southern New Hampshire University	Concord, NH	11/23/2012
Selling to the Government Training Series 2013-2014	West Virginia DO - Regional Contracting Assistance Center, West Virginia SCORE Chapter #256	World Wide Web, Beckley, WV Charleston, WV Fairmont, WV Morgantown, WV	11/29/2012

<b>Name/Subject of Event</b>	<b>Name of Cosponsor(s)</b>	<b>Event Location</b>	<b>Date Fully Executed</b>
Train Your People, Grow Your Business	Connecticut DO-West Hartford Chamber of Commerce	West Hartford, CT	1/8/2013
Vermont Entrepreneurship Week	Vermont DO - Johnson State College Department of Business and Economics, Vermont Agency of Commerce and Community Development, Vermont Commission on Women, Vermont Small Business Development Center, Vermont Women's Business Center	Montpelier, VT	1/8/2013
Women in Business for Women Who Mean Business	Connecticut DO-West Hartford Chamber of Commerce	West Hartford, CT	1/8/2013
SBA/Brooklyn Business Library "Small Business Boot Camp"	New York DO-Brooklyn Public Library	Brooklyn, NY	1/8/2013
Contracting Workshop Series	Vermont DO - Vermont Technical College - Vermont Tech Enterprise Center - Vermont Small Business Development Center, Vermont Procurement Technical Assistant Center	Montpelier, VT	1/9/2013
Safety & Health Courses	El Paso DO-El Paso Community College Contract Opportunities Center	El Paso, TX	1/9/2013
Doing Business with the Government Workshops	Hawaii DO - State of Hawaii Department of Transportation, Honolulu Minority Business Center	Honolulu, HI & Hilo, HI	1/10/2013
"Doing Business With...." Federal Procuring Agencies	Michigan DO - Procurement Technical Assistance Centers of Michigan, SCORE Detroit Chapter 18, Michigan Small Business and Technology Development Center, Center for Empowerment and Economic Development, VetBizCentral	Livonia, MI	1/11/2013
Small Business Seminar Series	Santa Ana DO - City of Mission Viejo	Mission Viejo, CA	1/17/2013
Small Business Seminar Series	Santa Ana DO - City of Cypress - Redevelopment Projects Office	Cypress, CA	1/17/2013
Small Business Workshop Series	Wyoming DO - Laramie County Library System	Cheyenne, WY	1/17/2013
Straight Talk 2013 & Straight Talk Series	Buffalo DO - SCORE Buffalo Niagara Chapter #45	Buffalo, NY	1/23/2013

Name/Subject of Event	Name of Cosponsor(s)	Event Location	Date Fully Executed
Smart Business Talk	Georgia DO - Urban League of Greater Atlanta, Inc.	Atlanta, GA	1/23/2013
OPERATION: Start Up and Grow	Syracuse DO - New York Business Development Corporation, M&T Bank, Onondaga Community College, Onondaga Small Business Development Center, Institute for Veterans and Military Families, WISE Women's Business Center, The Tech Garden, Syracuse SCORE Chapter 98, Martin J. Whitman School of Management-Department of Entrepreneurship & Emerging Enterprises-Falcone Center for Entrepreneurship at Syracuse University	Syracuse, NY	1/23/2013
Success Series 2013	New York DO - Zhejiang Chamber of Commerce of America	Flushing, NY	1/23/2013
Oklahoma How-to-Guide for Small Businesses	Oklahoma DO - The Journal Record Publishing Company	Oklahoma Statewide	1/30/2013
International Trade Show 2013	New York DO - Zhejiang Chamber of Commerce of America, e888 International	Flushing, NY	1/30/2013
Raising Your Credit Score Workshops	West Virginia DO - Charleston West Virginia SCORE Chapter #256, Consumer Credit Counseling Service of the Midwest, Inc.dba Apprisen, Central Appalachian Empowerment Zone	Spencer, Mt. Hope, Craigs-ville, WV	1/30/2013
Los Angeles DO Lender Training & Awards	Los Angeles DO - The Business Resource Group, Inc	Glendale, CA	1/30/2013
SBA/NACC "Youth & Adult Small Business Boot Camp Series"	New York DO - New American Chamber of Commerce	Brooklyn, NY	1/30/2013
Small Business Excellence Award Recognition	Syracuse DO - New York Business Development Corporation	Syracuse, NY; Albany, NY	2/11/2013
Government Contracting Workshop Series	Rhode Island DO - Johnson & Wales University - Rhode Island Small Business Development Center, Center for Women & Enterprise, Rhode Island Economic Development Corporation - Rhode Island Procurement Technical Assistance Center	Providence, RI	2/11/2013

<b>Name/Subject of Event</b>	<b>Name of Cosponsor(s)</b>	<b>Event Location</b>	<b>Date Fully Executed</b>
“Small Business Growth Strategies” Conference	Richmond DO - City of Chesapeake Department of Economic Development	Chesapeake, VA	2/11/2013
U.S. Small Business Administration 2013 Awards Breakfast	Wisconsin DO-SCORE Southeast Wisconsin Chapter 28, Reinhart Boerner Van Deuren s.c., The Business Journal of Greater Milwaukee, Associated Bank	Milwaukee, WI	2/11/2013
Small Business Workshop Series	Rhode Island DO - Johnson & Wales University - Rhode Island Small Business Development Center, Center for Women & Enterprise, SCORE Joseph G.E. Knight Chapter 13	Providence, RI	2/11/2013
SBA/Visa Export Video Contest	HQ/OIT - Visa U.S.A, Inc.	Challenge.gov	2/21/2013
Spring Business Fair	Vermont DO - Champlain Valley Office of Economic Opportunity Micro Business Development Program, City of Burlington-Community and Economic Development Office	Burlington, VT	2/25/2013
Webinar Leadership Series	HQ/OCPL - W2O Group	World Wide Web	2/28/2013
2013 SBA Mississippi Statewide 8(a) Application Conference and HUBZone Conference	Mississippi DO - South Mississippi Contract Procurement Center	Gulfport, MS	3/4/2013
Business Seminar Planning for Success Techniques	North Dakota DO - Alerus Financial	Fargo, ND, Grand Forks, ND	3/4/2013
2013 SBA Small Business Awards Luncheon	Nevada DO - Southern Nevada Public Television dba Vegas PBS	Las Vegas, NV	3/7/2013
Salute to Small Business	South Carolina DO - South Carolina Chamber of Commerce, University of South Carolina - Small Business Development Center of South Carolina, South Carolina Department of Commerce, ECI/Find New Markets, SCORE Midlands SC Chapter, South Carolina Manufacturing Extension Partnership, U.S. Department of Agriculture - Rural Development Administration	Columbus, SC	3/7/2013

<b>Name/Subject of Event</b>	<b>Name of Cosponsor(s)</b>	<b>Event Location</b>	<b>Date Fully Executed</b>
2013 Albany Matchmaker	Syracuse DO - New York Business Development Corporation, University at Albany - Small Business Development Center, Albany-Colonie Chamber of Commerce, New York State Contract Reporter	Albany, NY	3/7/2013
Opportunity Forum Event Series	HQ/GCBD- Women Impacting Public Policy	Washington DC, Seattle WA, New York, Atlanta, Phoenix, San Francisco, Deventer	3/8/2013
2013 SBA Maryland Small Business Awards Luncheon and Trade Show	Baltimore DO - Maryland Small Business Week Awards Program, Inc.	Woodlawn, MD	3/11/2013
1st Annual SBA Great Lakes Lenders' Conference	Michigan DO - SCORE Detroit Chapter 18	Detroit, MI	3/14/2013
Emerging Leaders Initiative	St. Louis DO - SCORE St. Louis Chapter 21, Small Business & Technology Development Center, Veteran's Business Resource Center, Grace Hill Women's Business Center, Procurement Technical Assistance Center, Midwest Regional Bank, Commerce Bank, St. Louis Development Corporation	St. Louis, MO	3/14/2013
Innovation Strategies Webinars and Workshops for Manufacturers	Wichita DO - Mid-America Manufacturing and Technology Center, Inc., Fort Hays State University - Kansas Small Business Development Center	World Wide Web, Kansas	3/14/2013
Latino Entrepreneurs 2013 Conference - Thinking Out of the Box and Prospering With Your Business	Santa Ana DO - Chamber of Commerce for Hispanic Entrepreneurs	Anaheim, CA	3/14/2013
Small Business Week 2013	St. Louis DO - Small Business Week of Eastern Missouri, Inc.	St. Louis, MO	3/19/2013

<b>Name/Subject of Event</b>	<b>Name of Cosponsor(s)</b>	<b>Event Location</b>	<b>Date Fully Executed</b>
Workshop: "Ten Reasons A Business Fails and How to Turn It Around"	Baltimore DO - Business and Professional Woman	Timonium, MD	3/21/2013
Meet the Lenders	Maine DO - Bangor SCORE Chapter #314, Maine Small Business Development Centers, Maine Small Business Development Centers, Maine Centers for Women, Work and Community	Bangor, ME	3/21/2013
Meet the Lenders - Veterans and Small Business Loan Workshop	New York DO - South Bronx Overall Economic Development Corporation, Lehman College - Small Business Development Center	Bronx, NY	3/21/2013
9th Annual Government Contracting Matchmaking Event	Puerto Rico DO-Colegio de Ingenieros y Agrimensores de Puerto Rico	Hato Rey, PR	3/22/2013
Small Business Week Breakfast and Awards Ceremony	Puerto Rico DO-Puerto Rico Bankers Association	San Juan, PR	3/22/2013
Opportunities for Small Business in Government Procurement Forum	Puerto Rico DO-Federal Deposit Insurance Corporation, Federal Reserve Bank of New York, Puerto Rico Small Business & Technology Development Center, Puerto Rico Federal Contracting Center	San Juan, PR	3/22/2013
Houston District Small Business Week Awards Event 2013	Houston DO - SCORE Houston Chapter 37	Houston, TX	3/29/2013
Annual Celebration of Small Business Communities in Virginia Luncheon	Richmond DO - Virginia Small Business Development Center Network, SCORE Richmond Chapter 012	Richmond, VA	3/29/2013

# Appendix X: Legal Actions Summary

October 1, 2012-March 31, 2013

State	Program	Jointly with	Alleged Violation(s) Prosecuted	Legal Action
AL	BL	IRS/CI Army/ CID DCIS	The owner of a maintenance and repair services firm failed to file corporate or personal tax returns from 2002 to 2009. The owner is alleged to have provided false and unfiled tax returns to secure an SBA-guaranteed \$300,000 line of credit and to maintain his company's certification as an 8(a) firm.	Owner indicted
AL	IA	None	A former SBA employee made approximately \$30,553 of personal, unauthorized purchases using the government purchase card assigned to the Alabama District Office. She also filed 59 false travel vouchers, resulting in her receiving about \$21,905 from the SBA that she was not entitled to receive. In addition, she made approximately \$3,346 of unauthorized purchases on her government travel card.	Former employee sentenced to 4 months in prison, 36 months of supervised release (to include 4 months of home detention), and restitution of \$49,612.
AL	BL	None	The seller of a specialty auto parts business provided the \$260,000 equity injection that the buyer was required to pay in order to secure an SBA-guaranteed loan of \$1,529,000. The seller created and submitted false bank statements, checks, and certificate of deposit receipts to make it appear that the equity injection funds were a gift from the buyer's grandmother.	Seller indicted and pled guilty.
AR	DL	None	An individual obtained a \$180,400 SBA disaster loan for property damage sustained during the 2008 Arkansas flooding disaster. The individual falsely claimed damages to a property that was not his primary residence at the time of the disaster.	Individual entered into a civil settlement and agreed to pay the Government \$200,000.
AZ	BL	FBI	An individual submitted altered bank statements and false rental agreements in order to obtain an SBA Section 504 loan, as well as two mortgage loans, by using his father's identity. He falsely represented that his father owned various properties and businesses, had large amounts of cash on hand, and earned an annual salary of \$110,000. The total loss relating to the Section 504 loan is \$2,402,099.03	Individual pled guilty to a superseding information.

State	Program	Jointly with	Alleged Violation(s) Prosecuted	Legal Action
CA	BL	None	When applying for an SBA-guaranteed Recovery Act loan in the amount of \$1,750,000, the president of a management services firm allegedly failed to disclose personal and corporate debts.	President indicted.
DC	GC	FBI IRS/CI Army/ CID DCIS	Government officials received bribes from participants in SBA programs (i.e. 8(a), Alaska Native Corporation, Service-Disabled/Veteran- Owned (SDVO), etc.) in return for the award of contracts. The same government officials then certified receipt of goods and services and authorized payment of fraudulent invoices submitted by the contractors. The contractors then provided a portion of the proceeds to the government officials, paid kickbacks to other contractors, and retained portions for themselves. The bribe and kickback payments exceed \$30 million.	Three individuals and one company charged by criminal information. Two of these individuals pled guilty. Principals of seven different government contractors sentenced to a total of 293 months in prison, 252 months supervised release, and restitution of \$10,790,894.90. In addition, forfeitures equal \$4,055,063.
IL	BL	USPIS	A loan agent recruited an unqualified buyer to obtain a \$1.76 million SBA-guaranteed loan to purchase a gas station/convenience store. The loan agent prepared counterfeit investment account statements, cashier's checks, and a bogus management résumé, to make the buyer appear qualified to the lender and SBA. He also recruited a third party to front the down payment needed by the buyer and directed the use of loan proceeds to repay that third party after closing.	Loan agent charged by criminal information and pled guilty.
KS	GC	DCIS GSA/OIG VA/OIG	The owner of a construction company falsified his service disability in order to claim SDVO small business status. Using this status, he obtained 11 federal government contracts, valued at over \$6.83 million, which his company would not have been otherwise entitled to receive.	Owner sentenced to 87 months in prison, 3 years supervised release, and ordered to forfeit \$6,836,277.94.



State	Program	Jointly with	Alleged Violation(s) Prosecuted	Legal Action
KY	IC	None	SBA appointed an individual to liquidate a portfolio of small business concerns pursuant to the Small Business Investment Company Program. The individual allegedly diverted more than \$59,000 in sale proceeds into a fraudulently opened bank account and converted those proceeds for his personal use.	Individual indicted.
KY	GC	DCIS	Two officers of a large business submitted false statements to the SBA in order to obtain HUBZone certification for a “front” company they created because their large company was not eligible for HUBZone status. They then submitted false claims to the Army when using the fraudulently obtained HUBZone certification to procure Army contracts to build a courthouse and to complete repairs to Army facilities. The officers concealed from the government the fact that the small company did not operate as an independent entity but instead shared facilities, equipment, personnel, insurance, and bonding with the large business. The HUBZone front company was also financially dependent on the large business.	The two officers and two firms agreed to a civil settlement of \$6,250,000 to resolve the allegations.
LA	BL	None	A husband and wife obtained a \$560,000 SBA-guaranteed loan to purchase a furniture store. The couple allegedly misrepresented the value of the collateral for the loan; sold the collateral business personal property without the lender’s knowledge; and falsified their personal financial statements.	Couple indicted.
LA	DL	DHS/OIG	An individual altered repair invoices and filed them with the SBA in support of a \$289,000 disaster loan she obtained for her residence, which had been damaged by Hurricane Katrina.	Individual pled guilty.
LA	DL	FBI HUD/OIG	The owner of a dental practice obtained a \$430,500 disaster loan to repair his office, which had been destroyed by Hurricane Katrina. He agreed to use as collateral another property where he was to operate his surgical practice and fixtures and equipment that he was to purchase with the loan funds. The investigation found the collateral property to be in disrepair, i.e. unfinished walls; no permanent electrical power; and no furnishings, fixtures, or equipment. In addition, the owner submitted fraudulent invoices to the SBA in the amount of \$56,449.91 and used SBA funds for living expenses and gambling.	Owner pled guilty to a superseding indictment.

State	Program	Jointly with	Alleged Violation(s) Prosecuted	Legal Action
MA	GC	VA/OIG GSA/OIG Army/ CID	The co-owner of a construction company is alleged to have falsely claimed SDVO status for his company. The individual certified that service-disabled veterans were president and majority owner(s) of the company; however, he was the one who actually founded and operated the company and he was not a veteran. The company was awarded in excess of \$100 million in SDVO set-aside contracts.	Co-owner indicted.
MD	IA	None	A former SBA employee provided altered copies of her own Leave and Earnings Statement (LES) to another individual to enable that individual to finance an automobile. The altered LES reflected that the other individual was an SBA employee even though she never worked at SBA and was not employed at the time.	Second individual pled guilty. Both sentenced to 36 months of probation.
MD	BL	FBI USPIS	Individuals encouraged prospective borrowers to apply for SBA 7(a) business loans using the services of their company. The individuals submitted fraudulent SBA loan applications and supporting documentation (e.g. bank statements, cashier's checks, IRS documents) on behalf of their clients. These fraudulent documents falsely enhanced the creditworthiness of the borrowers and made it appear that they had more money for their equity injections than they actually did. To date, the conspiracy has resulted in losses of over \$100 million to the SBA.	Two additional individuals indicted and one other pled guilty. Three individuals sentenced to a total of 84 months in prison, 156 months of supervised release, restitution of \$2,104,752.52, and criminal forfeiture of \$47,921,900.
MO	BL	FBI	The owner of a marketing firm conspired with a former bank official and others by allowing his own back account to be used to launder money in return for \$2,000.	Owner pled guilty to superseding information.
MO	BL	FBI	The owner of a wireless internet provider obtained a 150,000 SBA Express loan in the name of another firm. The owner signed documents stating he was the president of the other firm and that the loan proceeds would be used for "working capital." In reality, he did not own, operate, or manage the other firm and the loan proceeds were used to benefit other individuals and business entities.	Owner pled guilty to criminal information.

State	Program	Jointly with	Alleged Violation(s) Prosecuted	Legal Action
MO	BL	FBI	When applying for SBA financing, an individual purported to have never been charged, arrested, or convicted of any criminal offense. In reality, she had been charged with illegally signing a petition, passing a bad check, and possession of a controlled substance. As the registered agent for her father's business, she obtained two SBA-guaranteed loans totaling \$350,000.	Individual sentenced to 3 years of probation.
ND	BL	USSS FDIC/ OIG FBI DHS/ICE TPD	A former loan officer provided inaccurate and misleading information in order to secure a \$2 million SBA-guaranteed loan for a couple and their business.	Former loan officer pled guilty.
NJ	BL	IRS/CI ENJPD	An organized group of individuals obtained credit cards and loans from various lending institutions using false identities, documents, and business names. One of these individuals obtained three SBA Express loans totaling \$130,000 and another loan for \$25,000 using the names of two fictitious companies.	Individual pled guilty.
OH	BL	FBI	An individual provided false and fictitious loan application documents, invoices, and other supporting paperwork to SBA and the bank to obtain a \$1,715,650 SBA 7(a) loan for a tire recycling plant. A second individual had knowledge of these felonies and concealed them from authorities.	Individual found guilty in jury trial. Second individual pled guilty to a criminal information.
TX	DL	DHS/OIG	An individual provided relatives with invoices and receipts from the reconstruction of her own home, which was being repaired with the help of an SBA Katrina disaster loan. She was fully aware that her relatives intended to alter the documents and fraudulently submit them to the SBA as evidence of reconstruction on their home for which they had also obtained an SBA loan.	Individual sentenced to 3 years of probation, a \$500 fine, and restitution of \$26,814.85 to be paid jointly with her relatives.

State	Program	Jointly with	Alleged Violation(s) Prosecuted	Legal Action
TX	DL	DHS/OIG	A real estate broker/bank director was involved in an invoice scheme involving approximately \$1 million in SBA disaster loans. An SBA disaster business loan was approved to repair/replace more than 40 rental properties purportedly damaged by Hurricane Ike. The broker/bank director, with assistance from contractors, family members, and employees, created overinflated and false repair invoices to submit to the SBA.	Broker/bank director sentenced to 108 months in prison, 3 years supervised release, and a \$30,000 fine.
TX	DL	DHS/OIG	A retired judge made false statements regarding the location of his primary residence, the address for his homestead exemption, and the payment of the required equity injection. These statements were made in order to obtain a \$125,000 SBA loan to reconstruct property damaged by Hurricane Ike.	Retired judge pled guilty.
TX	BL	None	A husband and wife obtained a \$420,000 SBA-guaranteed loan to purchase a convenience store. The couple purported to the lender that most of the equity injection was coming from the sale of a previously-owned convenience store. In reality, the couple had already depleted most of those funds. Instead they allegedly secured lines of credit under different company names and did not disclose these additional debts to the lender.	Husband and wife indicted.
TX	DL	FBI	The owner of a bowling alley obtained two disaster loans totaling \$1,884,100. He allegedly submitted inflated and unpaid invoices to SBA in order to receive payments on the loan. Both loans were fully disbursed.	Owner indicted.
TX	GC	VA/OIG	In order to qualify as a Service-Disabled/Veteran-Owned small business, the owner of a government contracting firm allegedly falsified the credentials of his company's engineers as well as his company's office location, number of employees, and past projects. The company was awarded an SDVO small business set-aside contract, and ten task orders under that contract, with a cumulative value of \$1,587,952.	Owner indicted.
VA	GC	NASA/ OIG DCIS DHS/OIG	Five individuals falsely represented to the government that a particular security contractor was eligible for the 8(a) program when, in reality, the company was controlled by a second security contractor. Over \$31 million in 8(a) and small business set-aside contracts were fraudulently obtained.	Five individuals charged by criminal information and pled guilty.

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State	Program	Jointly with	Alleged Violation(s) Prosecuted	Legal Action
VA	BL	FBI	An individual participated in a multi-million dollar fraud scheme involving bogus treasury checks and tax returns. In addition, the individual misrepresented his citizenship status on SBA-guaranteed Section 504 loan documents.	Individual pled guilty.

**Program Codes:** BL=Business Loans; DL=Disaster Loans; GC=Government Contracting and Section 8(a) Business Development; IA=Integrity Assurance; IC=Small Business Investment Company.

**Joint-investigation Agency Acronyms:** Army/CID=U.S. Army/Criminal Investigation Division; DCIS=Defense Criminal Investigative Service; DHS/ICE=Department of Homeland Security/Immigration and Customs Enforcement; DHS/OIG=Department of Homeland Security/OIG; HUD/OIG=Department of Housing and Urban Development/OIG; ENJPD=Englewood New Jersey Police Department; FBI=Federal Bureau of Investigation; FDIC/OIG=Federal Deposit Insurance Corporation/OIG; GSA/OIG=General Services Administration/OIG; IRS/CI=Internal Revenue Service/Criminal Investigation; NASA/OIG=National Aeronautics and Space Administration OIG; TPD=Tampa Police Department; USPIS=United States Postal Inspection Service; USSS=United States Secret Service; VA/OIG=Department of Veterans Affairs/OIG.

# Appendix XI: External Peer Reviews

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

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## 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 National Aeronautics and Space Administration Office of Inspector General, which issued its final report on September 27, 2012. 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.

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## Peer Reviews Conducted

The SBA OIG conducted a peer review of the Railroad Retirement Board Office of Inspector General during the last reporting period, but the final report had not yet been issued. On October 18, 2012, the OIG issued its final report. The Railroad Retirement Board 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.

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## 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 be conducted every 3 years.

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The OIG was not subject to a peer review during this semiannual reporting period. The Department of Veteran’s Affairs (VA) OIG conducted the last peer review of the OIG, and issued its final report December 21, 2011. The VA OIG found the system of internal safeguards and management procedures for the investigative function of the SBA OIG *Compliant* with the quality standards established by the CIGIE and the applicable Attorney General Guidelines (OIGs can be assessed as either *Compliant* or *Noncompliant*). No recommendations were offered.

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# Appendix XII: Organization

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

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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 SBA 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.

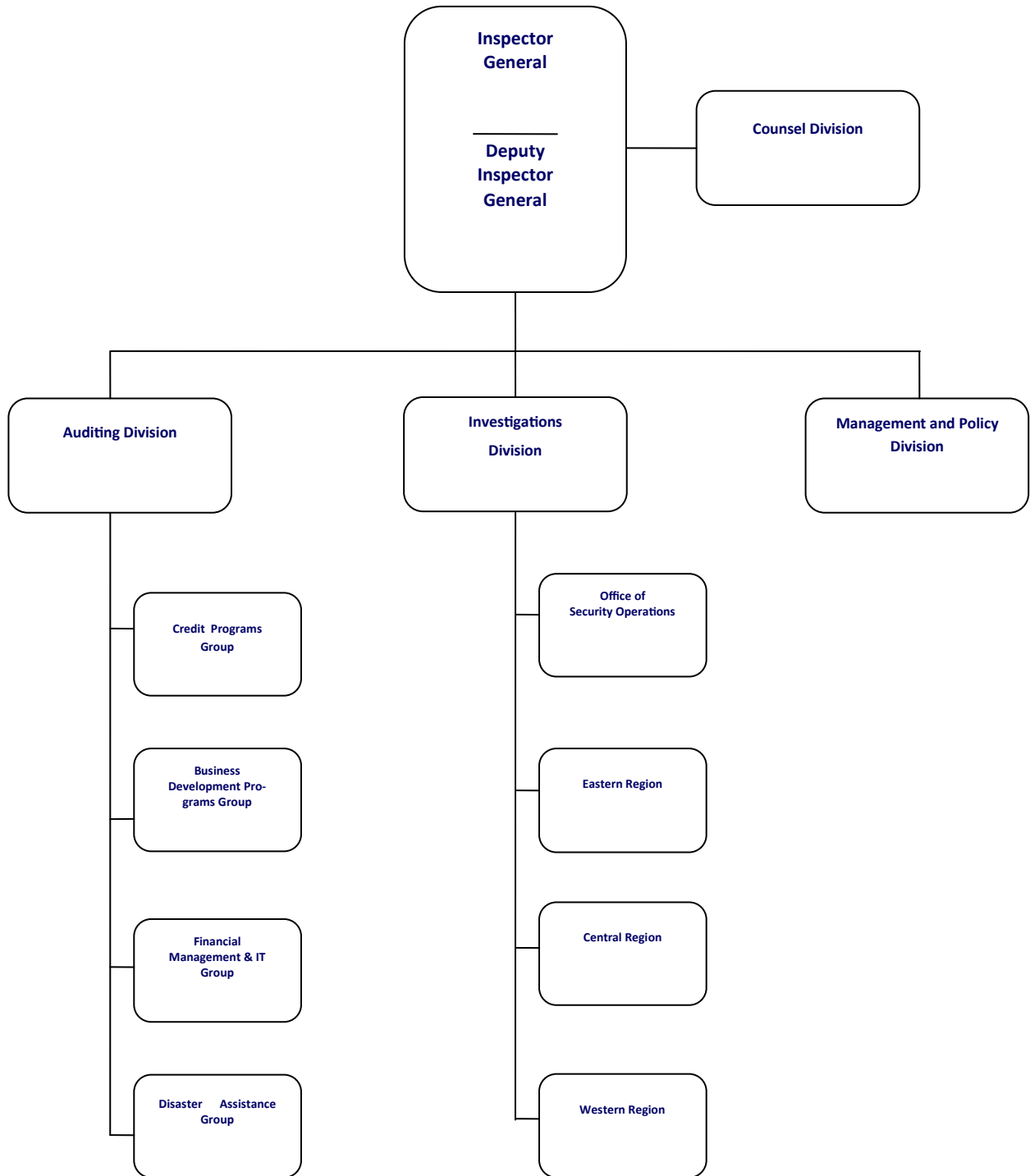
The **Counsel Division** provides legal and ethics advice to all OIG components; represents the OIG in litigation arising out of or affecting OIG operations; assists with the prosecution of criminal, civil fraud, and administrative enforcement matters; processes subpoenas, responds to Freedom of Information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

The **Management and Policy Division** provides business support (e.g., budget and financial management, human resources, IT, 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 the SBA, and other OIG-wide reports and documents; maintains the OIG website; and operates the OIG's Hotline.

The OIG headquarters is located 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 74.

# Appendix XIII: Organization Chart

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# Make a Difference!

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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  
409 Third Street, SW (5th Floor)  
Washington, DC 20416

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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.