

Office of Inspector General

Small Business Administration

Semiannual Report to Congress

Fall 2012



April 1, 2012 — September 30, 2012



U.S. Small Business Administration
Office of Inspector General
Washington, DC 20416

I am pleased to present the U.S. Small Business Administration (SBA) Office of Inspector General's (OIG) *Fall 2012 Semiannual Report to Congress*, which provides a summary of the OIG's activities from April 1—September 30, 2012. 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 10 reports containing 31 recommendations for improving SBA operations and reducing fraud and unnecessary losses in the Agency's programs. In addition, OIG investigations resulted in 33 indictments, 27 convictions, and 26 recommendations for suspension or debarment. Overall, the OIG achieved monetary recoveries and savings of \$56,304,123 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.

- ◆ Two Florida men were each sentenced for their role in a \$100 million fraud. They were also ordered to forfeit over \$10.9 million. Their scheme involved creating a company to obtain a \$100 million small business set-aside language instruction contract with the Department of Defense, while creating the false appearance that the business was not affiliated with the winner of the previous contract.
- ◆ The former pastor of a Louisiana church was sentenced to 10 years in prison and ordered to pay \$963,900 in restitution to the SBA in connection with his guilty plea to mail fraud and theft of government funds. He had received SBA disaster loan funds to rebuild his church, which had been severely damaged by Hurricane Katrina. Instead, he used the money to purchase two luxury vehicles, two pieces of real estate, certificates of deposit, designer clothing, fine jewelry, and other personal items.
- ◆ An audit of the SBA's assessment of delegated lender underwriting found that the purchase review process was not effective in identifying whether lenders were negligent in determining the borrowers' repayment ability. The OIG's analysis indicated that improved reviews for repayment ability could result in a cost savings to the SBA of at least \$43 million over the next two years.
- ◆ Another audit determined that SBA's National Disaster Loan Resolution Center did not transfer debts delinquent over 180 days to Treasury for cross servicing and offset as required. The audit found that \$171.1 million of loans in liquidation status as of December 31, 2011, were delinquent over 180 days and should have been transferred to Treasury but were not. As a result, collection actions against the delinquent borrowers were not initiated.

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.

/s/

Peggy E. Gustafson
Inspector General

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Overview

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 2011-2016 strategic plan has three overarching goals:

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

The SBA 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.

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 utilized 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>.

Small Business Access to Capital

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

Louisiana Man Pleads Guilty

A Louisiana man pled guilty to wire fraud, making false statements to a financial institution, and making a false tax return. He and another individual applied for a \$916,000 SBA-guaranteed loan to finance the purchase of a business. The investigation revealed that he devised a fraudulent commission agreement used at loan closing, which circumvented the equity injection requirement. This is a joint investigation with the Federal Bureau of Investigation (FBI), the Louisiana State Attorney General's Office, and the Internal Revenue Service (IRS) Criminal Investigation (CI).

Texas Man Ordered to Pay Over \$1.2 Million

A Texas man was sentenced to 5 years probation, 6 months home confinement, and over \$1,207,000 in restitution after pleading guilty to making false statements. He had contracted to buy a motel for \$2,350,000 but conspired with others to create another company to serve as a straw seller in order to artificially inflate the sales price to \$2,950,000. The man then submitted fraudulent documents to the SBA lender to support this scheme. He paid the straw seller \$400,000 of the required cash injection outside of closing, but \$308,000 was secretly returned to him prior to closing. This allowed him to apply some of the same funds again toward the remaining balance of the cash injection, thereby reducing the out-of-pocket funds he had to pay to purchase the property. At the closing, the straw seller received nearly

\$196,000 in what was identified as seller's proceeds. This money was then covertly funneled to a company owned by the buyer in the transaction. This is a joint investigation with the FBI.

North Dakota Man Indicted for Bank Fraud

A former North Dakota bank loan officer was indicted for bank fraud, false entry in bank records, making false statements to a financial institution as well as other false statements, and a forfeiture charge. The charges relate to him providing misleading information to secure a \$2 million SBA-guaranteed loan for a husband and wife's business. The husband had previously been indicted for misrepresenting his cash injection for the loan. Based upon the bank's deficient oversight, the SBA Office of General Counsel decided to deny liability on the full guaranty, resulting in a cost avoidance to the SBA of \$1,342,000. This is a joint investigation with the U.S. Secret Service (USSS), Federal Deposit Insurance Corporation (FDIC) Office of Inspector General (OIG), FBI, Immigration and Customs Enforcement's Office of Investigations, and the Tampa Police Department.

Alabama Woman Pleads Guilty to Loan Fraud

An Alabama woman pled guilty to loan fraud. She obtained an SBA-guaranteed loan of \$1,529,000 to purchase a business for which the seller provided the \$260,000 required equity injection. Both the woman and the seller falsely represented that the equity injection was a gift to the buyer from her grandmother. The SBA Office of Inspector General (OIG) Early Fraud Detection Working Group provided information toward the initiation and development of this case.

Florida Man Agrees to Pay the SBA \$410,000

The U.S. Department of Justice, acting on behalf of the SBA in a civil action, reached a settlement agreement in which a Florida man agreed to pay the SBA \$410,000. The man had sold another individual a

\$410,000. The man had sold another individual a combined gas station and convenience store for \$1.33 million. The transaction required a \$600,000 equity injection that the purchaser never possessed. The defendant made it appear that the purchaser had the full equity injection by providing an additional \$180,000 loan to him. This loan was channeled through a third party with a false “gift letter” to make the loan appear to be a gift from a friend.

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

Virginia Business Owner Indicted with \$17.7 Million Judgment and Forfeiture

A Virginia business owner was indicted for conspiracy, conspiracy to commit bank fraud, money laundering, bank fraud, making false statements to influence a financial institution and/or the SBA, and structuring currency transactions. The indictment also notified him that the United States intends to seek a \$17.7 million money judgment and forfeiture of assets, including bank accounts and real property, as proceeds of the alleged fraud. A superseding indictment added business assets, vehicles, and investment accounts to the forfeiture notice. The man allegedly participated in a multi-million dollar scheme involving bogus Treasury checks and tax returns. He also allegedly misrepresented his citizenship status when obtaining a \$149,000 SBA loan and a \$203,000 bank loan. This is a joint investigation with the FBI.

California Group Indicted for Fraud

A California husband and wife were each indicted for mail fraud, bank fraud, making false statements, and aiding and abetting. Their daughter was indicted on varying counts of the same charges, while another individual was indicted for mail fraud and aiding and abetting. The four individuals allegedly executed a scheme to defraud a financing corporation, a bank, and the SBA by making false statements to obtain business loans for a combined gas station and car wash that the couple owned. Allegedly, the daughter and the other individual falsely reported that neither they nor their businesses were involved in any bankruptcies or pending lawsuits, and that they did not have a controlling interest in other businesses. At the time they signed the SBA business loan application, however, both had been involved in bankruptcy proceedings. In addition, the daughter was involved in a pending lawsuit and had a controlling interest in another business. The indictment also alleges that all four individuals made material false statements to obtain another business loan for the business. The loss to the financial institution and the SBA is approximately \$1.45 million.

Three Plead Guilty in Scheme Costing \$52 Million

Two Maryland men and one woman pled guilty to conspiracy to commit bank fraud in connection with a scheme to fraudulently obtain SBA-guaranteed business loans. In addition, the men agreed to criminal forfeitures of \$13,432,000 and \$18,764,900 respectively, while the woman agreed to a criminal forfeiture of \$15,725,000. A fourth individual was sentenced to 33 months in prison, two years of supervised release, restitution of \$713,000, and forfeiture of \$1.3 million. The scheme involved using a straw borrower to fraudulently obtain the loans. The individuals made material misrepresentations on financial statements, tax documents, and bank statements by falsely enhancing the creditworthiness of the true borrowers. The resulting losses are estimated to be over \$52 million. The OIG is conducting this investigation jointly with the FBI and the U.S. Postal Inspection Service.

Utah Business Owner Sentenced

A Utah business owner (and former mortgage loan officer) was sentenced to 10 days incarceration, 6 months of home confinement, 30 months of supervised release, and nearly \$166,000 in restitution to be paid jointly with another man who, in turn, was sentenced to over 1 year incarceration and 36 months of supervised release. The first man had pled guilty to money laundering. The two men recruited “straw borrowers” and used the borrowers’ names and good credit to fraudulently obtain \$335,000 in loans. The straw borrowers were promised compensation for allowing the use of their personal information to fabricate application documents in order to induce the banks to approve the loans. The men enticed the straw borrowers to submit documents indicating that they owned thriving businesses when, in fact, the businesses only existed on paper. They fraudulently obtained four SBA loans and two regular bank loans. This case was initiated based on a referral from the SBA Utah District Office. This was a joint investigation with the IRS-CI.

Missouri Man Ordered to Pay \$1.1 Million

A Missouri man was sentenced to 5 years of probation and nearly \$1,114,000 in restitution, including nearly \$579,000 to the SBA. He previously had pled guilty to making false statements for the purpose of influencing the SBA and aiding and abetting. The investigation disclosed that he had signed several SBA documents in connection with a \$750,000 SBA-guaranteed loan to a firm. Although he stated that he was the 100% owner, he actually had no ownership interest in the company. The man also signed SBA documents affirming that portions of the loan proceeds were to be used for equipment and inventory purchases, working capital, and debt repayment when, in fact, he knew that the proceeds were intended for paying down another business’s outstanding loan balance. This was a joint investigation with the FBI.

During this reporting period, the OIG completed three audits in the area of Business Loans and Oversight. All three highlighted opportunities for the SBA to more effectively assess and mitigate financial risk to the Agency. Specifically, the OIG recommended steps to develop and implement improved processes by which to recognize and assess lender deficiencies and monitor and verify corrective actions. By implementing all of the recommendations in these reports, the Agency could reduce the amount of its unnecessary financial losses

Addressing Performance Problems of High-Risk Lenders Remains a Challenge for the Small Business Administration

During this reporting period, the OIG completed an [audit](#) of the actions taken by the SBA to mitigate risks presented by High-Risk lenders before and during the American Recovery and Investment Act of 2009. The OIG found that the SBA did not always recognize the significance of lender weaknesses and determine the risks they posed to the Agency. Further, the SBA did not require lenders to correct performance problems that could have exposed the Agency to unacceptable levels of financial risk. The OIG recommended that the SBA (1) tailor the scope of on-site reviews of lenders to identify and address the weaknesses underlying their ratings, (2) ensure that judgmental loan samples targeting lender-specific risks are drawn for each on-site review, (3) develop and implement a process for assessing lender weaknesses in terms of their risk to the Agency, (4) train contractors and analysts on the process for assessing lender weaknesses and reporting findings, (5) develop and implement a corrective action follow-up process to monitor and verify the implementation and effectiveness of corrective actions prior to close-out, and (6) develop and implement a control to ensure loans cannot be

purchased until guaranty issues are fully resolved and documented.

504 Recovery Act Loans were Originated and Closed in Accordance with SBA Policies

In an [audit](#) of the origination and closing of 504 Recovery Act loans, the OIG found that the SBA generally originated and closed 504 Recovery Act loans in accordance with SBA policies and procedures. However, the OIG identified origination and closing deficiencies in four of the loans reviewed. These deficiencies included approved loans that lacked creditworthiness, a loan approved with a collateral short-shortfall, and one loan approved as an existing business transaction instead of as a new business transaction. The loans reviewed had improper loan approvals of \$1,561,000. The OIG recommended that the SBA (1) determine how the deficiencies in the four SBA-approved loans occurred and take corrective action to prevent similar deficiencies in other SBA-approved 504 loans, (2) provide feedback to the SBA loan officers who approved the 504 loans in which deficiencies were identified, and (3) notify the improper payment review team of the improper 504 loan guaranties to ensure the proper estimation of improper payments in the 504 Loan Program.

A Detailed Repayment Ability Analysis is Needed on High-Dollar Early-Defaulted Loans to Prevent Future Improper Payments

In an [audit](#) of early-defaulted loans, the OIG determined that the SBA's assessment of delegated lender underwriting performed at the National Guaranty Purchase Center (NGPC) on early-defaulted loans was not effective. Specifically, the assessment was not effective in identifying whether lenders were negligent in determining the borrowers' repayment ability. As a result, the NGPC made improper payments, which resulted in unnecessary losses to the Agency. Based on previous audit work, the OIG's

analysis indicated that improved reviews for repayment ability could result in a cost savings to the SBA of at least \$43 million over the next two years. To prevent future losses, the OIG recommended that the SBA perform a detailed analysis of the delegated lenders' computation of repayment ability on all high-dollar early-defaulted loans and provide training to NGPC purchase staff.

Disaster Loan Program

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

In response to the increase in fraud following Hurricanes Katrina, Wilma, and Rita, the OIG and other law enforcement organizations established the National Center for Disaster Fraud (the Center).

From FY 2006 through FY 2012, the OIG, in conjunction with the Center, has produced 86 arrests, 95 indictments, and 91 convictions related to wrongdoing in SBA's Disaster Loan program for these three hurricanes.

Investigations for these disasters— to date— have resulted in over \$6.6 million in court-ordered restitution and related recoveries, as well as the denial of nearly \$4.5 million in loans to potentially fraudulent borrowers. In addition, the OIG has investigated fraud related to 2008 Hurricanes Ike and Gustav.

Mississippi Man Ordered to Pay \$1.25 Million

A Mississippi man was sentenced to 3 years of probation and was ordered to pay a \$250,000 fine and \$1 million in restitution. He had previously pled guilty to making false statements. The man and his wife, who has also been charged, submitted a disaster

business loan application for business properties located in Mississippi and Louisiana. They received \$1 million in loan proceeds to repair properties damaged by Hurricane Katrina. The investigation found that they (1) misused the proceeds, (2) submitted fraudulent receipts to the SBA, and (3) used nearly \$390,000 of the loan proceeds to purchase a 43-foot yacht. This case was developed through a proactive National Center for Disaster Fraud initiative. The OIG conducted this investigation jointly with the FBI.

Former Louisiana Pastor Sentenced to 10 Years

The former pastor of a Louisiana church was sentenced to 10 years in prison, 3 years supervised release, and ordered to pay \$963,900 in restitution. He had previously pled guilty to mail fraud and theft of government funds. The man had applied for an SBA disaster loan on behalf of the church where he was the pastor at the time. The initial loan amount of \$500,000 was for replacement of equipment and rebuilding of the church, which sustained damage as a result of Hurricane Katrina. He later requested a loan increase due to additional construction costs for rebuilding the church. A \$463,900 loan increase was approved by the SBA, bringing the total loan amount to \$963,900. However, he did not use the funds as specified in the loan authorization and agreement, which required the funds be used to reconstruct real estate and rehabilitate or replace property damaged by the hurricane. Instead, he used the funds to purchase luxury vehicles, real estate, designer clothing, fine jewelry, and other items for his personal use. The OIG conducted this investigation jointly with the USSS.

Retired Texas Judge Indicted for Fraud

A Texas man was indicted for fraud in connection to a major disaster. The man, a retired judge, allegedly provided false statements to obtain a Hur-

ricane Ike SBA disaster loan. The alleged false statements involved the location of his primary residence, the address for his homestead exemption, and the payment of the required personal equity injection. At the time of Hurricane Ike, the subject's primary residence was located in a city in Texas. However, in applications submitted to the SBA and the Federal Emergency Management Agency (FEMA), he claimed it was in a different Texas city and obtained a \$125,000 SBA loan. He further obtained approximately \$10,000 in FEMA disaster assistance for emergency housing needs. This is a joint investigation with the Department of Homeland Security OIG.

The OIG issued two Advisory Memoranda during this period both related to findings in an audit initiated to assess the SBA National Disaster Loan Resolution Center's (NDLRC) effectiveness in managing disaster loans in liquidation to maximize debt recovery and minimize losses. The first memorandum was issued to inform the Agency that the NDLRC did not transfer eligible debts totaling \$171 million to the Department of the Treasury (Treasury) for cross servicing and offset, as required. The second memorandum addressed the potential risk of loss of collateral on four disaster loans totaling \$5.6 million. The OIG's recommendations, when implemented, will minimize the risk of the loss of collateral and maximize recovery of delinquent debt for the Agency.

The SBA Did Not Maximize Recovery for \$171.1 Million in Delinquent Disaster Loans in Liquidation

The first advisory memorandum addressed the SBA's noncompliance with the Debt Collection Improvement Act of 1996 (DCIA). The overall audit objective was to assess the NDLRC's effectiveness in managing disaster loans in liquidation to maximize debt recovery and minimize losses. One specific audit objective was to assess whether the NDLRC complied with the DCIA for disaster loans in liquidation status as of December 31, 2011.

The audit determined that the NDLRC was not complying with the DCIA requirement that all Federal agencies transfer debts delinquent over 180 days to Treasury for cross servicing and offset. The audit found that approximately 1,553 of 3,958 disaster loans (39 percent) in liquidation status as of December 31, 2011, were delinquent over 180 days and not in active litigation status, foreclosure status, workout, or otherwise exempt from transfer to Treasury for cross servicing. The principal balances for these loans totaled approximately \$171.1 million. Since the loans did not meet the Treasury criteria exempting them from transfer, the NDLRC should have charged off the loans so that the SBA could transfer them to Treasury to initiate collection action against the delinquent borrowers.

The OIG recommended that the SBA (1) evaluate disaster loans in liquidation status over 180 days, but not specifically exempt from referral to Treasury, to charge off loans for which foreclosure is not feasible, (2) 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, (3) update agency operating procedures, and (4) provide training to staff.

The SBA Risks Loss of Collateral on Four Disaster Loans Totaling \$5.6 Million

The second advisory memorandum found deficiencies with SBA's handling of certain collateral securing four disaster loans. During the audit, the OIG reviewed a random statistical sample of 65 disaster loans charged off by the Santa Ana NDLRC. The sample included two defaulted loans the SBA approved for a Florida condominium complex. The SBA approved four loans to this condominium complex; two loans are current, while two are in default. The OIG discovered that the Uniform Commercial Code (UCC) financing statement had lapsed for one of these loans, and that the UCC financing statements for the remaining three loans would expire within months. The OIG recommended that the SBA renew all four UCC financing statements to preserve the Agency's interest in \$5.6 million in loan collateral.

Procurement Assistance

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 Small Disadvantaged Business (SDB) Certification Program.

The SBA also negotiates with other federal agencies to establish procurement goals for contracting with small, disadvantaged, women-owned, service-disabled veteran-owned, and HUBZone businesses. The current government-wide goal is for small businesses to receive 23 percent of the total value of prime contracts awarded each fiscal year.

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



Over \$2 Billion in Government Contracts Involved in Bribery Scandal

In a continuing multi-agency investigation, 12 individuals have thus far been charged in a scheme involving more than \$30 million in bribes and kickback payments. The conspiracy involved 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. All of these individuals have pled guilty to bribery, conspiracy, money laundering, and other charges. This is a joint investigation with the FBI, IRS-CI, U.S. Army Criminal Investigation Command (still known as CID), and Defense Criminal Investigative Service (DCIS). The following legal actions illustrate the extent and complexity of the conspiracy:

Owner Agrees to Pay Almost \$4.1 Million to U.S.

The owner of a construction management firm pled guilty to conspiracy to commit money laundering and agreed to a nearly \$4.1 million judgment in favor of the United States. The investigation revealed a conspiracy to launder proceeds of the bribery scheme and to use the proceeds to obtain real property, vehicles, and luxury personal goods for personal benefit. The owner and others 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.

Former Corps of Engineers Program Manager Pleads Guilty to Bribery of a Public Official

In a related matter, a former USACE program manager pled guilty to bribery of a public official and conspiracy to commit money laundering. He also agreed to the forfeiture of nearly \$11.1 million in favor of the United States and specific property as set forth in the plea agreement. In addition, his son pled

guilty to conspiracy to commit money laundering and agreed to the forfeiture of specific personal and real property. The investigation found that the father received and accepted things of value, personally and for other persons, from various firms and others in return for funding and approving contracts. He provided preferential treatment to these contractors and subcontractors for contracts awarded—and to be awarded—through the USACE. The payments received by and promised to him totaled over \$30 million. The son conspired with his father and others to launder the proceeds of the scheme. The investigation uncovered the father's individual role in the planned steering of a government contract with an intended value of nearly \$1 billion.

Corps of Engineers Manager Sentenced

Another former USACE program manager was sentenced to 6 years in prison, 3 years supervised release, and 500 hours of community service, as well as being ordered to pay \$1.25 million in restitution and a \$1.25 million forfeiture money judgment. He had participated in the scheme in which corrupt public officials steered government contracts in exchange for more than \$30 million in bribe and kick-back payments. He received and accepted things of value, for his personal benefit and for the benefit of others, from two Section 8(a) firms in return for funding and approving contracts.

Ex-Chief Financial Officer Pleads Guilty to Bribery

The chief financial officer of a subcontractor to a Section 8(a) firm pled guilty to bribery, conspiracy to commit bank fraud, and willful failure to file a tax return in connection with his bribery of government officials. He gave, offered, and promised over \$200,000 for a U.S. Army public official's benefit in return for the official's assistance in directing subcontracts to his firm and providing preferential treatment for potential U.S. Army contracts. In addition, he engaged in a scheme to defraud and ob-

tain money and property from financial institutions by means of false and fraudulent pretenses, representations, and promises. Finally, he willfully failed to file an income tax return related to income earned in calendar year 2010 in excess of \$100,000.

Some firms misrepresent their eligibility for the Service-Disabled Veteran-Owned Small Business (SDVOSB) Concern, HUBZone, Section 8(a) Business Development, ANC, and other small business programs to gain preferences in obtaining federal contracts. The OIG's and other federal organizations' investigations have identified schemes in which businesses 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.

Alabama Man Sentenced for HUBZone Misrepresentations

An Alabama man was sentenced to 12 months and one day imprisonment, 12 months of supervised release, and restitution of \$130,000 after previously pleading guilty to misrepresentation. He had falsely obtained HUBZone certification for his business even though his firm's principal office was not located within a HUBZone and 35 percent of its employees did not reside within a HUBZone, as required by program regulations. As a result of the false HUBZone status, his firm was awarded 28 federal contracts from 2006 to 2009, valued at nearly \$2.6 million, which it otherwise would not have been eligible to receive. This was a joint investigation with the Army CID and DCIS.

Kansas Company Owner Agrees to Forfeiture Judgment in Excess of \$6.8 Million

The owner of a Kansas construction company pled guilty to conspiracy, major program fraud, wire fraud, money laundering, and making false statements. He also agreed to a forfeiture judgment against him for over \$6.8 million. The owner and his company fraudulently claimed SDVOSB status to obtain 11 federal government contracts valued at over \$6.8 million, which his company otherwise would not have been entitled to receive. He also admitted providing the Department of Veterans Affairs (VA) contracting officer with a fraudulent resume in which he claimed to have served three tours in Southeast Asia as a highly decorated U.S. Army officer. Government records show that he never left Missouri during his service in the Army and Missouri National Guard. This is a joint investigation with the General Services Administration (GSA) OIG, Veteran's Administration (VA) OIG, and DCIS.

Idaho Man Pleads Guilty to Fraud

The owner of an Idaho construction company pled guilty to wire fraud and consented to the forfeiture of \$150,000. The charges were in connection with fraud in SBA's SDVOSB and HUBZone programs, the VA SDVOSB Program; and the GSA Surplus Property Program, through which 8(a) companies can obtain surplus property. The man established shell corporations to financially benefit from SBA set-aside programs and government surplus property programs in which he was not otherwise entitled to participate. The OIG is conducting this investigation jointly with the IRS-CI, VA OIG, GSA OIG, U.S. Department of Agriculture OIG, Department of Interior OIG, Air Force Office of Special Investigations, and DCIS.

New York Construction Firm Owner Sentenced in Connection with Nearly \$16.7 Million in Contracts

The president of a New York construction firm was sentenced to 41 months in prison, a \$30,000 fine, and 3 years of supervised release after having been found guilty of mail fraud, major fraud against the United States, making false statements, and tampering with a victim, witness, or an informant. The firm had falsely claimed status as an SDVOSB and was awarded one veteran-owned set-aside contract for nearly \$5.7 million and three SDVOSB set-aside contracts totaling nearly \$11 million. However, the president was neither a veteran nor service-disabled. This was a joint investigation with the VA OIG and Army CID.

Florida Men Ordered to Forfeit over \$10.9 Million Gained from Fraud

Two Florida men were each sentenced to 36 months incarceration, 36 months supervised release, 500 hours of community service, and a special assessment fee related to their conviction for conspiracy and wire fraud. The two were also ordered to forfeit over \$10.9 million of proceeds from the fraud. In their scheme, they created a company for the purpose of obtaining a \$100 million small business set-aside language instruction contract with the Department of Defense (DoD). In addition, they used a nominee owner to create the appearance that the business was not affiliated with another business under their control. The pre-existing business had been the incumbent contractor on the previous DoD language instruction contract. The men submitted false and misleading information concerning the relationship between the two companies after the affiliation was challenged during a size protest submitted to the SBA Office of Government Contracting. This was a joint investigation with the DCIS.

A Non-Manufacturer Rule Waiver Allowed an 8(a) Recovery Act Contract to Bypass Established Small Business Requirements

On September 4, 2012, the OIG issued Advisory Memorandum 12-19R, *A Non-Manufacturer Rule Waiver Allowed an 8(a) Recovery Act Contract to Bypass Established Small Business Requirements*. This advisory memorandum was the first in a series of ongoing limited scope audits to review the extent to which 8(a) Business Development Program participants are complying with prime contractor performance requirements for set-aside contracts.

For this audit, the OIG selected one 8(a) contract and one HUBZone contract. The OIG found that one contractor complied with the performance of work requirements, and the other was exempt because of a waiver from the SBA. The exempt contractor, an Alaska Native Corporation (ANC), who utilized a subcontractor to provide imaged personal computers and monitors for the Department of Labor, performed another 8(a) set-aside contract for \$7.78 million. However, the 8(a) set-aside contract was performed as a pass through contract where large businesses received most of the procurement dollars, and the ANC received \$153,000.

The use of the non-manufacturer waiver enabled a firm to bypass small business subcontracting requirements resulting in a pass through contract to large businesses. Although authorized under statute, these types of procurements may not provide the development opportunities to small businesses intended through participation in the 8(a) program. These types of procurements also funnel taxpayer funds to large businesses instead of developing small businesses. As a result, a large business received 8(a) set-aside funds through a pass through without competing in the open market.

Audit of SBA's Procurement Process used to Reconfigure Space for the Office of International Trade

This advisory memorandum, the first of two reports,

presents the results of the OIG's limited scope audit of the SBA's procurement process used to reconfigure space for the Office of International Trade. While conducting the audit, the OIG found that SBA personnel with purchase card authority had inappropriately purchased \$34,044.77 in construction transactions. These transactions were over the \$2,000 threshold established by the Federal Acquisition Regulations for construction purchases at the Washington, DC area offices.

The OIG recommended that the SBA (1) ensure all purchase cardholders have, on file, current delegation letters that reflect current limitations and approving official; (2) provide training to SBA purchase cardholders and approving officials on the proper use of a government purchase card, to include purchase limitations and the definition of construction; and (3) review the routine maintenance needs of SBA buildings within the Washington, DC area.

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 requires the Agency to issue regulations regarding disclosures of such information for use in conducting financial audits or SBDC client surveys. In 2009, the Agency represented to the OIG that it would issue regulations as required by the statute, and later prepared proposed regulations. However, the Agency has not yet issued these regulations.

In addition, 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 did not conduct any surveys of SBDC clients during the second half of FY 2012.

Agency Management

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

Former SBA Administrative Officer Pleads Guilty to Wire Fraud

A former SBA administrative officer in the southern U.S. pled guilty to fraud by wire. She had made over \$30,000 worth of personal and unauthorized purchases using the government purchase card assigned to her SBA district office. Moreover, she had filed approximately 59 falsified travel vouchers, resulting in her receiving nearly \$22,000 from the SBA that she should not have received, and made over \$3,000 of unauthorized purchases on her government travel card. This case was initiated based on a referral from her district office.

Maryland Woman Pleads Guilty to Conspiracy

A Maryland woman pled guilty to conspiracy to commit wire fraud after she and a former SBA payroll assistant were charged with that crime. The indictment alleges that the former SBA employee provided three altered copies of her own SBA earnings statement to the Maryland woman so that she could finance an automobile. The altered statements reflected that the Maryland woman was an SBA employee, even though she had never worked at SBA and was not employed at the time. When the automobile dealership requested additional proof of employment, the former SBA employee faxed a fourth altered statement from SBA headquarters to the dealership in Maryland.

The SBA's Ratification Process May Lead to Anti-Deficiency Act Violations

This advisory memorandum presents an issue the OIG identified during an on-going audit of the *Small Business Administration's (SBA) Unauthorized Commitments*. The OIG determined that the SBA had ratified four unauthorized commitments associated with an expired postage meters contract without determining whether unobligated funds were available when the unauthorized commitment initially occurred. Without such a determination, these ratifications appear to be invalid under Federal Acquisition Regulations (FAR) and U.S. Government Accountability Office guidance. Additionally, the ratifications may put the SBA at risk for an Anti-Deficiency Act violation. The OIG did not determine how widespread this deficiency is but wanted to provide SBA management with an early notification of this issue so the Agency could expeditiously implement corrective action, if needed. As a result of the OIG's actions, the Agency updated its ratification template to ensure that funds existed at the time the unauthorized commitment was made for all ratifications since May 2012 and all future ratifications. The SBA is also in the process of reviewing all ratifications made between February 2011 and May 2012 to ensure that they comply with all of the requirements outlined in the FAR.

The audit team recommended that the SBA: (1) continue to review the remaining ratification actions that have been taken using the previous template to determine if they contain similar deficiencies, and undertake appropriate corrective action to ensure that all ratifications approved by the SBA are valid under the FAR; and (2) review and determine if any Anti-Deficiency Act violations occurred in the previously ratified unauthorized commitments.

Review of SBA's State Trade and Export Promotion Grant Program

This report presents the results of the OIG's audit, *Review of SBA's State Trade and Export Promotion*

(STEP) Grant Program. The OIG reviewed the five largest grants, awarded to California, Pennsylvania, Washington, Michigan, and Illinois, in order to determine whether grant recipients were measuring program performance, as well as the results of those measurements. In addition, the audit team reviewed the overall management and effectiveness of the STEP grant program.

The OIG found that grant recipients' performance measures did not demonstrate whether STEP program goals were achievable. Specifically, grant recipients' metrics were not adequate to measure performance. In addition, SBA personnel did not meet with Congress to identify and clarify the FY 2011 STEP program measures for success. Further, the SBA mismanaged the STEP grant program, which may result in misspent funds and a failure to achieve intended results. For example, personnel from the SBA Office of International Trade and the Office of Grant Management awarded a grant to an ineligible applicant, provided untimely and inaccurate responses to inquiries, and failed to enforce grant terms and conditions. The audit team recommended a total of nine specific actions to improve the accountability and performance of the STEP grant program.

SBA Gift Authority

Section 4(g)(2) of the Small Business Act, as amended, provides that any gift, devise, or bequest of cash accepted by the Administrator under Section 4(g) shall be held in a separate account and shall be subject to semiannual audits by the Inspector General, who shall report his findings to Congress. According to the SBA's Office of Strategic Alliances, the SBA accepted one cash gift in the amount of \$16,786 during this semiannual reporting period. The OIG will audit this gift in accordance with Section 4(g)(2).

Co-sponsorships and Fee-Based Administration-Sponsored Events

Section 4(h) of the Small Business Act, as amended, requires the OIG to report to Congress on a semi-annual basis regarding the Agency's use of its authority in connection with co-sponsorships and fee-based Administration-sponsored events. The SBA's Office of Strategic Alliances provided information to the OIG related to co-sponsorships, including the names, dates, and locations of the cosponsored events and the names of the cosponsors. This information was not verified by the OIG. As shown in Appendix IX, between April 1, 2012 and September 30, 2012, the Administrator—through her approved designees—fully executed 48 cosponsorship agreements.

Weaknesses Identified in FY 2011 FISMA Review

In this advisory memorandum, the OIG presented risk areas requiring management follow-up as a result of the OIG's FY 2011 Federal Information System Management Act (FISMA) review. The OIG's review found that the Office of Chief Information Officer (OCIO) needs to prioritize remediation of IT security vulnerabilities identified in prior audits. The OCIO also needs to perform recertification reviews of its general support system's end users and monitor remote access logs for unauthorized activity. Finally, the OIG found that the SBA has a number of tasks in its IT security assistance contract that are not being performed. The OIG made three recommendations, (1) to implement OIG recommendations in a more timely manner, (2) recertify network users, and (3) review remote access audit logs. The OIG also re-issued a prior year recommendation related to the OCIO's oversight of its IT Security Contractor. The CIO agreed to the accuracy of the current and prior year recommendations, provided updates on statuses, and adjusted closure dates. The CIO also stated that configuration management is being performed by the Office of Communications and Technology Services, and his office is in the process of amending their security assistance contract.

Other Significant OIG Activities

Character Screening Reduces Potential Program Fraud

Participants in SBA programs involving business loans, disaster assistance loans, Section 8(a) certifications, surety bond guarantees, SBICs, and CDCs must meet Agency character standards. To help ensure that this occurs, the OIG's Office of Security Operations utilizes name checks and, where appropriate, fingerprint checks to determine criminal background information. During this reporting period, the OIG processed 2,549 external name check requests for these programs.

The OIG also refers applicants who appear ineligible because of character issues to program officials for adjudication. The referrals are based on data from the OIG's on-line connection with the FBI. As a result of OIG referrals during this reporting period, SBA business loan program managers declined 33 applications totaling over \$26.7 million, and disaster loan program officials declined 9 applications totaling over \$649,000. In addition, the Section 8(a) program declined 20 applications for admission and the Surety Bond Guaranty program declined 1 application for admission.

During this reporting period, the OIG also initiated 187 background investigations and issued 27 security clearances for Agency employees and contractors. The OIG also adjudicated 79 background investigative reports and coordinated with SBA's Office of Disaster Assistance to adjudicate 89 derogatory background investigation reports. Finally, the OIG processed 948 internal name check requests for Agency activities such as success stories, "Small Business Person of the Year" nominees, and disaster assistance new hires.

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

During this reporting period, the OIG sent 26 suspension and debarment referrals to SBA. 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 the reporting period, the OIG has focused on increasing the number of fact-based suspension and debarment referrals for contractors that have committed fraud or otherwise shown a lack of business integrity.

Former 8(a) Business Development Program Participant Debarred for Unlawfully Procuring Citizenship

The SBA debarred an individual and a former 8(a) Business Development Program Participant for unlawfully procuring citizenship and making false statements to the Government. This company had obtained more than \$3 million in contracts intended for legitimate 8(a) companies before the Government learned of the false statements. In a previous reporting period, the SBA suspended the individual and the company based upon an OIG referral made while the investigation was ongoing.

Suspensions, Debarments, and Other Actions

HUBZone Applicant Suspended by the SBA

The SBA suspended a company that included falsified residency information in its application for HUBZone approval. The submission of falsified residency information frustrates SBA's goal of ensuring the benefits of the HUBZone Program flow to designated HUBZones.

Former HUBZone Participant Debarred

The SBA debarred an individual and a former HUBZone Program Participant for providing false information regarding the percentage of the program participant's employees who lived in a HUBZone. In a previous reporting period, SBA suspended the individual and the company based upon an OIG referral made while the investigation was ongoing.

Individual and 8(a) Participant Suspended

The SBA suspended an individual and an 8(a) Business Development Program Participant for making false statements to the SBA and allowing the participant to act as a front company for entities that were not approved to participate in the 8(a) Business Development Program. Front companies deny legitimate 8(a) participants contract and development opportunities.

Program Revocation Proposed by the OIG

The OIG proposed an individual for program revocation under 13 CFR Part 103. The subject had fraudulently obtained fees from several parties based upon misrepresentations that he could provide SBA guaranteed loans. This matter was still pending at the end of the reporting period.

Training Institute Suspension and Debarment Course

Additionally, during the reporting period, the OIG worked with the Council of the Inspectors General on Integrity and Efficiency (CIGIE) Training Institute to develop a suspension and debarment course. The course is designed to familiarize auditors, inspectors, evaluators, and attorneys throughout Federal OIGs with suspension and debarment issues and provide practical exercises that give OIG employees hands-on experience with suspension and debarment. The CIGIE Training Institute intends to hold the first offering of the class in November 2012, and the second in January 2013.

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.

Regulation Policy Reviews, Fraud Briefings, and Hotline Data

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 SBA proposes to its program directives such as regulations, internal operating procedures, and agency policy notices. Frequently, the OIG identifies material weaknesses in the proposed revisions and works with the Agency to implement recommended revisions to promote more effective controls and deter waste, fraud, or abuse. During this reporting period, the OIG reviewed 49 proposed revisions of program management or agency reorganization documents and submitted comments on 31 proposals.

For example, the OIG coordinated with the Council of Inspectors General on Integrity and Efficiency Research Misconduct Working Group in providing comments on SBA's proposed revision of its Small Business Innovation Research program policy directive. The comments resulted in stronger fraud prevention procedures.

Additionally, the OIG provided extensive comments on draft SBA regulations intended to reduce fraud and promote integrity in small business procurement programs and successfully obtained regulatory changes that will promote prosecution of such fraud. Finally, the OIG provided comments on numerous regulations and directives for SBA's small business financial assistance programs to clarify ambiguous requirements and enhance program oversight capabilities.

Fraud Awareness Briefings

During this reporting period, the OIG conducted 12 fraud awareness presentations for over 730 attendees, including SBA and other government employees, lending officials, bank security officers, and other law enforcement representatives. Topics included SBA's business loan and government contracting programs, fraud indicators and trends, and how to report suspicious activity that may be fraudulent.

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 Hotline received and processed 208 complaints in the following manners:

- ◆ 55% through the OIG's online link,
- ◆ 32% by email,
- ◆ 10% in a letter or writing,
- ◆ 3% via telephone, and
- ◆ less than 1% in person.

Each complaint is logged into a database and tracked. Of the Hotline complaints received:

- ◆ 83 were referred to SBA program offices or other entities;
- ◆ 30 were referred to the OIG's Investigations Division;
- ◆ 41 were resolved by the Hotline staff;
- ◆ 12 were referred to the OIG Counsel or Auditing Division; and
- ◆ 42 needed no action.



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Statistical Highlights: April 1– Sept. 30, 2012

Summary of Office-Wide Dollar Accomplishments

| | |
|--|---------------------|
| As a Result of Investigations & Related Activities | |
| –Potential Investigative Recoveries & Fines | \$9,988,195 |
| –Asset Forfeitures Attributed to OIG Investigations | \$13,874,532 |
| –Loans/Contracts Not Approved or Canceled as a Result of Investigations | \$0 |
| –Loans Not Made as a Result of Name Checks | \$27,383,427 |
| Investigations Sub-Total | \$51,246,154 |
| As a Result of Audit Activities | |
| –Disallowed Costs Agreed to by Management | \$1,037,969 |
| –Recommendations that Funds Be Put to Better Use Agreed to by Management | \$4,020,000 |
| Audit Sub-Total | \$5,057,969 |
| TOTAL | \$56,304,123 |

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

| | |
|---|---------------|
| Reports Issued | 10 |
| Recommendations Issued | 31 |
| Dollar Value of Costs Questioned | \$171,100,000 |
| Dollar Value of Recommendations that Funds be Put to Better Use | \$ 43,000,000 |
| Recommendations for which Management Decisions Were Made | 45 |
| Recommendations Without a Management Decision | 41 |
| Collections as a Result of Questioned Costs | \$ 81,109 |

Statistical Highlights: April 1– Sept. 30, 2012

Indictments, Convictions, and Case Actions

| | |
|------------------------------|----|
| Indictments from OIG Cases | 33 |
| Convictions from OIG Cases** | 27 |
| Cases Opened | 31 |
| Cases Closed | 55 |

SBA Personnel Actions Taken as a Result of Investigations

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

Legal Reviews and Debarment and Suspension Actions

| | |
|---|----|
| Legislation, Regulations, Standard Operating Procedures, and Other Issuances Reviewed | 49 |
| Suspensions and/or Debarments Recommended to the Agency* | 26 |
| —Pending at the Agency | 30 |
| Suspensions Issued by the Agency | 6 |
| Proposed Debarments Issued by the Agency | 13 |
| Final Debarments Issued by the Agency | 10 |
| Proposed Debarments Declined by the Agency | 0 |
| Actions by Other Agencies Resulting from Investigations in which the OIG Participated** | 11 |

* The SBA has initiated administrative proceedings in 14 of the 30 pending cases.

**May include actions from earlier reporting periods not previously reported.

Statistical Highlights: FY 2012

Summary of Office-Wide Dollar Accomplishments

| | |
|---|---------------------|
| As a Result of Investigations & Related Activities | |
| –Potential Investigative Recoveries & Fines | \$26,245,428 |
| –Asset Forfeitures Attributed to OIG Investigations | \$16,086,069 |
| –Loans/Contracts Not Approved or Canceled as a Result of Investigations | \$32,844 |
| –Loans Not Made as a Result of Name Checks | \$39,424,884 |
| Investigations Sub-Total | \$81,789,225 |
| As a Result of Audit Activities | |
| Disallowed Costs Agreed to by Management | \$4,774,425 |
| Recommendations that Funds Be Put to Better Use Agreed to by Management | \$4,020,000 |
| Audit Sub-Total | \$8,794,425 |
| TOTAL | \$90,583,650 |

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

| | |
|---|---------------|
| Reports Issued | 22 |
| Recommendations Issued | 126 |
| Dollar Value of Costs Questioned | \$172,137,969 |
| Dollar Value of Recommendations that Funds be Put to Better Use | \$50,700,000 |
| Recommendations for which Management Decisions Were Made | 113 |
| Recommendations Without a Management Decision | 95 |
| Collections as a Result of Questioned Costs | \$4,309,407 |

Statistical Highlights: FY 2012

Indictments, Convictions, and Case Actions

| | |
|----------------------------|----|
| Indictments from OIG Cases | 59 |
| Convictions from OIG Cases | 59 |
| Cases Opened | 65 |
| Cases Closed | 89 |

SBA Personnel Actions Taken as a Result of Investigations

| | |
|--------------------------|---|
| Dismissals | 1 |
| Resignations/Retirements | 2 |
| Suspensions | 2 |
| Reprimands | 0 |
| Other | 0 |

Legal Reviews and Debarment and Suspension Actions

| | |
|---|-----|
| Legislation, Regulations, Standard Operating Procedures, and Other Issuances Reviewed | 136 |
| Suspensions and/or Debarments Recommended to the Agency | 45 |
| —Pending at the Agency | 70 |
| Suspensions Issued by the Agency | 17 |
| Proposed Debarments Issued by the Agency | 21 |
| Final Debarments Issued by the Agency | 14 |
| Proposed Debarments Declined by the Agency | 0 |
| Actions by Other Agencies Resulting from Investigations in which the OIG Participated | 35 |

Appendix I: OIG Reports Issued

April 1-September 30, 2012

Small Business Access to Capital—Recovery Act

| Title | Report Number | Issue Date | Questioned Costs | Funds for Better Use |
|--|---------------|------------|------------------|----------------------|
| A Non-Manufacturer Rule Waiver Allowed an 8(a) Recovery Act Contract to Bypass Established Small Business Requirements | 12-19R | 9/4/2012 | \$0 | \$0 |
| Addressing Performance Problems of High-Risk Lenders Remains a Challenge for the Small Business Administration | 12-20R | 9/28/2012 | \$0 | \$0 |
| 504 Recovery Act Loans Were Originated and Closed in Accordance with SBA Policies | 12-23R | 9/27/2012 | \$0 | \$0 |
| Program Subtotal | 3 | | \$0 | \$0 |

Small Business Access to Capital

| Title | Report Number | Issue Date | Questioned Costs | Funds for Better Use |
|--|---------------|------------|------------------|----------------------|
| A Detailed Repayment Ability Analysis is Needed on High-Dollar Early-Defaulted Loans to Prevent Future Improper Payments | 12-18 | 8/16/2012 | \$0 | \$43,000,000 |
| Program Subtotal | 1 | | \$0 | \$43,000,000 |

Agency Management

| Title | Report Number | Issue Date | Questioned Costs | Funds for Better Use |
|---|---------------|------------|------------------|----------------------|
| Weaknesses Identified During the FY 2011 Federal Information Security Management Act Review | 12-15 | 7/16/2012 | \$0 | \$0 |
| Program Subtotal | 1 | | \$0 | \$0 |

Small Business Development, Contracting, Education, and Training

| Title | Report Number | Issue Date | Questioned Costs | Funds for Better Use |
|---|----------------------|-------------------|-------------------------|-----------------------------|
| The Small Business Administration's Inappropriate Use of the Government Purchases Card for Construction Purchases | 12-16 | 8/6/2012 | \$0 | \$0 |
| The SBA Needs to Improve Its Management of the State Trade and Export Promotion Grant Program | 12-21 | 9/25/2012 | \$0 | \$0 |
| The SBA's Ratification Process Could Lead to Possible Anti-Deficiency Act Violations | 12-22 | 9/28/2012 | \$0 | \$0 |
| Program Subtotal | 3 | | \$0 | \$0 |

Disaster Loans

| Title | Report Number | Issue Date | Questioned Costs | Funds for Better Use |
|---|----------------------|-------------------|-------------------------|-----------------------------|
| The Small Business Administration Did Not Maximize Recovery for \$171.1 Million in Delinquent Disaster Loans In Liquidation | 12-14 | 7/2/2012 | \$171,100,000 | 0 |
| The Small Business Administration Risks Loss of Collateral for Four Disaster Loans Totaling \$5.6 Million | 12-17 | 7/31/2012 | \$0 | \$0 |
| Program Subtotal | 2 | | \$171,100,000 | \$0 |
| TOTALS (all programs) | 10 | | \$171,100,000 | \$43,000,000 |

Appendix II: Reports

With Questioned Costs

| | | Reports | Recommendations* | Questioned Costs** | Unsupported Costs** |
|----|---|---------|------------------|--------------------|---------------------|
| A. | No management decision | 3 | 3 | \$3,137,969 | \$2,100,000 |
| B. | Issued during this reporting period | 1 | 2 | \$171,100,000 | \$0 |
| | Universe from which management decisions could be made in this reporting period – Subtotals | 4 | 5 | \$174,237,969 | \$0 |
| C. | Management decision(s) made during this reporting period | 2 | 2 | \$1,037,969 | \$0 |
| | (i) Disallowed costs | 2 | 2 | \$1,037,969 | \$0 |
| | (ii) Costs not disallowed | 0 | 0 | 0 | 0 |
| D. | No management decision made by September 30, 2012 | 2 | 3 | \$173,200,000 | \$2,100,000 |

* 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 | 1 | 2 | \$7,700,000 |
| B. | Issued during this reporting period | 1 | 1 | \$43,000,000 |
| | Universe from which management decisions could be made in this reporting period – Subtotals | 2 | 3 | \$50,700,000 |
| C. | Management decision(s) made during this reporting period | 1 | 2 | \$7,700,000 |
| | (i) Recommendations agreed to by | 1 | 2 | \$7,700,000 |
| | (ii) Recommendations not agreed | 0 | 0 | \$0 |
| D. | No management decision made by | 1 | 1 | \$43,000,000 |

Appendix IV: Reports

With Non-Monetary Recommendations

| | | Reports | Recommendations |
|----|--|----------------|------------------------|
| A. | No management decision made by March 31, 2012* | 11 | 48** |
| B. | Issued during this reporting period | 9 | 30 |
| | Universe from which management decisions could be made in this reporting period – Subtotals | 20 | 78 |
| C. | Management decision(s) made (for at least one recommendation in the report) during this reporting period | 13 | 40 |
| D. | No management decision made by September 30, 2012* | 12 | 38 |

* 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 | The Agency has not responded to three recommendations in the report. |
| Banco Popular Did Not Adequately Assess Borrower Repayment Ability When Originating Huntington Learning Center Franchise Loans | 11-16 | 7/13/2011 | The Agency has not responded to one recommendation in the report. |
| Release of Collateral by SBA's Disaster Processing and Disbursement Center Raises Concerns | 11-17 | 9/26/2011 | The Agency has not responded to one recommendation 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 | The Agency 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 | The Agency has not responded to four recommendations in the report. |
| FY 2011 Review of SBA's Improper Payments | 12-10 | 3/15/2012 | The Agency has not responded to one |
| High-Dollar Early-Defaulted Loans Require an Increased Degree of Scrutiny and Improved Quality Control at the National Guaranty Purchase Center | 12-11R | 3/23/2012 | The Agency has not responded to one recommendation in the report. |
| The SBA's Office of International Trade Inappropriately Awarded a One Million Dollar State Trade and Export Promotion (STEP) Program Grant to an Ineligible Recipient | 12-12 | 3/30/2012 | The Agency has not responded to two recommendations in the report |

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

Appendix VI: Reports

Without Final Action as of September 30, 2012

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

* Management decision dates vary with different recommendations.

** Target dates vary with different recommendations.

| Report Number | Title | Date Issued | Date of Management Decision | Final Action Target Date |
|---------------|--|-------------|-----------------------------|--------------------------|
| 10-06 | Audit of SBA's FY 2009 Financial Statements - Management Letter | 12/15/09 | 1/20/10 | ** |
| 10-10 | Premier Certified Lenders in the Section 504 Loan Program | 3/23/10 | 4/11/12 | 4/10/13 |
| ROM 10-14 | Accuracy of Recovery Act Contract Award Obligations Reported to the Federal Procurement Database System - Next Generation and Recovery.Gov | 4/15/10 | 5/3/10 | 1/31/12 |
| ROM 10-16 | SBA's Planning and Award of the Customer Relationship Management Contracts | 6/29/10 | 3/28/11 | ** |
| 10-14 | Adequacy of Quality Assurance Oversight of the Loan Management and Accounting System Project | 9/13/10 | * | 6/13/11 |
| ROM 10-19 | Material Deficiencies Identified in Early-Defaulted and Early-Problem Recovery Act Loans | 9/24/10 | * | ** |
| 11-03 | Audit of SBA's FY 2010 Financial Statements | 11/12/10 | * | ** |
| 11-05 | Audit of SBA's FY 2010 Financial Statements - Management Letter | 12/15/10 | * | ** |
| ROM 11-01 | Improper Allotment of Recovery Act Apportionments | 12/15/10 | 2/9/11 | 2/28/11 |
| 11-06 | Weaknesses Identified During the FY 2010 FISMA Review | 1/28/11 | 3/28/11 | ** |
| 11-07 | Processing of Insurance Recovery Checks at the Disaster Loan Servicing Centers | 2/10/11 | 4/7/11 | 12/31/12 |
| 11-08 | SBA's Procurement of Information Technology Hardware and Software Through Isika Technologies, Inc. | 2/25/11 | 3/30/11 | 1/31/12 |
| ROM 11-04 | Quality of SBA's Recovery Act Data on Public Websites | 3/22/2011 | 10/6/11 | ** |
| 11-10 | Management Advisory Report on Records Management and Documentation Process at the Disaster Loan Servicing Centers | 3/29/11 | 6/20/11 | 12/31/12 |
| 11-11 | Effectiveness of SBA's Surveillance Review Process | 3/31/11 | * | 12/31/11 |
| 11-14 | SBA's Funding of Information Technology Contracts Awarded to ISIKA Technologies, Inc. | 6/2/11 | 8/1/11 | 12/31/11 |

* Management decision dates vary with different recommendations.

** Target dates vary with different recommendations.

| Report Number | Title | Date Issued | Date of Management Decision | Final Action Target Date |
|----------------------|---|--------------------|------------------------------------|---------------------------------|
| ROM 11-05 | Material Deficiencies Identified in Four 7(A) Recovery Act Loans Resulted in \$3.2 Million of Questioned Costs | 6/29/11 | 7/19/11 | 7/12/12 |
| 11-16 | Banco Popular did not adequately assess Borrower Repayment Ability when Originating Huntington Learning Center Franchise Loans | 7/13/11 | 9/30/11 | 10/31/12 |
| 12-02 | Independent Auditors' Report on the SBA's FY 2011 Financial Statements | 11/14/11 | 12/22/11 | ** |
| 12-05 | KPMG Management Letter Communicating Matters Relative to SBA's FY 2011 Financial Statements | 12/15/11 | * | ** |
| 12-08 | SBA's Lender Loan Reporting Process has Systemic Reporting Issues and Data Control Weaknesses | 2/23/12 | * | ** |
| 12-10 | FY 2011 Review of SBA's Improper Payments | 3/15/12 | * | ** |
| 12-11R | High-Dollar Early-Defaulted Loans Require an Increased Degree of Scrutiny and Improved Quality Control at the National Guaranty Purchase Center | 3/23/12 | 5/3/12 | 6/15/12 |
| 12-13 | Review of the SBA's Cash Gifts | 3/30/12 | 6/19/12 | 9/30/12 |
| 12-14 | The Small Business Administration did not Maximize Recovery for \$171.1 Million in Delinquent Disaster Loans In Liquidation | 7/2/12 | * | 6/30/13 |
| 12-15 | Weaknesses Identified During the FY 2011 Federal Information Security Management Act Review | 7/16/12 | 8/16/12 | ** |
| 12-17 | The Small Business Administration Risks Loss of Collateral for Four Disaster Loans Totaling \$5.6 Million | 7/31/12 | 9/11/12 | 11/30/12 |

Appendix VII: Significant Recommendations

From Prior Reporting Periods Without Final Action as of September 30, 2012

| 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 |
| 9-15 | 7/10/09 | Conduct a program review to evaluate whether the growth in ANC 8(a) obligations has adversely impacted, or will adversely impact, other 8(a) firms and the overall effectiveness of the 8(a) program and, if so, make programmatic revisions to minimize the adverse impact. | 8/4/09 | 9/30/12 |
| 9-15 | 7/10/09 | As part of the recommended program review, determine whether 8(a) firms owned by ANCs and tribes should continue to be exempt from the cap on total sole source awards in CFR 124.519 and, if not, remove the exemption from this regulation. | 8/2/09 | 6/30/11 |
| 9-17 | 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 10-04 | 12/4/09 | Implement a data quality review and testing process to determine if job data is properly recorded, classified, and reported. | 2/2/10 | 8/31/11 |
| 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 |

| Report Number | Date Issued | Recommendation | Date of Management Decision | Final Action Target Date |
|----------------------|--------------------|---|------------------------------------|---------------------------------|
| ROM 10-16 | 6/29/10 | Exclude the CRM contract awarded to Copper River from SBA calculations used to determine the number of 8(a) program contracts and small business contracts for fiscal year 2009. | 3/28/11 | 9/30/11 |
| ROM 10-16 | 6/29/10 | Work with the OCIO to establish measurable outcomes for the CRM initiative and identify the likelihood that a contractor could meet measurable outcomes in contract evaluation criteria for any future contracts under this initiative. | 3/28/11 | 5/15/11 |
| 10-14 | 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 |
| ROM 10-19 | 9/24/10 | Flag the other loans that have not yet been purchased to ensure the loan deficiencies are properly addressed at the time of the purchase review. | 6/29/11 | 3/31/13 |
| 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 |

| Report Number | Date Issued | Recommendation | Date of Management Decision | Final Action Target Date |
|----------------------|--------------------|--|------------------------------------|---------------------------------|
| 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 |
| 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 | 11/30/11 |
| 11-05 | 12/15/10 | Work with the HubZone Program Office Director to develop and implement controls to more effectively monitor the execution of its policies and procedures, particularly related to the authorization of payroll transactions and the performance of leave audits, to ensure that they are being followed (e.g., develop policies that require quarterly audits of leave discrepancies). | 3/31/11 | 12/31/11 |
| 11-05 | 12/15/10 | Revise the current methodology to maintain and periodically update SBA's organizational structure, functional statements, and charts. Further, the revised methodology should be documented in the SOP. | 3/31/11 | 9/30/11 |
| 11-05 | 12/15/10 | Reinforce, through management training, the importance of properly and fully completing the Separation Checklist. | 3/31/11 | 9/30/11 |
| 11-05 | 12/15/10 | Work with the Chief Information Officer to conduct an in-depth analysis of the existing Treasury referral protocol to identify and correct the program coding that is preventing the 139 charged-off loans from being automatically referred. | 2/10/11 | 11/30/11 |

| Report Number | Date Issued | Recommendation | Date of Management Decision | Final Action Target Date |
|---------------|-------------|---|-----------------------------|--------------------------|
| ROM 11-01 | 12/15/10 | Ensure the newly implemented Funds Control System has adequate system controls in place to prevent allotments from exceeding apportioned amounts. | 2/9/11 | 2/28/11 |
| 11-06 | 1/28/11 | Update the list of Major Systems to include all the interfaces between each system and all other systems and networks, including those not operated by, or under the control of the agency and obtain written Interconnection Security Agreements for every SBA system that has an interconnection to another system. | 3/28/11 | 9/30/11 |
| 11-06 | 1/28/11 | Enforce SOP 90-47 2 requirements for contractor background investigations and perform periodic reviews to ensure that SBA contractors have completed the clearance process prior to accessing sensitive information. | 3/28/11 | 5/30/11 |
| 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 | Revise the SBA Certification and Accreditation Program Description procedural document to reflect the risk management framework approach established in NIST SP 800-37, Rev.1, and the current POA&M process. | 3/28/11 | 6/30/11 |
| 11-06 | 1/28/11 | Modify the POA&M reporting tool to comply with the requirements set forth in OMB Memorandum 04-25. | 3/28/11 | 4/30/11 |
| 11-06 | 1/28/11 | Develop and test system disaster recovery plans for all of SBA's major systems at least annually and initiate any necessary corrective actions based on test results. | 3/28/11 | 7/30/11 |

| Report Number | Date Issued | Recommendation | Date of Management Decision | Final Action Target Date |
|----------------------|--------------------|---|------------------------------------|---------------------------------|
| 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 |
| 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 deobligated. This research should result in these actions being posted to FPDS.gov. | 10/6/11 | 6/30/12 |
| ROM 11-04 | 3/22/11 | 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 |

| Report Number | Date Issued | Recommendation | Date of Management Decision | Final Action Target Date |
|----------------------|--------------------|---|------------------------------------|---------------------------------|
| 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 | 12/31/12 |
| 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 | 12/31/12 |
| 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 |

| Report Number | Date Issued | Recommendation | Date of Management Decision | Final Action Target Date |
|----------------------|--------------------|---|------------------------------------|---------------------------------|
| 11-11 | 3/31/11 | Take the appropriate steps to request re-sources 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 |
| 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 | 3/31/12 |

| 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 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 |
| 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 |
| 12-02 | 11/14/11 | We recommend the CIO coordinate with the CFO to restrict access to software program libraries based on the principle of least privilege, and implement compensating controls over actions where limited resources cause individuals to perform conflicting job functions. | 12/22/11 | 6/30/12 |
| 12-02 | 11/14/11 | We recommend the CIO coordinate with the CFO to ensure that DBA and system administrator access is restricted through role-based segregation of duties and managed through an effective audit log review process. | 12/22/11 | 6/30/12 |

| Report Number | Date Issued | Recommendation | Date of Management Decision | Final Action Target Date |
|----------------------|--------------------|--|------------------------------------|---------------------------------|
| 12-02 | 11/14/11 | We recommend the CIO develop a comprehensive security education and training program for all IT security personnel and a method for monitoring the training program | 12/22/11 | 3/30/12 |
| 12-02 | 11/14/11 | We recommend the CIO enforce an organization-wide configuration management process, to include policies and procedures for maintaining documentation that supports testing and approvals of software changes | 12/22/11 | 9/29/12 |
| 12-02 | 11/14/11 | We recommend the CIO implement configuration management policies and procedures for document retention (to include supporting evidence) to validate the authorization of operating system changes. | 12/22/11 | 9/28/12 |
| 12-02 | 11/14/11 | We recommend the CIO enforce existing SBA policies to rotate backups off-site. | 12/22/11 | 4/30/12 |
| 12-02 | 11/14/11 | We recommend the CIO coordinate with the CFO to create, implement, and test system specific and the HQ COOP. | 12/22/11 | 7/30/12 |
| 12-04 | 12/16/11 | We recommend that the Associate Administrator, Government Contracting and Business Development revise the Goaling Guidelines 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. |

| Report Number | Date Issued | Recommendation | Date of Management Decision | Final Action Target Date |
|---------------|-------------|---|-----------------------------|------------------------------|
| 12-07 | 3/8/12 | Determine the underlying causes of the contracting activities improper payments for the FY2011 IPERA review and develop and implement a robust Corrective Action Plan and a Payment Recapture Audit Plan for the improper payments of its contracting activities for FY2011 or obtain a written waiver from OMB. | Overdue | Target date not established. |
| 12-07 | 3/8/12 | Provide contract training to the SBA personnel responsible for developing the test plan and performing the agency's improper payment review to ensure the detection of improper payments. | Overdue | Target date not established. |
| 12-07 | 3/8/12 | Develop procedures to annually review the SBA's Corrective Action Plan to determine if actions are sufficient. | 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: <ul style="list-style-type: none"> 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 |

| Report Number | Date Issued | Recommendation | Date of Management Decision | Final Action Target Date |
|----------------------|--------------------|---|------------------------------------|---------------------------------|
| 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 | 10/31/12 |
| 12-10 | 3/15/12 | We recommend that the Associate Administrator for Capital Access adjust the risk assessment to separately assess the risk of improper 7(a) guaranty loan approvals and improper 7(a) guaranty default. | 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 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 determine and report an accurate statistically valid estimate of improper 7(a) default purchases for FY 2012 in the next Agency Financial Report. | 9/18/12 | 1/31/13 |

| Report Number | Date Issued | Recommendation | Date of Management Decision | Final Action Target Date |
|----------------------|--------------------|---|------------------------------------|---------------------------------|
| 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 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 assess the risk of approving ineligible loans within the 504 loan program | 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 |
| 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 504 loan approvals that correctly addresses root causes and will reduce improper payments. | 5/15/12 | 4/16/2013 |
| 12-10 | 3/15/12 | We recommend that the Associate Administrator for Disaster Assistance develop a corrective plan that identifies all root causes and develop a methodology to reduce the errors associated with each root cause. | 4/17/12 | 12/31/12 |
| 12-10 | 3/15/12 | We recommend that the Associate Administrator for Disaster Assistance perform detailed analysis of the cost-effectiveness of a payment recapture audit program. Such analysis should conclude whether the benefits of a recapture program would exceed the costs. If so, a payment recapture audit program should be implemented. | 4/17/12 | 12/31/12 |

| Report Number | Date Issued | Recommendation | Date of Management Decision | Final Action Target Date |
|----------------------|--------------------|--|------------------------------------|---------------------------------|
| 12-10 | 3/15/12 | We recommend that the Associate Administrator for Disaster Assistance perform detailed analysis of the cost-effectiveness of a payment recapture audit program. Such analysis should conclude whether the benefits of a recapture program would exceed the costs. If so, a payment recapture audit program should be implemented. | 4/17/12 | 12/31/12 |
| 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. | Overdue | Target date not established. |
| 12-12 | 3/30/12 | We recommend that the Associate Administrator for the Office of International Trade take precautions to ensure the Commonwealth of the Northern Mariana Islands or any other ineligible applicant is not awarded a STEP grant in future years, unless Congress modifies the Small Business Jobs Act to make the Commonwealth of the Northern Mariana Islands eligible. | Overdue | Target date not established. |

Appendix VIII: Significant Recommendations

April 1-September 30, 2012

| Report Number | Title | Date Issued | Recommendation |
|---------------|---|-------------|--|
| 12-14 | The Small Business Administration did not Maximize Recovery for \$171.1 Million in Delinquent Disaster Loans In Liquidation | 7/2/12 | <p>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:</p> <ul style="list-style-type: none"> • Evaluate whether prompt foreclosure is feasible. • Initiate foreclosure proceedings promptly on loan collateral for which the NDLC has determined that foreclosure is feasible. • Charge off loans for which the NDLC has determined that foreclosure on the collateral is not feasible and ensure transfer of the debts to Treasury FMS for cross servicing. |
| 12-14 | The Small Business Administration did not Maximize Recovery for \$171.1 Million in Delinquent Disaster Loans In Liquidation | 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. |
| 12-15 | Weaknesses Identified During the FY 2011 Federal Information Security Management Act Review | 7/16/12 | Develop an overall strategy to timely implement audit recommendations issued by the SBA OIG relating to FISMA security requirements. |
| 12-18 | A Detailed Repayment Ability Analysis is Needed on High-Dollar Early-Defaulted Loans to Prevent Future Improper Payments | 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. |

Appendix IX: Cosponsored & Other Activities

| Name/Subject of Event | Name of Cosponsor(s) | Event Location | Date Fully Executed |
|--|--|-----------------------|----------------------------|
| 2012 Emerging Leaders (E200) | Fresno DO - Cen Cal Business Finance Group, Central Valley Business Incubator, Central California Hispanic Chamber of Commerce, Fresno Area Hispanic Chamber of Commerce, SCORE Chapter #580 | Fresno, CA | 4/2/2012 |
| 8th Annual "Connection Businesses With Contracts" Procurement Conference | Louisiana DO - Southern University and A&M College - Center for Rural and Small Business Development, Louisiana Procurement Technical Assistance Center | Baton Rouge, LA | 4/3/2012 |
| 2012 Emerging Leaders (E200) | Cleveland DO - City of Youngstown Office of Economic Development, Ohio Small Business Development Center at Youngstown State University | Youngstown, OH | 4/3/2012 |
| Social Media Workshop | Los Angeles DO - Professional Development Center - Glendale Community College, Glendale Chamber of Commerce | Glendale, CA | 4/4/2012 |
| 2012 Delaware Small Business Week Awards Event | Delaware DO - Delaware Community Development Corporation, DelVal Business finance Corporation, Mid-Atlantic Business Finance Corporation | Newark, DE | 4/4/2012 |
| Growing Your Business Through Exporting | New York DO - U.S. Commercial Service - Long Island U.S. Export Assistance Center, The Long Island Forum for Technology | Bethpage, NY | 4/4/2012 |
| Small Business Awards Event | Washington Metro Area DO - National Community Reinvestment Coalition | Arlington, VA | 4/4/2012 |
| 2012 Emerging Leaders (E200) | Oklahoma DO - Rural Enterprises of Oklahoma, Inc., Northeastern State University -Broken Arrow SBDC, Oklahoma SCORE 194, Tulsa Economic Development Corp | Broken Arrow, OK | 4/9/2012 |
| 2012 Emerging Leaders (E200) | Arizona DO - American Indian Chamber of Commerce of Arizona, American Indian Chamber Education Fund PTAC, The National Center for American Indian Enterprise Development | Phoenix, AZ | 4/9/2012 |
| 2012 Small Business Matchmaker, Awards Luncheon, Exposition | Buffalo DO - SCORE Buffalo Niagara Chapter 45, Business First, Inc. | Buffalo, NY | 4/13/2012 |

| Name/Subject of Event | Name of Cosponsor(s) | Event Location | Date Fully Executed |
|---|---|---------------------------------|---------------------|
| Women's Business Enterprise National Council Training | Baltimore DO - Women Presidents' Educational Organization, Women Entrepreneurs of Baltimore | Baltimore, MD | 4/13/2012 |
| 2012 Emerging Leaders (E200) | Arizona DO - American Indian Chamber of Commerce of Arizona, The National Center for American Indian Enterprise Development | Phoenix, AZ | 4/19/2012 |
| 2012 Emerging Leaders (E200) | Montana DO - Helena Chamber of Commerce, Native American Development Corporation, S & K Technologies, Montana Department of Transportation-Disadvantaged Business Enterprise, Montana Community Development Corp., Montana Department of Commerce-Small Business Development Center | Helena, MT | 4/19/2012 |
| 2012 Emerging Leaders (E200) | New Mexico DO - ACCION New Mexico, Albuquerque Hispano Chamber of Commerce, Albuquerque SCORE Chapter 67, Albuquerque SBDC at CNM, American Indian Chamber of Commerce of New Mexico, Inc., Aztec Chamber of Commerce, Bloomfield Chamber of Commerce & Visitors Center, City of Albuquerque Economic Development Department, Farmington Chamber of Commerce, Farmington, Greater Albuquerque Chamber of Commerce, NAWBO - Northern New Mexico Chapter, NM Department of Veteran's Services, NM 8(a) Minority Business Assoc./NEDA, New Mexico Manufacturing Extension Partnership, Quality New Mexico, San Juan College, San Juan Economic Development Service, Shiprock Regional Business Development Office, SBDC - San Juan College, South Valley EDC, South Valley SBDC, Technology Ventures Corp., The Loan Fund, WESST | Albuquerque, NM; Farmington, NM | 4/19/2012 |
| Contact 2012 - Transmitting Opportunities | Louisiana DO - National Aeronautics and Space Administration, Louisiana Procurement Technical Assistance Center | New Orleans, LA | 4/19/2012 |
| SBA Contracting Programs: HUB-Zone and Surety Bond Guarantees | South Carolina DO - University of South Carolina Salkehatchie, Southern Carolina Regional Development Alliance | Barnwell, SC | 4/19/2012 |

| Name/Subject of Event | Name of Cosponsor(s) | Event Location | Date Fully Executed |
|---|--|-----------------|---------------------|
| Small Business Person of the Year Awards Luncheon | Maine DO - Maine Women's Business Center - Coastal Enterprises, Inc., Maine Small Business Development Centers - University of Southern Maine, SCORE Maine Chapter 0172 | Augusta, ME | 4/19/2012 |
| Access to Capital – Show Me The Money \$\$\$” Conference | New York DO - New York City College of Technology - Brooklyn Small Business Development Center, SCORE New York Chapter, Business Outreach Center Network - Women's Business Center, Local Development Corporation of East New York - Women's Business Center, Brooklyn Public Library | Brooklyn, NY | 4/19/2012 |
| Houston District Small Business Week Awards Event 2012 | Houston DO - SCORE Chapter 37 | Houston, TX | 4/24/2012 |
| Small Business Week Awards Luncheon | Los Angeles DO - Los Angeles Area Chamber of Commerce | Los Angeles, CA | 4/24/2012 |
| Business Women's Forum | Connecticut DO - Waterbury Regional Chamber of Commerce | Hartford, CT | 4/24/2012 |
| 2012 Emerging Leaders (E200) | Milwaukee DO - City of Milwaukee, SCORE Southeast Wisconsin Chapter, Wisconsin Women's Business Initiative Corp., Manpower, Inc., Greater Milwaukee Committee, SBDC through the University of Wisconsin-Milwaukee, Potawatomi Business Development Corp., American Indian Chamber of Commerce, Metropolitan Milwaukee Sewerage District, Wisconsin Economic Development Corp., Bureau of Minority Business Development, Wisconsin Business Development Finance Corp. | Milwaukee, WI | 4/26/2012 |
| 2112 Emerging Leaders (E200) | South Dakota DO - Black Hills State University Center | Rapid City, SD | 4/26/2012 |
| Mississippi Gulf Coast/Delta Alliance for Economic Inclusion - Mississippi Small Business Conference - "Moving from Obstacles to Opportunities" | Mississippi DO - Federal Deposit Insurance Corporation - Alliance for Economic Inclusion, Jackson State University - Center for Business Development and Economic Research | Jackson, MS | 4/26/2012 |

| Name/Subject of Event | Name of Cosponsor(s) | Event Location | Date Fully Executed |
|--|---|------------------------|---------------------|
| First Annual Faith Based Business Summit "Connecting Faith & Business" | Santa Ana DO - Perris Valley Chamber of Commerce | Perris, CA | 5/1/2012 |
| Connecticut Business Expo | Connecticut DO - Hartford Business Journal, Metro Hartford Alliance | Hartford, CT | 5/1/2012 |
| Small Business Workshop Series | Rhode Island DO - Office of Mayor Angel Tavares - City of Providence Department of Planning and Development, Rhode Island Small Business Development Center, Center for Women & Enterprise | Providence, RI | 5/2/2012 |
| Kansas Business Matchmaker | Wichita DO - Wichita State University - Center for Innovation and Enterprise Engagement, Wichita State University - Kansas Small Business Development Center, City of Wichita, Purchasing Office, Wichita Metro Chamber of Commerce, Mid America Minority Supplier Development Council, Heartland Procurement Technical Assistance Center, Sedgwick County through its Purchasing Office, State of Kansas – Kansas Department of Commerce, Kansas World Trade Center, Inc., USDA Rural Development, SCORE Wichita Chapter 0143, Wichita Convention and Tourism Bureau, Inc., dba Go Wichita, Rose Hill Bank | Wichita, KS | 5/2/2012 |
| Tribal Government Institute 6th Annual Conference – “Winning Contracting Strategies” | Oklahoma DO - Tribal Government Institute | Catoosa, OK | 5/2/2012 |
| Advanced Appraisal Review | Los Angeles DO - Herron Companies, Los Angeles SBDC Network | Long Beach, CA | 5/3/2012 |
| 2012 Emerging Leaders (E200) | Colorado DO - Vectra Bank, Westerra Credit Union, Colorado Enterprise Fund, Denver Metro Chamber of Commerce, Colorado SBDC, Colorado Black Chamber of Commerce, City of Aurora Small Business Development Center | Denver, CO | 5/4/2012 |
| Bringing Business to Indian Country | HQ/ONAA - Federal Reserve Bank of Minneapolis, Federal Reserve Bank of San Francisco | WA, CA, AZ, OK, NY, ND | 5/4/2012 |

| Name/Subject of Event | Name of Cosponsor(s) | Event Location | Date Fully Executed |
|---|---|--------------------------|----------------------------|
| 2012 Emerging Leaders (E200) | Tennessee DO - Economic Development Growth Engine Industrial Development Board of the City of Memphis and County of Shelby, Tennessee, Office of the Mayor of the City of Memphis, Office of the Mayor of Shelby County | Memphis, TN | 5/5/2012 |
| Women's Business Roundtables | Wyoming DO - First State Bank of Newcastle | Newcastle, WY | 5/8/2012 |
| Business Roundtables | Wyoming DO - First National Bank | Buffalo, WY | 5/8/2012 |
| 2012 Emerging Leaders (E200) | Philadelphia DO - AMEC Earth & Environmental, Inc., Asian American Chamber of Commerce of Greater Philadelphia, The Borough of Norristown, The City of Philadelphia, Finanta, The Greater Philadelphia Chamber of Commerce, Women's Business Development Center/Women's Business Enterprise Council of PA-DE-NJ | King of Prussia, PA | 5/10/2012 |
| Industry Word Guest Blog | HQ/OCPL - Tim Berry, Palo Alto Software, Anita Campbell, Anita Campbell Associates, Ltd. Marco Cabajo, Creative Business Development LLC, Rieva Lesonsky, Grow Biz Media, Joel Libava, Franchise Selection Specialists, Inc., Barbara Weltman, Big Ideas for Small Business, Inc. | SBA.gov Community | 5/10/2012 |
| Many Faces One Dream Tour | HQ/Office of Field Operations - National Black Justice Coalition | Multiple Cities (12) | 5/15/2012 |
| 2012 Small Business Week Celebration | Connecticut DO - Connecticut Small Business - Key to the Future | Southbury, CT | 5/16/2012 |
| Seminar on Changes in State and Federal Rules, Regulations and Laws | Santa Ana DO - California Employers Association | Mission Vejo; Perris, CA | 5/16/2012 |
| Veterans Business Planning & Resource Seminar | Massachusetts DO - New England Business Associates, Inc. | Springfield, MA | 5/16/2012 |

| Name/Subject of Event | Name of Cosponsor(s) | Event Location | Date Fully Executed |
|--|---|------------------|---------------------|
| Veterans Business Forum "Procurement Opportunities" Workshop | New York DO - Orange County Chamber of Commerce, Mid-Hudson | Montgomery, NY | 5/16/2012 |
| Small Business Workshop Series | New York DO - Operation Hope | New York, NY | 5/16/2012 |
| 2012 Emerging Leaders (E200) | St. Louis DO - The Score Association, Missouri Small Business Resource Center and the Grace Hill WBC | Clayton, MO | 5/18/2012 |
| 2012 Emerging Leaders (E200) | North Florida DO - Jacksonville WBC, SCORE, SBDC at the University of North Florida, Beaver Street Enterprise Center, Fifth Third Bank, First Atlantic Bank, Work Source Florida and Advantage Business Magazine | Jacksonville, FL | 5/18/2012 |
| Small Business Week Awards | Santa Ana DO - University Enterprises Corporation at California State University San Bernardino on behalf of Inland Empire Small Business Development Center operated by California State University San Bernardino Inland Empire Center for Entrepreneurship | Riverside, CA | 5/23/2012 |
| Starting Your Own Business Workshop | North Dakota DO-Fort Berthold Community College | New Town, ND | 5/30/2012 |
| America East SBA Lenders Conference and Follow-Up Training | Baltimore DO -Maryland Commercial Lenders Association, Washington Quality Circle Steering Committee, bancserv, Banes Capital Group, Biz2Credit, Business Finance Group, Chesapeake Business Finance Corporation, Coastal Securities Inc., Eastern Bank, FranNet.com, GCF Valuation, Hamilton Federal Bank, JP Morgan Chase, Lender Consulting Services Inc., Lerch, Early & Brewer, M&T Bank, Mid-Atlantic Business Finance Company, Monument Bank, Nationwide Valuations, PCFS 2000, Prudent Lenders LLC, Reliant Business Valuation, Sandy Spring Bank, Select Specialty, Starfield & Smith, State of Maryland Department of Business and Economic Development, State of Maryland Department of Housing and Community Development, Strategic Banking Partners, The Bailey Group, Zions Bank, TD Bank, Constant Contact, Coleman Publishing, Eagle Bank, Mid-Atlantic Financial Partners, Capital Growth | Baltimore, MD | 6/1/2012 |

Appendix X: Legal Actions Summary

April 1-September 30, 2012

| State | Program | Jointly with | Alleged Violation(s) Prosecuted | Legal Action |
|-------|---------|----------------------------|---|---|
| AL | GC | Army CID DCIS | The owner of a maintenance company falsely obtained HUBZone certification for his company. As a result of the owner's misrepresentations, the company was awarded 28 federal contracts valued at over \$2.5 million, which the company would not have been eligible to receive without HUBZone status. | Owner sentenced to 12 months and one day in prison, 12 months supervised release, and restitution of \$130,000. |
| AL | IA | None | An SBA employee made approximately \$30,553 of personal, unauthorized purchases using the government purchase card assigned to an SBA district office. She also filed 59 falsified travel vouchers, resulting in her receiving about \$21,905 from the SBA that she was not entitled to, and made approximately \$3,346 of unauthorized purchases on her government travel card. | Employee indicted and pled guilty. |
| AL | BL | None | An individual obtained an SBA-guaranteed loan of \$1,529,000 from the Small Business Loan Source (SBLs) to purchase a specialty auto parts business. The individual falsely represented to the SBLs that the \$260,000 equity injection was a gift from her grandmother, when, in fact, it was provided by the seller. | Individual charged and pled guilty. |
| AL | GC | Army CID IRS CI DCIS | The long-time girlfriend of the owner of an 8(a) company submitted false income and employment information to obtain a \$40,000 non-SBA loan. The owner of the 8(a) company provided the documents to his girlfriend, and she wired \$20,000 of the loan proceeds to pay a debt owed by his company. | Girlfriend pled guilty to a criminal information. |
| CA | BL | None | In order to obtain business loans for a gas station/car wash, four individuals allegedly made material false statements to a financing company. In addition, two of the four individuals are alleged to have falsely represented to the SBA, as well as to a bank and the financing company, that neither they nor their businesses were involved in any bankruptcies or pending lawsuits and they did not have a controlling interest in other businesses. | Four individuals indicted. |

| State | Program | Jointly with | Alleged Violation(s) Prosecuted | Legal Action |
|-------|---------|-----------------------------------|---|--|
| 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, 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. | Four individuals charged. Seven pled guilty. Former government official sentenced to 6 years in prison, 3 years supervised release, 500 hours of community service, and restitution of \$1.25 million. |
| FL | BL | None | In order to sell a gas station/convenience store for \$1.33 million, the seller orchestrated a scheme to make it appear that the buyer had the full equity injection by providing the buyer a loan of \$180,000. The loan was channeled through a third party with a false "gift letter" making the loan appear to be a gift from a friend. | The Department of Justice reached a civil settlement agreement with the seller on behalf of the SBA. Seller agreed to pay SBA \$410,000. |
| FL | GC | DCIS | Two individuals created an undisclosed affiliate of a larger company in order to bid on government small business set-aside contracts. The undisclosed affiliate obtained a \$100 million set-aside contract with the Department of Defense for language instruction. | Two individuals each sentenced to 36 months in prison, 36 months of supervised release, 500 hours of community service, and forfeiture of \$10,917,092 in proceeds of the fraud. |

| State | Program | Jointly with | Alleged Violation(s) Prosecuted | Legal Action |
|-------|---------|--|---|---|
| ID | GC | IRS CI VA OIG GSA OIG USDA OIG DOI OIG DCIS AFOSI Army CID | Two construction companies fraudulently purported to have SBA HUBZone status based upon false claims that their principal places of business were located in HUBZones and that two employees from each company resided in HUBZones. Contracts obtained as a result of false claims by the two companies total over \$1.6 million. | Both companies sentenced to probation of 36 months. One company fined \$65,000; the other one fined \$5,000. |
| ID | GC | IRS CI VA OIG GSA OIG USDA OIG DOI OIG DCIS AFOSI Army CID | The owner of a construction company established "shell" corporations to financially benefit from SBA set-aside programs and GSA government surplus property programs, which he was not otherwise entitled to participate in. | Owner pled guilty to superseding information. |
| IL | BL | HHS OIG FBI | A chiropractor allegedly failed to report an ongoing criminal investigation and audit involving claims that his clinic had submitted to Medicare. If the bank had known of the pending inquiry, or the resulting reduction in business income and cash-flow, it would have declined the \$100,000 SBA Express loan it made to the chiropractor. | Chiropractor indicted. |
| IN | BL | None | When applying for SBA-guaranteed loans for his electrical contracting firm, an individual reported he had no criminal history and concealed numerous arrests and felony convictions. The individual has defaulted on the loans with a principal balance totaling \$564,341 and has filed for bankruptcy. | Individual pled guilty. Sentenced to 18 months in prison, followed by 3 years supervised release, of which the first 9 months will be served as home detention. Ordered to pay restitution of \$315,076.09. |

| State | Program | Jointly with | Alleged Violation(s) Prosecuted | Legal Action |
|-------|---------|--|--|---|
| KS | GC | DCIS GSA OIG VA OIG | The owner of a construction company falsified his service disability in order to falsely claim Service-Disabled Veteran-Owned (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 pled guilty. |
| KY | BL | USSS | An individual used the identity of his former business partner, a federal air marshal, to obtain an SBA Express Loan and multiple credit card accounts. He also deposited a counterfeit check into a federally-insured financial institution. | Individual sentenced to 42 months in prison, 5 years supervised release, \$91,250.50 in restitution |
| LA | BL | FBI IRS CI LSAGO | In a transaction involving a \$916,000 SBA-guaranteed loan, an individual created a fraudulent commission agreement used at loan closing, which circumvented the equity injection requirement. Another individual was aware of the violations and failed to report them. | Individual pled guilty. Individual with knowledge of the crime sentenced to 2 years of probation and 50 hours of community service. |
| LA | DL | None | A pastor was approved for an SBA disaster loan totaling \$969,900 to rebuild his church, which sustained severe damage as a result of Hurricane Katrina. The pastor did not use the loan funds in accordance with the Loan Authorization and Agreement. Instead, he used proceeds to purchase real estate, luxury vehicles, fine jewelry, designer fashions, and other items for his personal use. | Pastor sentenced to 120 months in prison, 3 years supervised release, and restitution of \$963,900 to the SBA. |
| MA | GC | VA OIG Army CID DOL OIG GSA OIG | Two individuals set up a company for the sole purpose of obtaining set-aside contracts. One of the individuals had service-disabled veteran status; however, his involvement in the company did not meet SBA requirements for establishing a Service-Disabled, Veteran-Owned business. | Both individuals indicted and pled guilty. |

| State | Program | Jointly with | Alleged Violation(s) Prosecuted | Legal Action |
|-------|---------|--------------|--|--|
| MD | IA | None | A former SBA employee allegedly 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. | Both individuals indicted. Non-SBA employee pled guilty. |
| 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 on behalf of their clients thereby falsely enhancing the creditworthiness of the borrowers and their businesses. To date, the conspiracy has resulted in losses of over \$52 million to the SBA. | One individual sentenced to 33 months in prison, 2 years of supervised release, restitution of \$713,000, and ordered to forfeit \$1.3 million. Three other individuals pled guilty. |
| ME | BL | None | When applying for a \$1.3 million SBA-guaranteed loan, the owner of a medical supply company falsely indicated on the SBA Form 912 that he had no prior criminal convictions. | Owner sentenced to 24 months in prison and 1 year supervised release. SBA loan paid in full. |
| MI | BL | USSS MSP | The president of a real estate investment firm participated in multiple fraud schemes including two involving SBA loans. The first involved an SBA-guaranteed loan of \$98,000 to a company he falsely purported to be owned by his wife. The second involved a \$100,000 SBA loan for which he overstated his company's annual revenue as \$890,000 instead of \$35,240. In addition, proceeds from both loans were processed, laundered, and diverted into his personal bank accounts instead of being used for working capital for the respective businesses. | President sentenced to a 5-year probation term, with the first 12 months served in county jail. Ordered to pay restitution of \$219,957. |

| State | Program | Jointly with | Alleged Violation(s) Prosecuted | Legal Action |
|-------|---------|-------------------|---|---|
| MO | BL | FBI | A borrower signed several SBA documents in connection with a \$750,000 SBA-guaranteed loan stating he was the sole owner of a company, when, in fact, he did not have any ownership interest in the company. He also signed SBA documents affirming that certain portions of the loan proceeds were to be used for equipment and inventory purchases, working capital, and debt repayment, when, in fact, he knew the loan proceeds were intended to be used to pay down an outstanding loan balance of another business. | Borrower sentenced to 5 years of probation, and restitution of \$1,113,778.51. |
| MO | BL | FBI | As part of a bank fraud scheme, a former nurse was recruited to obtain a \$175,070 SBA Express loan. The nurse received \$7,500 for obtaining the loan and the remaining proceeds went to benefit other individuals and business entities. | Former nurse sentenced to 2 years of probation. |
| MO | CC | GSA OIG VA OIG | Two individuals set up a "figurehead" service-disabled veteran as the purported president and operator of a company. The company misrepresented itself as a Service-Disabled Veteran-Owned Small Business in order to obtain federal contracts. A third individual, a government employee, accepted illegal gratuities in exchange for steering work to the company. The company was awarded a total of \$3.4 million in government set aside and sole source contracts, of which \$657,000 were Recovery Act funds. | First individual sentenced to 24 months in prison, 1 year supervised release, and a \$50,000 fine. Second individual sentenced to 36 months' probation, a \$60,000 fine, and restitution of \$1.55 million. He was ordered to forfeit over \$1.55 million in cash and a 2011 Jaguar. The government employee sentenced to 15 months in prison and 12 months supervised release. |

| State | Program | Jointly with | Alleged Violation(s) Prosecuted | Legal Action |
|-------|---------|---|---|--|
| MS | DL | FBI | A husband and wife obtained a \$1 million Hurricane Katrina disaster business loan and misused the proceeds, including almost \$390,000 to purchase a 43-foot yacht. | Husband sentenced to 3 years of probation, a \$250,000 fine, and \$1 million in restitution. |
| ND | BL | USSS FDIC OIG FBI DHS ICE TPD | A former loan officer allegedly provided inaccurate and misleading information in order to secure a \$2 million SBA-guaranteed loan for a couple and their business. | Former loan officer indicted. |
| NJ | BL | IRS CI ENJPD BCPO | An organized group of Korean nationals obtained credit cards and loans from various lending institutions using false identities, documents, and business names. Loan officers at various banks were also involved in the scheme. Thirty-three loans, totaling approximately \$1.8 million, were obtained using false pretenses. Of the 33 loans, 17 were SBA-guaranteed, resulting in approximately \$800,000 of loss to the SBA. | One individual sentenced to 24 months' probation and ordered to pay off two loans totaling over \$132,000. Another individual charged, pled guilty, and sentenced to 18 months in prison and 24 months' probation. A third individual, the husband of one of the main group leaders, sentenced to 36 months' probation and a \$3,500 fine. |
| NY | GC | VA OIG Army CID | The president/CEO of a construction firm falsely claimed Service-Disabled Veteran-Owned (SDVO) status for his company. Based on these misrepresentations, the company was awarded one Veteran Owned (VO) set-aside contract in the amount of \$5,698,000 and three SDVO set-aside contracts totaling \$10,980,690. | President sentenced to 41 months in prison, 3 years of supervised release, and a 30,000 fine. |

| State | Program | Jointly with | Alleged Violation(s) Prosecuted | Legal Action |
|-------|---------|--------------|--|--|
| TX | DL | DHS OIG | Three individuals were involved in an invoice scheme involving approximately \$1 million in SBA home and business disaster loans. The business loan was approved to repair/replace more than 40 rental properties purportedly damaged by Hurricane Ike. One of the individuals created fictitious repair invoices and checks that the second individual, the borrower, submitted to the SBA. The third individual, the borrower's brother, verified to the SBA approximately \$680,000 in fictitious repairs and payments supposedly made to his construction company. | Two individuals each sentenced to 12 months home confinement, 3 years supervised release, and a \$4,000 criminal fine. Borrower not yet sentenced. |
| TX | DL | DHS OIG | A retired judge allegedly 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 indicted. |
| TX | BL | FBI | A businessman made multiple material misrepresentations to lenders and the SBA regarding the purchase of a Houston motel. The false statements related in part to his submission of fraudulent documents as proof that he paid over \$700,000 in equity injection in order to obtain an SBA-guaranteed loan of \$1,327,000. | Individual sentenced to 5 years of probation, 6 months home confinement, and restitution of \$1,207,459.35. |

| State | Program | Jointly with | Alleged Violation(s) Prosecuted | Legal Action |
|-------|---------|--------------|---|---|
| UT | BL | IRS CI | The president of a financial institution and a former mortgage loan officer recruited “straw borrowers” and used the borrowers’ names and good credit to fraudulently obtain four SBA loans and two bank loans totaling \$335,000. | President sentenced to 12 months and one day in prison and 36 months supervised release. Former loan officer pled guilty and sentenced to 10 days in prison, 6 months home confinement, 30 months supervised release, and 200 hours community service. Both ordered to pay joint restitution of \$165,960.49. |
| VA | BL | FBI | An individual is alleged to have participated in a multi-million dollar treasury check scheme involving bogus treasury checks and tax returns. In addition, the individual allegedly misrepresented his citizenship status in the course of obtaining a \$149,000 SBA 504 loan and a \$203,000 bank loan. | Individual indicted. |

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

Joint-investigation Agency Acronyms: AFOSI= Air Force Office of Special Investigations; Army/CID=U.S. Army/Criminal Investigation Command (Division); BCPO=Bergen County Prosecutor’s Office; CABC=California Alcohol and Beverage Control; DCIS=Defense Criminal Investigative Service; DHS/ICE=Department of Homeland Security/Immigration and Customs Enforcement; DHS/OIG=Department of Homeland Security/OIG; DOI/OIG=Department of Interior/OIG; DOL/OIG=Department of Labor/OIG; EN-JPD=Englewood New Jersey Police Department; FBI=Federal Bureau of Investigation; FDIC/OIG=Federal Deposit Insurance Corporation/OIG; GSA/OIG=General Services Administration/OIG; HHS/OIG=Health and Human Services/OIG; IRS/CI=Internal Revenue Service/Criminal Investigation; LSAGO=Louisiana State Attorney General’s Office; MSAO= Mississippi State Auditor’s Office; MSP=Michigan State Police; TPD=Tampa Police Department; USDA/OIG=U.S. Department of Agriculture/OIG; USPIS=U.S. Postal Inspection Service; USSS=United States Secret Service; VA/OIG=Department of Veterans Affairs/OIG.

Appendix XI: External Peer Reviews

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

Auditing

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

The National Aeronautics and Space Administration Office of Inspector General, conducted a peer review of the OIG during this semiannual reporting period. On September 27, 2012, NASA OIG issued its final report. 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.

Peer Reviews Conducted

The SBA OIG conducted a peer review of the Railroad Retirement Board Office of Inspector General during this reporting period. The fieldwork has been completed, and the final reporting, which is pending, will be addressed during the next reporting period.

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.

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.

Appendix XII: Organization

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

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 62.

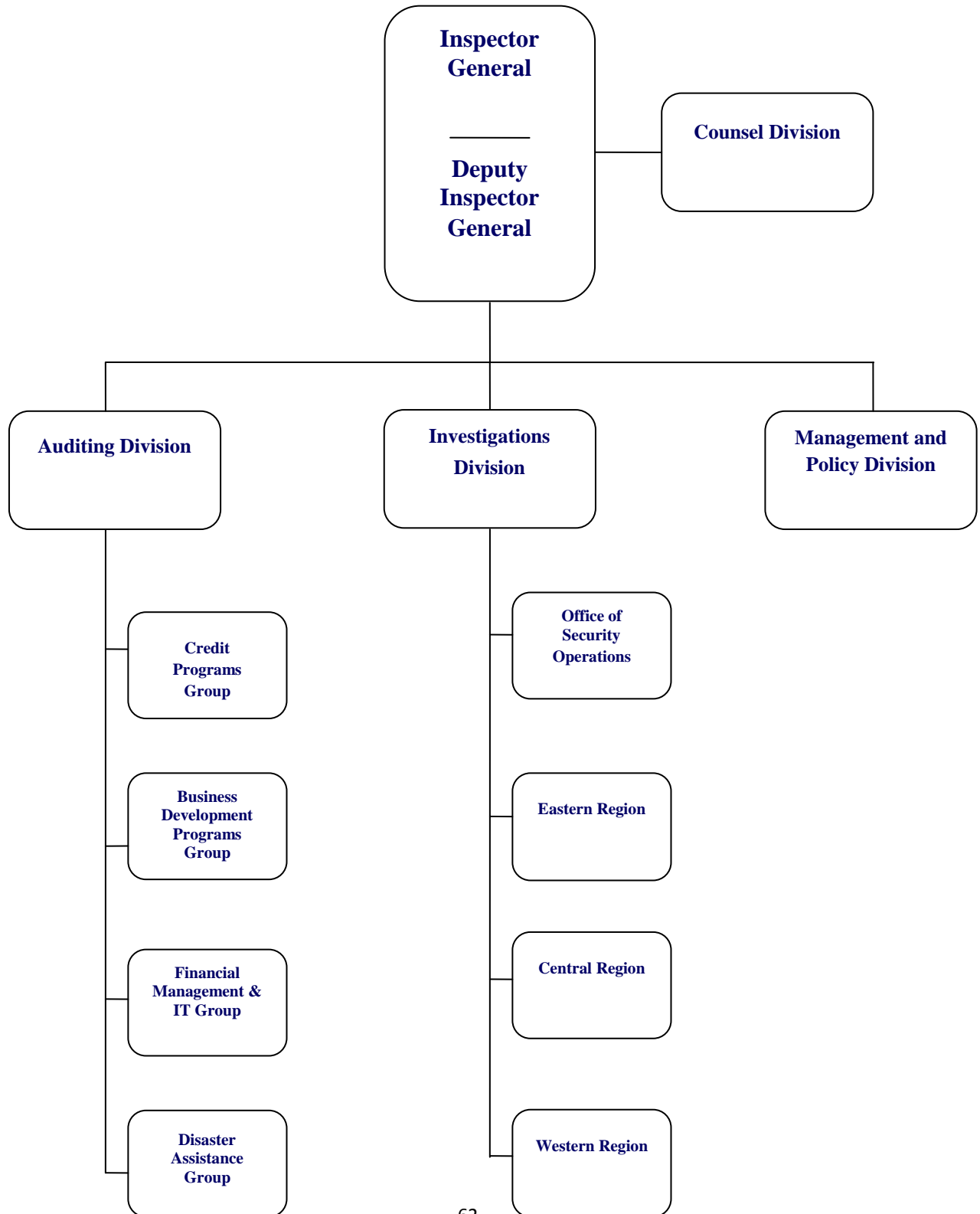
The **Auditing Division** performs and oversees audits and reviews to promote the economical, efficient, and effective administration of SBA programs and operations.

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, 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.

Appendix XIII: Organization Chart



Make a Difference!

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

Online:

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

Call:

1-800-767-0385 (Toll Free)

Write or Visit:

U.S. Small Business Administration
Office of Inspector General
Investigations Division
409 Third Street, SW (5th Floor)
Washington, DC 20416

*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.