

Office of Inspector General

Small Business Administration

Semiannual Report to Congress

Fall 2014



April 1, 2014-September 30, 2014



Small Business Administration
Office of Inspector General
Washington, DC 20416



I am pleased to present the U.S. Small Business Administration (SBA or Agency) Office of Inspector General's (OIG) *Fall 2014 Semiannual Report to Congress*. The report provides a summary of the OIG's activities from April 1, 2014 through September 30, 2014. The OIG continues to focus on the most critical risks facing the SBA. Our resources are directed at key SBA programs and operations, to include financial assistance, Government contracting and business development, financial management and information technology, disaster assistance, Agency management challenges, and security operations.

During this reporting period, the OIG issued 11 reports containing 40 recommendations for improving SBA operations and reducing fraud and unnecessary losses in the Agency's programs. In addition, OIG investigations resulted in 51 indictments and 27 convictions. Overall, the OIG achieved monetary recoveries and savings of \$55,647,327 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. The OIG also sent 27 suspension and debarment referrals to the SBA. OIG investigations resulted in 16 additional suspension or debarment referrals at other agencies.

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

- ◆ The OIG determined that significant opportunities exist to improve the management of the 7(a) loan guaranty approval process to mitigate the SBA's risk of loss.
- ◆ The OIG found that the SBA generally was unable to attain its disaster loan process time performance goals unless it included applications that were automatically declined or quickly rejected before loss verification.
- ◆ The OIG identified over \$400 million in contract actions that were awarded to ineligible firms, which may have contributed to the overstatement of small business goaling dollars for the Small Disadvantaged Business and the HUBZone Business Preference Programs in FY 2013.
- ◆ The OIG found that while the Loan Management and Accounting System (LMAS) modernization continues to progress, the overall goal of moving off the mainframe has experienced multiple schedule delays.
- ◆ The OIG found the SBA continues to make progress in its efforts to prevent and reduce improper payments.
- ◆ The owner of a Colorado real estate firm and 5 family members were charged in a 37-count indictment by a state grand jury. In furtherance of the criminal enterprise, the investigation showed that the owner fraudulently obtained a \$2,323,000 SBA-guaranteed loan to refinance his office building and other existing debt.

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 Contreras-Sweet and the 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 strategic plan for fiscal years (FY) 2014-2018 has three overarching goals:

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

The SBA has also identified its priority goals for FY 2015, which are:

- ◆ Getting capital into the hand of more small businesses.
- ◆ Promoting inclusive entrepreneurship.
- ◆ Improving America's entrepreneurial ecosystem.
- ◆ Building capacity and depth in America's small business supply chain to strengthen American manufacturing and exporting, and to encourage insourcing.
- ◆ Making small businesses more globally competitive through export growth.

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 and 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 the SBA's programs are essential to strengthening America's economy, the Agency faces a number of challenges in carrying out its mission. Challenges include fraudulent schemes affecting all SBA programs, significant losses from defaulted loans, procurement flaws that allow large firms to obtain small business awards, excessive improper payments, and outdated legacy information systems.

The OIG plays a critical role in addressing these and other challenges by conducting audits to identify wasteful expenditures and program mismanagement; investigating fraud and other wrongdoing; and taking other actions to deter and detect waste, fraud, abuse, and inefficiencies in SBA programs and operations.

The OIG's activities also help to ensure that SBA employees, loan applicants, and program participants possess a high level of integrity. This is critical to the proper administration of the SBA's programs because it helps ensure that SBA resources are used by those who deserve and need them the most.

Appendix I contains information regarding audit and other reports issued by the OIG during this reporting period. Appendix X contains summaries of investigative actions. Copies of OIG reports and other work products are available on the OIG's website at <http://www.sba.gov/office-of-inspector-general>.

Small Business Access to Capital

The SBA provides small businesses with capital and financial assistance through several key programs. Over the years, the OIG has worked closely with the Agency to improve the SBA's oversight and controls over these programs to ensure that they benefit eligible participants most in need of assistance.

For example, the SBA has a financial assistance portfolio of guaranteed and direct loans (excluding disaster loans) of almost \$107 billion. The Agency's largest lending program, the Section 7(a) Loan Guaranty Program, is the SBA's principal vehicle for providing small businesses with access to credit that cannot be obtained elsewhere. Proceeds from a 7(a) loan may be used to establish a new business or to assist in acquiring, operating, or expanding an existing business. This program relies on numerous outside parties (e.g., borrowers, loan agents, and lenders) to complete loan transactions, with the majority of loans being made by lenders to whom the SBA has delegated loan-making authority. Additionally, the SBA has centralized many loan functions and reduced the number of staff performing these functions, which placed more responsibility on, and given greater independence to, its lenders. The OIG continues to identify weaknesses in the SBA's lender oversight processes.

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

Various Methods Used to Defraud Loan Programs

Unfortunately, criminals use a wide array of techniques to fraudulently obtain—or induce others to obtain—SBA-guaranteed loans. These include sub-

mitting fraudulent documents, making fictitious asset claims, manipulating property values, using loan proceeds contrary to the terms of the loans, and failing to disclose debts or prior criminal records. Consequently, there is a greater chance of financial loss to the Agency and its lenders. Some of the methods are described below.

- ◆ An Illinois man pled guilty to failing to file a tax return in connection with over \$340,000 in fraudulent SBA loan commissions he was paid by a bank. Previously, four other individuals, including his brother, were indicted on various charges, including bank fraud, bribing a bank official, and filing a false tax return. The indictment sought at least \$10,210,000 in forfeiture, representing proceeds of the fraud scheme. The five individuals conspired to “flip” gas stations using SBA loans from the bank. Some of them worked to get unqualified SBA borrowers approved to purchase gas stations that could be “flipped” to another buyer in the future. This involved creating false tax returns for the loan files. A former SBA market president at the bank received over \$150,000 in kickbacks in return for his role in getting the loans approved. He also fraudulently instructed the bank to pay the Illinois man over \$340,000 in broker commissions for multiple SBA loans—even though the man had no involvement with the SBA loans. This investigation is being conducted jointly with the Federal Bureau of Investigation (FBI), Internal Revenue Service (IRS) Criminal Investigation (CI), and Federal Deposit Insurance Corporation (FDIC) OIG.
- ◆ A California woman was sentenced to 1 year of home detention subject to electronic monitoring, 3 years of probation, and a \$3,000 fine for making a false statement to a Federal agent. She had been a personal assistant to a San Diego small business owner, who in turn pled guilty in a separate case to bribery. The woman assisted the business owner in obtaining a \$1.8 million SBA loan from a bank by creating false Federal tax release forms. She made false statements to the SBA OIG and Treasury Inspector General for

Tax Administration (TIGTA) agents in a nearly 5-year cover-up of a conspiracy to defraud the bank. During interviews with Federal agents, she adamantly denied any involvement in creating fraudulent tax forms submitted to the bank as proof that her former boss had resolved his outstanding Federal tax liabilities. Agents learned that she had helped the owner create the fraudulent documents and had faxed them to the bank using her laptop. When both individuals became aware of the investigation, they destroyed the laptop to conceal evidence of their fraud. The woman also instructed her ex-husband to lie regarding the disposition of her laptop. He was interviewed by Federal agents and subpoenaed to appear before a Federal grand jury in San Diego. This case was initiated based on a referral from TIGTA regarding fraudulent IRS tax lien documents. This investigation is being conducted jointly with TIGTA, the FBI, the Federal Housing and Finance Administration OIG, and the FDIC OIG.

Fraudulent Equity Injection Increases Business Loan Risk

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

- ◆ Two Texas women were sentenced after having pled guilty to conspiracy to commit bank fraud. The first woman was sentenced to 27 months in Federal prison and 2 years of supervised release, and was ordered to pay \$4.2 million in joint restitution with the co-defendant. The second woman (the co-defendant) was sentenced to 18 months in Federal prison and 2 years of supervised release. The women and a man previously

had been indicted for conspiracy to commit bank fraud, bank fraud, and aiding and abetting. In 2007, the second woman applied for and received a \$1,853,000 SBA Section 7(a) loan to purchase a laundromat from a company affiliated with the first woman. In 2008, the second woman applied for and received two commercial loans totaling \$1,332,500 to purchase land from companies affiliated with the first woman. During the loan process, the two women and the man conspired to defraud the SBA and two banks to gain loan approval and receive funds. On the loan applications and during conversations with bank personnel, the three individuals misrepresented the second woman's assets and the source of her equity injection and down payment funds. This is a joint investigation with the FBI.

- ◆ The president of a Michigan construction company was sentenced to report to the U.S. Embassy in Qatar every 3 months for a year to verify that he has not been involved in any criminal behavior. He was also ordered to pay \$460,286 in restitution and a \$10,000 fine after previously pleading guilty to misprision of a felony. The president had been aware that others made false statements on a 2001 loan application to obtain a \$1,100,000 SBA-guaranteed loan from a nonbank lender for an auto service center. He knew that two men falsely claimed as evidence of the required equity injection that the president's construction company had completed \$210,000 in repairs and renovations to the auto service center prior to the loan closing, when in fact it had not. The loan was charged off in the amount of \$789,186 in 2005. The president knew of the false statements and remained in Qatar, thus concealing the information and not promptly making the offense known to U.S. authorities.

Maryland Man's Funds Seized

In response to a U.S. District Court seizure warrant, a bank paid \$96,318 to the U.S. Marshals Service. This money was seized from a Maryland man's loan bro-

kerage company. The man previously had been indicted for conspiracy to commit bank fraud, bank fraud, aiding and abetting, criminal forfeiture, and destruction of records in a Federal investigation. The total forfeiture amount is \$14,708,000—the amount of the allegedly fraudulently obtained funds. His brokerage company had specialized in securing loans for individuals interested in purchasing or refinancing small businesses in the Mid-Atlantic area. According to the indictment, he and others encouraged prospective borrowers using his company's services to apply for Section 7(a) guaranteed business loans. In the process of investigating the SBA loans, it was discovered that the man submitted applications for 17 commercial, non-SBA loans to a Maryland bank. For each of the loans, IRS tax documents had been altered and borrowers' income had been inflated to support a more favorable debt-to-income ratio, thus increasing the likelihood of loan approval. This investigation continues in conjunction with the U.S. Attorney's Office in Maryland and the U.S. Postal Inspection Service (USPIS).

Businessman Ordered to Pay \$3.4 Million

The former owner and president of a Massachusetts photography business was sentenced to 9 months' confinement in a community correctional center, 9 months' home confinement, and 42 months of supervised release. He was also ordered to pay \$3,400,000 in restitution. The man previously had pled guilty to bank fraud and tax evasion. Beginning in 2005, he obtained a series of loans from a bank, including two SBA-guaranteed loans. While obtaining the financing, he submitted numerous financial statements and records to the bank that did not reflect the use of approximately \$2.6 million of business funds for personal expenses. These expenses included construction expenses at his personal residence, cash for gambling, and clothing. He also altered the business's financial books and records to conceal these personal expenses from the IRS. This case is being worked jointly with the IRS CI.

Wyoming Bank Agrees to Pay \$3 Million

A Wyoming bank entered into a settlement agreement with the U.S. Department of Justice (DOJ). The agreement resulted from a lawsuit initiated by a private individual on behalf of the Government. In the agreement, the bank agreed to pay \$3,000,000 to the United States. The DOJ had alleged that the bank withheld material information from—and made material misrepresentations to—the SBA regarding the financial condition of a borrower that had obtained a \$2 million SBA Section 504 loan. The DOJ previously had filed a complaint alleging that the bank falsely certified to the SBA that the borrower was current on an interim loan. In addition, the bank allegedly failed to disclose cost overruns incurred by the borrower.

Wisconsin Man Sentenced for False Statements

A Wisconsin business owner and chief executive officer was sentenced to 18 months' imprisonment and 24 months of probation, and was ordered to pay \$966,466 in restitution. He previously pled guilty to making false statements on a loan and credit application. The investigation showed that, from December 2006 until July 2010, he provided financial statements falsely representing his firm's profitability by increasing the cash reserves, fixed assets, accounts receivable, and inventory, while reducing existing liabilities. The false financial statements were submitted regularly to a bank. The bank relied upon the false statements to assess the financial stability and risk associated with the extension of credit and other financial services to the man's company, including the approval of a \$750,000 SBA-guaranteed loan. This investigation was conducted jointly with the FBI.

Chicago Woman Indicted for Bank Fraud

The former owner of a Chicago grocery store was indicted for bank fraud and making false statements in connection with a scheme to defraud the SBA and a lender. The indictment seeks forfeiture of at least \$1,487,000. The investigation revealed that the owner initially attempted to obtain an SBA loan from one bank, but her application was declined due to her lack of credit history and business experience. She then went to another bank to try and obtain the money needed to open and operate a grocery store. Before going to the second bank, she recruited a family friend to assist with the loan application process. The friend agreed to falsely sign all SBA loan paperwork as the president of the store, even though she had no involvement with the business. As a result of using the friend's name and credit information, the business was approved for SBA loans of \$200,000 and \$1,287,000.

The SBA loan application paperwork submitted to the second bank concealed significant outstanding loan debt, including multiple SBA loans. The application falsely claimed that the friend worked as a supervisor for a grocery store from 1998 until 2005 and was president and director of operations for the subject's grocery store from 2005 to 2007. Finally, the application did not disclose the subject's criminal history, which would have included felony check fraud and assaulting a police officer. This investigation is being conducted jointly with the FBI.

Man Ordered to Pay Over \$2.2 Million

The U.S. Attorney's Office filed a motion with the U.S. District Court requesting that the bond of an Alabama man be revoked and that he be taken into custody for witness tampering. In addition, on September 25, 2014, the court ordered him to pay \$417,702 in restitution to a credit union, bringing the total restitution in this case to \$2,227,702. He previously had been sentenced to serve 3 years in prison, forfeit \$1,760,000 in assets to the Federal

Government, and pay restitution of \$1,760,000 to the SBA and \$50,000 to a finance company. This sentence resulted from the man's guilty plea to wire fraud and bank fraud.

This matter was originally referred to the OIG by the SBA's Little Rock Commercial Loan Servicing Center. A \$1,760,000 SBA Section 504 debenture had been approved to the man's grocery store. After making only one payment, the borrower defaulted on the note. This investigation was worked jointly with the FBI.

Colorado Family Indicted for Forgery and False Statements

The owner of a Colorado real estate firm and five family members were indicted by a state grand jury. The 37-count indictment charged the individuals with violating the Organized Crime Control Act, forgery and making false statements to the SBA, forgery and making false statements to the State of Colorado, attempting to influence a public servant, criminal impersonation, conspiracy, theft, forgery, and making false statements to various lenders. On the date of the indictment, arrest warrants were issued for the individuals.

The investigation showed that the owner obtained a \$2,323,000 SBA-guaranteed loan to refinance his office building and other existing debt. To obtain the loan, he concealed his extensive criminal history and the fact that he was currently on probation. He also falsified documents related to his debts and the taxes owed to the State of Colorado. This investigation also discovered that he and five family members created a criminal enterprise using their status as professionals in the real estate industry to execute a large long-term fraud-for-profit scheme. The scheme primarily centered on mortgage fraud including, but not limited to, the manipulation of multiple real estate transactions through fraudulent statements, material omissions, acquiring false identification and notary commissions, as well as using "straw buyers" to buy and sell real estate.

This case was initiated after the SBA OIG received a referral from a California bank. This was a joint investigation with the Colorado Bureau of Investigation, the FBI, and the Federal Housing Finance Agency OIG.

Guilty Plea in \$100 Million Scheme

Thus far, over \$100 million in losses are the result of a scheme to fraudulently obtain SBA-guaranteed loans. The scheme includes a loan brokerage company, two brothers who owned the company, a former owner of a Maryland title company, and an attorney who owned a Virginia title company. The conspirators encouraged prospective borrowers to apply for Section 7(a) business loans but submitted loan applications and supporting documentation containing fraudulent personal financial information to loan originators and underwriters on behalf of their clients—thereby falsely enhancing the creditworthiness of the borrowers and their businesses. The OIG is conducting this investigation jointly with the FBI and the USPIS.

During the reporting period, a Maryland man pled guilty to conspiracy to commit bank fraud. The related monetary judgment amount is \$950,000. According to his plea agreement, the man created a real estate company to buy a liquor store and was the majority and controlling owner of that company. In May 2006, he and an individual with a minority ownership interest in the real estate company signed agreements to buy the liquor store for \$899,000 and the real estate that the store occupied for \$400,000.

The man then sought a principal of an investment firm to broker a loan for the purchase of the store. He and the principal discussed obtaining an SBA-guaranteed loan from a bank. Because the man had significant debt from purchasing residential properties, the investment firm principal advised him that he likely would not be approved for the loan. The man disclosed to the principal that he could use a straw buyer instead. The two agreed that they would falsely represent to the bank that the straw buyer would be the owner and operator of the liq-

uor store.

The man asked the straw buyer to apply for the loan and promised that he would pay all the bills for the store and make the loan payments. At the September 2006 settlement for the sale of the liquor store to the real estate company, the straw buyer falsely represented to the bank that he was the president of the real estate company. The funds needed to close the transaction were provided by the real estate company owner and not the straw purchaser. The bank then funded a loan of \$950,000. After the closing, the real estate company owner operated the liquor store and, in January 2007, sold a 50 percent stake in the store to another individual for \$380,000. During the sale, he represented to the individual that he owned 100 percent of the store. In 2007, he stopped making loan payments to the bank, and the loan went into default.

Significant Opportunities Exist to Improve the Management of the 7(a) Loan Guaranty Approval Process

The OIG determined that significant opportunities exist to improve the management of the 7(a) loan guaranty approval process to mitigate the SBA's risk of loss. Specifically, the OIG found that Loan Guaranty Processing Center (LGPC) management emphasized quantity over quality for 7(a) loan reviews, which was not in accordance with the strategic mission of the LGPC. Additionally, the OIG determined that LGPC loan specialists were not provided adequate guidance and training to conduct their 7(a) loan review activities. Further, a decrease in the number of staff assigned to loan reviews, increase in loan size and complexity, additional LGPC responsibilities, and inadequate supervision contributed to inappropriate loan decisions.

Furthermore, based on a sample of 13 loans approved for \$13 million, the OIG identified that 11 loans—approved for \$11.3 million—had material underwriting deficiencies. In addition, based on limited reviews of 57 other loans, the OIG found evidence indicating that 8 of these loans—totaling

\$5.6 million—should not have been approved due to repayment ability and eligibility deficiencies. Finally, the OIG identified suspicious activity in five of the loans reviewed. The findings and recommendations in this report will improve the efficiencies of Agency critical loan operation centers and reduce the risk of loss to the SBA and taxpayers.

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. The SBA's current disaster financial assistance portfolio is almost \$7 billion.

There are two primary types of disaster loans: (1) physical disaster loans for permanent rebuilding and replacement of uninsured disaster-damaged privately-owned real and/or personal property, and (2) economic injury disaster loans to provide necessary working capital to small businesses until normal operations resume after a disaster. As part of a massive aid effort from Federal agencies, the SBA approves billions of dollars in disaster assistance loans. The SBA approved \$2.48 billion in disaster loans to homeowners, renters, and businesses for Hurricane Sandy alone.

Hurricane Sandy Fraud Continues

Unfortunately, as with any disaster, the need to disburse such loans quickly in light of Hurricane Sandy may have created opportunities for dishonest applicants to commit fraud. Due to multi-agency efforts, thus far 8 individuals have been indicted, with 4 of them sentenced to pre-trial diversion and ordered to pay nearly \$88,000 in restitution. The following illustrates the types of crimes associated with Hurricane Sandy.

- ◆ The New Jersey Office of the Attorney General filed a complaint against a man for filing false applications to collect Federal relief funds after Hurricane Sandy. It is alleged he falsely claimed that a storm-damaged New Jersey house was his primary residence, when in fact it was a vacation home. The man received \$17,766 in Federal Emergency Management Agency (FEMA) rental assistance grants and allegedly filed a false application for a \$10,000 grant under the Department of Housing and Urban Development (HUD) Homeowner Resettlement Program, administered by the New

Jersey Department of Community Affairs. He was approved for the HUD grant, but the funds were not issued because his alleged fraud was discovered. The man was charged with theft by deception and unsworn falsification. In January 2014, he and his wife received \$46,700 from an SBA home disaster loan for his vacation home—which he falsely claimed as his primary residence. This investigation is being worked jointly with a task force comprised of the New Jersey Department of Community Affairs, the U.S. Department of Homeland Security (DHS) OIG, and the HUD OIG, under the direction of the New Jersey Office of the Attorney General.

- ◆ The New Jersey Office of the Attorney General also filed separate complaints against a Pennsylvania woman and a New Jersey woman. They were both homeowners who allegedly filed false applications to collect Federal relief funds after Hurricane Sandy. The first woman was charged with theft by deception and unsworn falsification. As in the previous example, she allegedly falsely claimed that a storm-damaged house in New Jersey was her primary residence, when it was a vacation home. The woman received \$137,400 in SBA disaster loan proceeds, as well as \$10,000 through HUD and \$13,148 in FEMA rental assistance. The second woman was also charged with theft by deception and unsworn falsification. Her New Jersey home was damaged in Hurricane Sandy. She obtained \$2,270 in FEMA rental assistance by allegedly falsifying checks and receipts for two months of rent that she purportedly paid to her daughter to rent a home in another town. The woman allegedly never rented the home, which was not owned by her daughter. She also received \$40,000 from an SBA disaster home loan for her property located in the first town. These investigations were worked jointly with a task force comprised of the New Jersey Department of Community Affairs, the DHS OIG, and the HUD OIG, under the direction of the New Jersey Office of the Attorney General.

Controls Governing Economic Injury Disaster Loan Approval Need Improvement

In the second of two reports on the Economic Injury Disaster Loan (EIDL) Program, the OIG found that the SBA approved a total of nearly \$1 million more than it should have for 11 of the 22 EIDL loans in our sample—nearly half of the total \$1.8 million that SBA approved for these 11 loans. The SBA approved one loan to an ineligible borrower and two loans with incomplete analyses. For the remaining eight loans, either the SBA incorrectly calculated the applicant’s economic injury, or the loan did not have supporting documentation needed to justify the loan amount. All of these loans were recommended for approval by the loan officers processing the applications and were approved by a separate supervisory loan officer. Therefore, the OIG concluded that internal controls governing the EIDL approval process need to be improved to ensure that loans are approved only to eligible borrowers and for the correct amount.

Effectiveness and Timeliness of the Hurricane Sandy Disaster Loan Closing and Disbursement Processes

The OIG found that the SBA closed and disbursed Hurricane Sandy disaster loans in compliance with established procedures and performance standards. Specifically, the SBA obtained all required closing documents during the closing process, and performed all steps for each disbursement, as required. After receipt of executed closing documents from the borrowers, the SBA made initial disbursements within its strategic goal of 5 days after receipt of executed closing documents. While the audit did not identify significant concerns regarding the disaster loan closing and disbursement processes, the OIG did identify that the SBA could significantly reduce overall loan closing and disbursement times if it obtained certain documents from borrowers earlier in the application process.

Improving Accuracy of Performance Reporting to Better Manage Disaster Loan Processing Time Expectations

While the OIG found that generally the SBA was closing and disbursing loans according to guidance, a second OIG audit found that the SBA still needs to ensure it meets its overall performance goals—especially its total processing time from initial receipt of application to disbursement. The OIG found that the SBA generally was unable to attain its disaster loan process time performance goals unless it included applications that were automatically declined or quickly rejected before loss verification. These types of applications typically took 2 to 3 days to process, whereas full processing took significantly longer. The SBA’s reported average processing time—as published in its Congressional Budget Justification and Annual Performance Reports—included the processing time for these two types of declinations. Because of the methodology it used to compute processing time for disaster loan applications, the SBA’s reported performance did not accurately communicate to eligible applicants and oversight officials how long it was likely to take for most applicants to receive a disaster loan. The OIG also found that processing time performance standards were generally not attainable beyond certain application volume levels.

Procurement Assistance

Small Business Development & Contracting Programs

The SBA works to maximize opportunities for small business firms, including firms owned and controlled by women or service-disabled veterans, and small businesses that are disadvantaged or located in historically underutilized business zones (HUBZones). Through SBA Government contracting programs, these small businesses can gain access to Federal contract awards that normally would not be available to them. Working together, the SBA establishes goals with each Federal agency for contracting with these small 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.

In order to accomplish this goal, the SBA has specific programs including, among others, the Section 8(a) Business Development Program and the HUBZone Empowerment Contracting Program. 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. Similarly, the HUBZone Program helps small businesses that are located in economically challenged areas, or HUBZones, to stimulate their local economies.

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 services are delivered through grant programs that require effective and efficient management.

\$2 Billion Contract Bribery Case Results in Further Legal Action

Ten individuals have been sentenced, and 18 individuals and 1 company either have been charged or have pled guilty in a scheme involving more than \$30 million in bribes and kickback payments. In addition,

various defendants have been ordered to pay over \$32.9 million in restitution. A multi-agency investigation uncovered a conspiracy that included the use of a \$1.3 billion Alaska Native Corporation sole-source contract to pay for the bribes and the planned steering of a \$780 million Government contract to a favored Section 8(a) Program participant. The individuals involved have thus far pled guilty to bribery, conspiracy, money laundering, and other charges. They include Government officials, executives of 8(a) contractors, and employees of the Alaska Native Corporation contractor. The United States has seized for forfeiture or recovered approximately \$22.8 million in bank account funds, cash and repayments, 19 real properties, 6 luxury cars, and fine jewelry. This is a joint investigation with the FBI, the IRS CI, the U.S. Army Criminal Investigation Command (CIC), the Defense Criminal Investigative Service (DCIS), and the Defense Contract Audit Agency.

During the reporting period, a former Department of the Army contracting official pled guilty in Virginia to conspiracy to commit bribery and honest services wire fraud, bribery, and attempting to interfere with and impede tax laws. In addition, the plea agreement calls for him to pay restitution, including \$250,000 to the Department of Defense and nearly \$125,000 to the IRS, as well as \$490,262 in forfeiture. The guilty plea stems from a scheme in which he accepted over \$490,000 worth of benefits, including cash payments and vacations, from favored contractors. In return, he helped these businesses obtain millions of dollars in Federal contracts.

Businesses Falsify Eligibility to Gain Contracting Preferences

In order to gain preferences in obtaining Federal contracts, some businesses misrepresent their eligibility for the Service-Disabled Veteran-Owned Small Business (SDVOSB) Concern, HUBZone, Section 8 (a) Business Development, Woman-Owned Business, and Alaska Native Corporation Programs. Investigations by the OIG and other Federal agen-

cies have identified schemes in which companies owned or controlled by non-disadvantaged persons falsely claim to be disadvantaged firms or use actual disadvantaged firms as fronts. The following cases illustrate the extent of the problem.

- ◆ A Pennsylvania man pled guilty to an information for major fraud against the United States, obstruction of a Federal audit, and making false claims. The information and plea were the result of an investigation into allegations that the man was the actual owner of a small business that purported to be woman-owned. It was actually 85 percent owned and operated by the man, who had previously been convicted of a felony and was not eligible. In addition, the man fraudulently diverted \$1.2 million in Government progress payments on Department of Defense contracts to pay outstanding obligations on other contracts or for other business and personal expenses. He directed two employees of the company to present false checks to Defense Contract Audit Agency staff during a Federal audit. This investigation continues and is being worked in conjunction with the U.S. Army CIC, DCIS, and U.S. Air Force Office of Special Investigations.
- ◆ A Missouri man pled guilty to conspiracy to commit fraud against the United States, major program fraud, and wire fraud. The investigation showed that he, along with his father, mother, and a third man, conspired to defraud the Government in order to obtain SDVOSB contracts. Both he and his father made false statements in order for their Kansas construction company to obtain SDVOSB status and bid on contracts awarded under that program. In addition, as part of his guilty plea, the father admitted to fraudulently claiming service-disabled veteran status after the investigation showed that he never held that status. Moreover, the investigation found that the third man, who was the majority owner of a second company, falsely claimed to have worked for the construction company and conspired with the others to use the construction company as a pass-through and front company for the se-

cond company. The construction company obtained more than \$6.7 million in SDVOSB set-aside contracts from the U.S. Department of Veterans Affairs (VA) and approximately \$748,000 in SDVOSB set-aside contracts from the U.S. Department of Defense before the scheme unraveled. The third man previously pled guilty to acting as a principal in an offense against the United States and to wire fraud. In his plea, he admitted to willful and deliberate ignorance as to the unlawful nature of the companies' relationship and to accepting monies generated from the fraudulent VA SDVOSB contracts. This is a joint investigation with the General Services Administration (GSA) OIG, the VA OIG, and the DCIS.

Defense Contracting Kickbacks Uncovered

A complex, multi-agency investigation in California involves the Section 8(a) Program, a Navy and Marine base, and other Federal facilities. It is based on allegations that contractors in the 8(a) Program in San Diego were receiving kickbacks from subcontractors and that public officials were bribed. Instances of corruption include bribe payments and remodeling public officials' personal residences at no charge. Thus far, 9 individuals have been sentenced to a cumulative amount of 42 months in prison and total restitution of \$982,329. One individual was also ordered to forfeit \$106,964. In addition, an individual was charged by information, and another pled guilty. The investigation is being conducted jointly with the FBI, Naval Criminal Investigative Service (NCIS), IRS CI, DCIS, and GSA OIG. The following are the legal actions during the reporting period.

- ◆ Two California brothers were each sentenced to 5 years of supervised probation, 60 days of home confinement with electronic monitoring, and several special conditions, including 200 hours of community service. Each was also ordered to pay a \$1,000 fine. The sen-

tencing was in connection with their violations of the Anti-Kickback Act. On the same day, a third man was sentenced to 5 years of supervised probation and 60 days of home confinement with electronic monitoring in connection with his violation of the same Act. The three men and two other subcontractors had participated in the above bribery and kickback scheme at a Navy and Marine base and other Federal facilities. In addition, the SBA has begun the process of formally removing one of the companies involved in the scheme from the Agency's list of active 8(a) companies.

- ◆ The owner of a small California construction company was sentenced to 5 years of supervised probation and a \$5,000 fine in connection with violating the Anti-Kickback Act. This man and four other subcontractors had been charged in connection with the above scheme.
- ◆ A California businessman was sentenced to 12 months of prison, 3 years of supervised release, and a \$126,964 fine for conspiracy to bribe public officials and violating the Anti-Kickback Act. His construction firm was sentenced to 5 years of probation, and a \$126,964 fine, jointly and severally, for conspiracy to bribe public officials and violating the Anti-Kickback Act. A second businessman was sentenced to 6 months of prison, 3 years of supervised release, a \$366,140 fine, and \$105,025 in restitution to the IRS for violating the Anti-Kickback Act and making false tax returns. His construction business was sentenced to 5 years of probation and a \$375,000 fine for violating the Anti-Kickback Act. The four sentencing relate to the above bribery and kickback scheme. Both construction firms were associated with the 8(a) Program. The additional allegations of bribery of a public official developed during the investigation.
- ◆ The owner of a California architectural firm pled guilty to structuring transactions to evade a domestic financial institution's reporting requirements. He accomplished this by inten-

tionally withdrawing less than \$10,000 on two separate occasions to evade the filing of a currency transaction report. The owner committed the offense as part of a pattern of illegal activity involving more than \$100,000 in a 12-month period. He previously had been charged in connection with his and four other subcontractors' participation in a bribery and kickback scheme with two 8(a) prime contractors in San Diego.

- ◆ A former U.S. Department of Defense supervisor for the construction and service contracts branch at a Navy and Marine base in California was sentenced to 24 months in prison and supervised release for 2 years, as well as being ordered to forfeit \$106,964 from illegal proceeds. He had been convicted of bribery of a public official and conspiracy to bribe public officials. The sentencing relates to a scheme involving bribery and kickbacks at the base. From 2008 to 2011, the supervisor, who called himself the "godfather" of the base, accepted over \$100,000 in bribes from two former 8(a) prime construction contractors in San Diego. The bribe payments were made to the supervisor with the understanding that their respective business would be awarded 8(a) contracts. In addition to the bribe payments, the two 8(a) contractors did free remodeling work at a property owned by the supervisor. These additional allegations of bribery of a public official developed during the investigation.

Two Men Sentenced in 8(a) Fraud Scheme

A Maryland man was sentenced to 42 months of incarceration followed by 36 months of supervised release. He was also ordered to forfeit \$7,033,844 and pay restitution of \$6,194,828 to the SBA and \$839,016 to the IRS. His wife pled guilty to conspiracy to defraud the United States in connection with deceitful accounting practices. The couple had fraudulently sought Section 8(a) Program Federal contracts. He had owned less than half of a roofing and construction company while it participated in the program and later became the company's president and sole owner. Prior to that, he had caused a second compa-

ny to be incorporated and arranged for a member of an underrepresented group—a former roofer and project manager at the first firm—to own 60 percent of the second company and for his son to own the remaining 40 percent, while he became senior vice president. The former roofer was sentenced to 18 months of probation, with the first 8 months in home confinement, and was ordered to pay \$250,000 in restitution. The two firms shared office space and many of the same employees.

The man concealed on the second firm's 8(a) application and updates that, among other things, he exercised control over the second firm's operations and, along with his wife, had personally guaranteed bonding and credit for the second firm. The second firm paid millions of dollars to the man, including salary and other payments to bank accounts in his and his wife's names. There were also payments to the first firm and casinos, as well as personal charges to the second firm's credit cards. The fraudulent documentation resulted in the second firm receiving more than \$50 million in undeserved 8(a) contracts. Further, he caused more than \$1 million in transfers to bank accounts and casinos to be falsely recorded in the first company's records as corporate expenses paid for subcontractors, and concealed this fact from his tax preparer. As a result, the tax preparer produced corporate tax returns for the first firm, which overstated the company's expenses. The preparer also produced personal income tax returns for the man that understated his taxable income, thereby falsely understating the taxes owed to the IRS. This case is being jointly investigated with the DCIS, GSA OIG, and IRS CI.

Texas Couple Sentenced for Making False Statements and Accepting Gifts

A Texas husband and wife, both of whom were high-level U.S. Army contracting officials, were each sentenced after pleading guilty to filing false tax returns, aiding and abetting, and making false statements to the U.S. Government. The man was sentenced to 30 months' imprisonment and 1 year

of supervised release, and was ordered to pay a \$10,000 fine and \$153,249 in joint restitution to the IRS. His wife was sentenced to 20 months' imprisonment and 3 years of supervised release, and was ordered to pay a \$10,000 fine and joint restitution.

The couple was sentenced in connection with their acceptance and concealment of payments and gifts totaling over \$500,000 from a Chicago-based 8(a) firm to which they awarded multiple construction contracts in their official capacities. They had influence or authority over \$30 million in contracts to that firm. The couple conspired to evade administrative and criminal inquiry by directing the 8(a) firm to convey its payments through complex financial transactions involving the couple's relatives. This included structuring cash deposits below \$10,000 into joint accounts held with relatives. These surreptitious transactions were designed to conceal the true source and purpose of the funds and to circumvent financial institutions' reporting requirements. The scheme also included their concealment of the prohibited income from the IRS on the couple's tax returns during 2002-2009, and from the Army's ethics officials on the couple's annual Confidential Financial Disclosure Reports. This was a joint investigation with the Army CIC, the IRS CI, the FBI, the DCIS, and the DOJ Antitrust and Tax Divisions.

Executives Sentenced for False Statements

The president of a masonry company was sentenced to 12 months and 1 day of incarceration and 4 years of supervised release. He was also ordered to pay a \$50,000 fine. The chief financial officer of the masonry company was sentenced to 6 months of incarceration and 2 years of supervised release, in addition to being ordered to pay a \$50,000 fine. They previously had pled guilty to making false statements. The defendants had caused the prime contractor of a Federal contract at Courthouse Bay, Camp Lejeune, North Carolina, to make a false statement to the Department of the Navy that the prime contractor was successfully meeting its small business subcontracting goals.

In early 2011, the Naval Facilities Engineering Command Mid-Atlantic in Norfolk, Virginia, had issued a “Solicitation, Offer and Award” for a series of construction projects at Camp Lejeune for work at Courthouse Bay. The Courthouse Bay contract was over \$67 million and was awarded to the prime contractor in August 2011. The masonry firm had submitted a \$9.4 million bid to do masonry work as a subcontractor. A prime contractor employee subsequently told the masonry company’s president that his firm would receive the subcontract if it used a minority-owned company. The president agreed to use an affiliated company that he controlled as a front to receive the subcontract. All of the work on the subcontract was subsequently passed through the front company to the masonry company. This case is being investigated jointly with the DCIS and the NCIS.

Alabama Man Sentenced for Fraudulent Activities

An Alabama man was sentenced to 108 months of confinement for wire fraud, making false statements on loan and credit applications, and money laundering. He was also sentenced to 24 months of confinement for making false statements to the SBA, with the term to be served separately and concurrently with the previous sentence. In addition, the man was ordered to serve 36 months of supervised release and forfeit \$1,019,760 to the United States.

This case originated from information received from the IRS CI and involves both the 8(a) Program and an SBA loan. The man’s wholly-owned company had failed to file corporate or personal tax returns from 2002 through 2009. He admitted to providing false and unfiled tax returns to a bank to secure an SBA-guaranteed loan and to the SBA itself to obtain and maintain his firm’s Section 8(a) certification. Consequently, a \$300,000 line of credit was approved, and an outstanding balance of \$80,876 was eventually charged off.

A review of the SBA 8(a) file for the firm revealed that the man submitted false and unfiled corporate and personal tax returns to the SBA with the initial application for 8(a) certification in June 2003 and with their annual updates through September 2008. Consequently, his firm received 22 8(a) set-aside contracts and task orders worth \$14,187,084 in payments.

Guam Businesspersons Indicted for Fraud and Illegal Harboring

The owner of a construction company in Guam and his sister, the firm’s vice president, were indicted for visa fraud, conspiracy to commit visa fraud, conspiracy to defraud the United States, illegal harboring, and forfeiture. Case agents previously had served a seizure warrant to a bank for \$1,875,407. The bank froze the funds and issued an official bank check payable to the U.S. Department of the Treasury. Immediately following the bank seizure, the construction company owner was arrested.

The investigation revealed that the man had misused the H-2B Visa Worker Program while working on 8(a) set-aside contracts. He had a prior criminal history associated with a similar visa fraud violation in 1998, which he failed to disclose to the SBA in his 8(a) application or any of the company’s annual updates to the SBA. His prior criminal history and present misuse of the visa program violated the 8(a) program’s entry and continued eligibility requirements related to good character. Because of the non-disclosures, his firm was granted 8(a) status and illicitly obtained set-aside 8(a) contracts in excess of \$20,000,000. This ongoing investigation is being conducted jointly with the IRS CI and DHS Investigations.

Four Indicted for Wire Fraud

A couple and a woman from North Carolina, as well as a Kentucky man, were indicted in Tennessee for wire fraud, conspiracy to commit wire fraud, and major fraud against the U.S. Government. The indictment also provided notice of \$141,618 in potential asset forfeiture, a potential \$15,000,000 money judgment against the three North Carolinians, and a potential \$5,000,000 money judgment against the Kentucky man.

An investigation had determined that the defendants allegedly conspired to fraudulently obtain 8(a) certification for a North Carolina investment firm to gain access to \$9,000,000 in sole-source and set-aside contracts. They allegedly also inappropriately claimed SDVOSB status for a Kentucky construction firm to obtain \$5,000,000 in contracts reserved for qualified SDVOSB companies. The defendants allegedly submitted fraudulent invoices, receipts, and credit card statements to the SBA, VA, Department of the Interior, and other Government entities. The husband and a North Carolina construction firm had already graduated from the 8(a) Program in 2008. This case is being investigated jointly with the VA OIG, the Department of the Interior OIG, the U.S. Secret Service, and the DOJ.

Contractor Sentencing Related to \$24 Million Contract

The co-owner of a former DHS Customs and Border Patrol information technology contracting business in Virginia was sentenced to 10 months' imprisonment, 2 years supervised release, \$351,761 in restitution, and \$351,761 in forfeiture. The investigation revealed that he received \$351,176 in illegal gratuities for providing internal Government documents and information to employees of a second Government contractor that claimed SDVOSB status and was awarded a \$24 million dollar Customs and Border Control contract as a result of his actions. This ongoing investigation is being worked in conjunction with the DHS OIG, VA OIG, GSA OIG, and DOJ.

Improvements Needed in the SBA's Oversight of the Financial Management of the District of Columbia Small Business Development Center

The OIG found that the District of Columbia Small Business Development Center (Lead Center) did not meet its statutory matching requirement concerning a \$625,000 grant award. Due to the Lead Center's incorrect calculation of indirect costs, incorrect classification of its grant activity, and submission of unreasonable and unallowable costs, the SBA improperly credited the Lead Center with an overmatch of grant funds totaling \$143,811—when the Lead Center actually under-matched its required contribution by \$21,415.

Furthermore, the OIG identified weaknesses in the Agency's internal control system that impacted the Agency's ability to detect regulatory violations and other non-compliance issues. Most notably, the two existing standard operating procedures used to administer the SBDC Program were last updated in August of 1985. Therefore, they do not address numerous subsequent changes made by Congress to Section 21 of the Small Business Act, by the Office of Management and Budget to guidelines on grant administration, and by the SBA to regulations for the SBDC Program.

The Agency is taking steps to update its policies and procedures for the SBDC Program and to ensure that the Lead Center properly computes indirect costs for its future program years. However, the SBA still needs to improve its oversight structure to ensure that the Lead Center accurately reports financial information; incurs and claims reimbursement for allowable and allocable costs; and complies with applicable laws, regulations, policies, and procedures.

Agencies Are Overstating Small Disadvantaged Business and HUBZone Goaling Credit by Including Contracts Performed by Ineligible Firms

The OIG identified over \$400 million in contract actions that were awarded to ineligible firms, which may have contributed to the overstatement of small business goaling dollars for the Small Disadvantaged Business and the HUBZone Business Preference Programs in FY 2013. Besides reporting inaccurate information in the Federal Procurement Data System-Next Generation, procuring agencies may have limited contracting opportunities for firms currently participating in the 8(a) or HUBZone Programs. Further, the OIG found that HUBZone and 8(a) certification information was not consistently transmitted to the Dynamic Small Business Search and the System for Award Management. As a result, the affected small businesses are not getting visibility in the Dynamic Small Business Search, especially the HUBZone firms, and may impact Federal agencies in meeting their HUBZone procurement goals.

Additionally, the OIG also identified over \$1.5 billion dollars in contract actions for which the firms were in the programs at the time of contract award, but in FY 2013 were no longer in the 8(a) or HUBZone Programs. Specifically, SBA regulations permit procuring agencies to claim Small Disadvantaged Business and HUBZone goaling credit on certain contract actions even after firms have left the program. In our opinion, the amount of dollars the SBA reports to Congress and the public as being performed by 8(a) and HUBZone firms in the Small Business Goaling Report is significantly impacted by the inclusion of contract actions performed by former program participants.

Opportunities Exist for the SBA to Improve the Monitoring of Non-Manufacturer Rule Waivers and Determine the Impact on Small Businesses

The non-manufacturer rule allows small business contractors to supply products they did not manufacture, so long as the products come from another small business. If the SBA finds that no small business manufacturers exist in a particular industry, it may issue a waiver to the non-manufacturer rule. The OIG was unable to determine if the SBA appropriately issued waivers to the non-manufacturer rule because of a lack of established procedures, missing files, and other deficiencies. Between FYs 2010 and 2013, the SBA received 214 individual waiver requests. Of the requests received, the SBA approved 81 percent of those waivers. However, the SBA has recently begun to deny or close more waivers due to incomplete requests or insufficient market research, and since the beginning of FY 2014, SBA officials have identified areas of improvement and have begun to make changes to improve the guidance and operating structure of this function. The SBA needs to implement steps identified by the program staff, as well as take additional actions to improve the efficiency and effectiveness of the program.

Further, the OIG found that the SBA has not evaluated the impact of non-manufacturer rule waivers on small businesses, and that the SBA currently lacks the processes to make such an evaluation. Non-manufacturer rule waivers affect a significant amount of Federal contracting dollars. From FYs 2010 to 2013, the SBA approved waivers with an estimated total of approximately \$10.6 billion Federal contracting dollars associated with set-aside contracts for small businesses.

Agency Management

Agency management includes activities of the Offices of the Chief Financial Officer, the Chief Information Officer, 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.

Review of the Loan Management and Accounting System Incremental Improvement Projects

The SBA has planned several incremental improvement projects for the Loan Management and Accounting System (LMAS). The OIG found that while the LMAS modernization continues to progress, the overall goal of moving off the mainframe has experienced multiple schedule delays. The SBA currently plans the mainframe migration to be completed in early 2015, instead of initial planned completion of September 2013.

The OIG found that the LMAS project needs to ensure user acceptance testing protocols outlined in its system development guidance are followed. Additionally, the SBA's information technology governance boards need to actively oversee projects and utilize tools—such as Independent Verification and Validation services—to assess progress and initiate accountability reviews, or TechStats to redress underperforming projects, when necessary. Finally, the SBA needs to ensure its Enterprise Architecture serves as the Agency roadmap for integrating proposed business requirements and technology solutions.

Evaluation of the SBA's 2013 and 2014 Cash Gifts

The OIG determined that the SBA obtained proper approvals to solicit and accept gifts for the 2013 National Small Business Week. The donors were

properly vetted through the program offices to ensure no business relationships existed that would cause a conflict of interest, and the SBA's Office of General Counsel confirmed that no conflict of interest existed between the SBA and those entities. The OIG also determined the SBA adequately complied with the Small Business Act when it held \$36,510 and used \$29,106 in cash gifts. The SBA recorded the cash donations in the Business Assistance Trust Fund and made the funds available to the SBA program offices for expenditure. The OIG further determined that those funds were used to pay for valid expenses in accordance with the Act.

However, the SBA did not employ sufficient controls to ensure compliance in accepting of cash gifts. The OIG found that a lack of communication between SBA officials led the Office of Strategic Alliances to erroneously report that a \$10,000 cash gift was received from an organization. The OIG also noted that the SBA did not timely close out its 2013 National Small Business Week cosponsored activity, and that the Agency inaccurately recorded and deposited excess cosponsor funds—which caused the SBA to understate reported cash gifts by \$300.

Weaknesses Identified During the FY 2013 Federal Information Security Management Act Review

During the OIG's annual, required Federal Information Security Management Act Review (FISMA), the OIG evaluated the Agency's compliance with information security requirements. For FY 2013, the OIG found that the SBA continued to show limited progress in meeting FISMA requirements. Specifically, the SBA needs to further establish its configuration management, identity and access management, risk management, and continuous monitoring controls. In addition to weaknesses identified in FY 2013, the SBA needs to continue to remediate outstanding and overdue recommendations specifically relating to FISMA compliance.

The SBA's Progress in Complying with the Improper Payments Elimination and Recovery Act

The OIG found the SBA continues to make progress in its efforts to prevent and reduce improper payments. The SBA was generally compliant in meeting the minimum requirements in accordance with OMB guidance. Specifically, the disbursements for goods and services, as well as 7(a) loan guaranty approvals continued to make progress through the deployment of improved controls and process improvements. The revised procedures were robust and led to the identification of more improper payments during the testing process. Notwithstanding these accomplishments, the SBA needs to improve the effectiveness and development of improper payment controls and processes for all of the programs or activities reviewed. Specific areas include completeness of test plans, quality of corrective action plans, and sufficiency of improper payment recapturing activities.

In compliance with the Office of Management and Budget guidance, the OIG also assessed whether the SBA complied with the Improper Payments Elimination and Recovery Act reporting requirements. The OIG found that the SBA generally met all these reporting requirements. However, the SBA's procurement disbursements and Disaster Assistance Loan programs were not compliant because their improper payment rate exceeded the 10 percent threshold. The need to use less-experienced staff to process applications for Hurricane Sandy may have contributed to the rate increase for Disaster Assistance loan disbursements.

In addition, procurement disbursements, as well as the 7(a) Guaranty Approvals and Disaster Assistance Loan programs did not achieve their annual reduction targets. Instead, the improper payment estimates increased from \$91 million to \$121.1 million for Disaster Assistance loan disbursements, from \$12.5 million to \$14.1 million for procurement disbursement, and from \$233.2 million to \$510.9 million for 7(a) guaranty loan approvals.

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 2,019 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 online connection with the FBI. As a result of OIG referrals during this reporting period, SBA business loan program managers declined 20 applications totaling over \$14.9 million, and disaster loan program officials declined 11 applications totaling over \$440,000. In addition, the Section 8(a) program declined two applications for admission and the Surety Bond Guaranty Program declined two applications for admission.

During this reporting period, the OIG also initiated 183 background investigations and issued 13 security clearances for Agency employees and contractors. The OIG also adjudicated 53 background investigative reports and coordinated with the SBA's Office of Disaster Assistance to adjudicate 57 derogatory background investigation reports. Finally, the OIG processed 1,148 internal name check requests for Agency activities such as success stories, "Small Business Person of the Year" nominees, and disaster assistance new hires.

The OIG Promotes Debarment and Other Administrative Enforcement Actions

As a complement to its criminal and civil fraud investigations, the SBA OIG continually promotes suspensions, debarments, and other administrative

enforcement actions. These actions protect taxpayer funds from parties who have engaged in fraud or have otherwise exhibited a lack of business integrity. The OIG regularly identifies individuals and entities for debarment and other enforcement actions, and submits comprehensive referrals that include a summary of allegations, suggested administrative records with supporting evidence, and a draft notice to facilitate review by the responsible SBA suspension and debarment official. Most OIG administrative referrals involve the abuse of SBA 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 parties in Government programs.

During this reporting period, the OIG sent 27 suspension and debarment referrals to the SBA. OIG investigations resulted in 16 additional suspension or debarment referrals at other agencies. (See the Statistical Highlights section of this report for additional suspension and debarment results.)

Administrative Enforcement Action Referrals

The following provides examples of OIG referrals for administrative enforcement actions during this reporting period:

- ◆ ***Government Contractor and its President Referred for Debarment Based on Conviction for Conspiracy to Defraud the Government in the 8(a) Business Development Program.***

The OIG referred the owner of a Federal contractor and the contractor itself for debarment based on the owner's conviction for conspiracy to defraud the Government. The owner was convicted for a conspiracy to misrepresent the contractor's management practices to the SBA in order to induce the SBA to certify the contractor for the 8(a) Business Development Program. Additionally, in a plea agreement, the owner

admitted to causing another individual to submit false statements to the SBA debarment official in connection with a previous debarment. Given the pattern of false statements and lack of business integrity, the OIG recommended the owner and contractor for an enhanced period of debarment in this case.

◆ ***False Statements in a 7(a) Loan Application and Other Submissions Result in Debarment Referral for Government Contractor and President.***

SBA employees reviewing a small business' application for admission to the 8(a) Business Development Program noted that the company's owner was a Federal employee at the time the firm received an SBA-guaranteed 7(a) loan, and referred the matter to the OIG. The OIG reviewed the bank's loan file and determined that the owner of the applicant-company falsely certified that he was not a Federal employee when applying for the loan. The SBA OIG also learned that the owner failed to disclose his ownership of the company, as required by his employing agency's ethics conflict of interest procedures. Given the submission of false information and wrongful lack of disclosure, the SBA OIG referred the owner and the company for debarment.

◆ ***Multiple Parties Involved in a Conspiracy to Defraud the Government Through the SBA's SDVOSB and 8(a) Business Development Programs Referred for Suspension.***

The SBA OIG is one of several agencies investigating a scheme in which various parties conspired to submit false information to the SBA and other Federal agencies in order to take advantage of contracting preferences available under small business procurement programs. Following an indictment, the OIG referred all individuals charged in the scheme and several of their affiliates for suspension. These suspension referrals will ensure the individuals charged in the scheme and their affiliated companies do

not participate in any procurement, grant, guaranteed loan or other Federal transactions, pending the outcome of the prosecution. If these individuals plead guilty or are convicted, the OIG will pursue their debarment.

The OIG Provides Training to Multiple Agencies to Promote Debarment and other Remedies

During the reporting period, OIG representatives continued to provide suspension and debarment training to auditors, inspectors, evaluators, and attorneys throughout Federal OIGs in coordination with the Council of the Inspectors General on Integrity and Efficiency (CIGIE) Training Institute. The CIGIE Training Institute held one training session with practical exercises teaching OIG employees how to prepare suspension and debarment referrals from audits.

The SBA OIG also provided practical training for another OIGs on identifying and preparing referrals for Government-wide suspension and debarment.

The OIG Continues Leadership Role in CIGIE Project to Promote Use of the Program Fraud Civil Remedies Act

The OIG is heading a project that the CIGIE established in November 2012 to promote Government-wide use of the Program Fraud Civil Remedies Act (PFCRA). The PFCRA allows agencies to seek double damages for false claims of up to \$150,000 administratively rather than initiating a case in Federal court. A report the Government Accountability Office issued in 2012 based upon a survey of OIGs found that many Federal agencies were making limited or no use of the PFCRA. As previously reported, the OIG hosted a PFCRA Working Group with representatives from multiple OIGs to examine the issue and develop solutions to expand use of the statute. During this reporting period, SBA OIG rep-

representatives, along with other members of the working group, delivered 11 training sessions at agencies and OIG organizations on how to implement a PFCRA program, resulting in the training of approximately 270 people. This training emphasizes the practical aspects of creating a PFCRA referral and incorporates forms and templates the working group developed to promote and facilitate PFCRA prosecutions.

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

As part of the OIG's proactive efforts to promote accountability and integrity and reduce inefficiencies in SBA programs and operations, the OIG reviews changes that the SBA proposes to make to its program directives such as regulations, internal operating procedures, agency policy notices, and SBA forms that are completed by the public. The OIG often identifies material weaknesses in the proposals and works with the Agency to implement recommended revisions to promote more effective controls and deter waste, fraud, or abuse. During the reporting period, the OIG reviewed 55 proposed revisions of these program directives and submitted comments designed to improve 26 of these initiatives.

The OIG also raised a number of concerns regarding another agency proposal to allow lenders to use their own digital signature platforms on loans made under the 7(a) Loan Guaranty Program. Although the OIG has successfully worked with the Agency towards establishing adequate controls on a secure digital signature program that will be administered by the SBA, the proposal to allow lenders to develop their own systems lacked many of these controls. The key OIG concern was whether lender-managed systems would hinder, or prevent altogether, prosecutions of borrower fraud due to data integrity and evidentiary admissibility issues. The Government's

prosecution of numerous cases serves as an important deterrent to fraud in the 7(a) Program.

The OIG additionally submitted comments and recommendations on several proposals relating to the 8(a) Business Development Program to improve oversight of program participants. Further, the OIG submitted comments to promote greater accountability and effectiveness in proposed SBDC regulations, 7(a) Loan Guaranty Program procedures, gift acceptance procedures, information technology system development protocols, and a number of other SBA directives and public use forms used in various SBA programs.

2004 Legislation Requires SBA Regulations and OIG Approval of SBDC Surveys

In December 2004, Congress amended section 21(a)(7) of the Small Business Act (15 U.S.C. 648(a)(7)) to restrict disclosing information regarding individuals or small businesses that have received assistance from an SBDC and to limit the Agency's use of such information. The provision also required the SBA 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. In April of 2014, the SBA sent the proposed regulations for publication in the Federal Register for public comment.

In addition, section 21(a)(7) of the Small Business Act states that, until these SBDC information disclosure regulations are issued, the Inspector General shall approve any SBDC client survey and the use of such information, and 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 2014.

OIG Comprehensive Orientation Program for New Employees

During this reporting period, the OIG implemented a Comprehensive Orientation Program for newly-hired OIG employees. The program—launched in May 2014—strategically aligns OIG values, goals, and objectives with the new employee onboarding process. So far, 16 employees have participated in the program, which pairs new employees with knowledgeable OIG partners to foster cohesion within the OIG and ensure a more collaborative environment.

The OIG Hotline

The OIG Hotline reviews allegations of waste, fraud, abuse, or serious mismanagement in the SBA or its programs from employees, contractors, and the public. During the second half of FY 2014, the Hotline received 319 complaints requiring additional analysis or referral, and closed 244 complaints. A preliminary review of all complaints is conducted to determine the appropriate course of action. As part of the review process, Hotline staff may coordinate reviews of allegations with Investigations, OIG Counsel, Auditing, and SBA Program Offices. Outcomes of investigations initiated as a result of Hotline complaints are monitored by Hotline staff.

Of the 244 complaints closed during this period, 63 (26 percent) were referred within OIG (Investigations, Audit, Counsel); 60 (25 percent) were referred to SBA Program Offices; and 10 (4 percent) were referred to outside Agencies. The remaining complaints, 111 (45 percent), were resolved by the Hotline, or did not require referral.

Whistleblower Ombudsman

Pursuant to the Whistleblower Protection Enhancement Act of 2012, the OIG has established a whistleblower ombudsman within the Hotline function to

educate SBA employees about prohibitions on retaliation for whistleblowing, as well as employees' rights and remedies if anyone retaliates against them for making a protected disclosure (i.e. "Whistleblowing").

Federal law prohibits Government personnel from retaliating against an employee who acts as a whistleblower by reporting suspected waste, fraud, or abuse to the OIG. In addition, the National Defense Authorization Act of 2013 extends whistleblower protections to Government contractors, subcontractors and grantees. Protected whistleblowing is defined as disclosing information, which the discloser reasonably believes evidences:

- a violation of law, rule or regulation,
- gross mismanagement,
- gross waste of funds,
- an abuse of authority, or
- a substantial and specific danger to public health or safety.

In accordance with the Administration's second Open Government National Action Plan, the whistleblower ombudsman coordinated a strategy to meet the requirements of the Office of Special Counsel 2302(c) Certification Program, and submitted the request for certification during this reporting period. Requirements included: placing information posters at Agency facilities; providing information about the Whistleblower Protection Act (WPA) and the Whistleblower Protection Enhancement Act (WPEA) to new employees as part of the orientation process; providing information to current employees about the WPA/WPEA; training supervisors on the WPA/WPEA; and displaying a link to the Office of Special Counsel's website on the Agency's website or intranet.

Comprehensive information related to Whistleblower Protection may be found on the OIG's website, at <http://www.sba.gov/office-of-inspector-general/23014>. The Whistleblower Ombudsman may be contacted via email at OIGOmbudsman@sba.gov.



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Statistical Highlights:

April 1-September 30, 2014

Summary of Office-Wide Dollar Accomplishments

As a Result of Investigations & Related Activities	
-Potential Investigative Recoveries & Fines	\$24,048,619
-Asset Forfeitures Attributed to OIG Investigations	\$10,272,389
-Loans/Contracts Not Approved or Canceled as a Result of Investigations	\$0
-Loans Not Made as a Result of Name Checks	\$15,366,392
Investigations Sub-Total	\$49,687,400
As a Result of Audit Activities	
-Disallowed Costs Agreed to by Management	\$ 1,159,927
-Recommendations that Funds Be Put to Better Use Agreed to by Management	\$0
Audit Sub-Total	\$1,159,927
TOTAL	\$50,847,327

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

Reports Issued	11
Recommendations Issued	40
Dollar Value of Costs Questioned	\$1,090,211
Dollar Value of Recommendations that Funds be Put to Better Use	\$4,800,000
Recommendations for which Management Decisions Were Made	77
Recommendations Without a Management Decision	22
Collections as a Result of Questioned Costs	\$570,763

Indictments, Convictions, Case Actions

Indictments from OIG Cases	51
Convictions from OIG Cases	27
Cases Opened	35
Cases Closed	24

SBA Personnel Actions Taken as a Result of Investigation

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

Hotline Complaints Received and Related Referral Actions

Within the OIG (Investigations, Audit, Counsel)	63
Program Offices	60
Other Agencies	10
Other*	111
TOTAL	244

* "Other" refers to complaints resolved by Hotline staff in which no action was taken or no referral was required.

Program Actions Taken During the Reporting Period as a Result of Investigations

Suspensions and/or Debarments Recommended to the Agency	27
—Pending at the Agency as of September 30, 2014	53*
Suspensions Issued by the Agency	14
Proposed Debarments Issued by the Agency	6
Final Debarments Issued by the Agency	12
Proposed Debarments Declined by the Agency	0
Administrative Agreements Entered by the Agency in Lieu of Debarment	0
Suspension and Debarment Actions by Other Agencies	0

*Of these referrals, 18 went to the SBA within 30 days of the close of this reporting period.

Agency Legislative and Regulatory Proposals Reviewed

Legislation, Regulations, Standard Operating Procedures, and Other Issuances Reviewed	55
Comments Provided by OIG to Improve Legislation, Regulations, Standard Operating Procedures, and Other Issuances	26

Full Year Statistical Highlights:

Fiscal Year 2014

Summary of Office-Wide Dollar Accomplishments

As a Result of Investigations & Related Activities	
-Potential Investigative Recoveries & Fines	\$32,426,370
-Asset Forfeitures Attributed to OIG Investigations	\$17,863,128
-Loans/Contracts Not Approved or Canceled as a Result of Investigations	\$715,700
-Loans Not Made as a Result of Name Checks	\$25,170,897
Investigations Sub-Total	\$76,176,095
As a Result of Audit Activities	
-Disallowed Costs Agreed to by Management	\$3,890,151*
-Recommendations that Funds Be Put to Better Use Agreed to by Management	\$89,900,000
Audit Sub-Total	\$93,690,151
TOTAL	\$169,866,246

* Reported numbers for the separate SAR periods do not sum to full year amount due to prior period adjustment.

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

Reports Issued	20
Recommendations Issued	100
Dollar Value of Costs Questioned	\$4,382,435
Dollar Value of Recommendations that Funds be Put to Better Use	\$4,800,000
Recommendations for which Management Decisions Were Made	137*
Recommendations Without a Management Decision	22
Collections as a Result of Questioned Costs	\$570,763

* Reported numbers for the separate SAR periods do not sum to full year amount due to prior period adjustment.

Indictments, Convictions, Case Actions

Indictments from OIG Cases	103
Convictions from OIG Cases	67
Cases Opened	51
Cases Closed	45

SBA Personnel Actions Taken as a Result of Investiga-

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

Hotline Complaints Received and Related Referral Actions

Within the OIG (Investigations, Audit, Counsel)	273
Program Offices	155
Other Agencies	17
Other*	211
TOTAL	656

* "Other" refers to complaints resolved by Hotline staff in which no action was taken or no referral was required.

Program Actions Taken During the Reporting Period as a Result of Investigations

Suspensions and/or Debarments Recommended to the Agency*	50
—Pending at the Agency as of September 30, 2014	53*
Suspensions Issued by the Agency	22
Proposed Debarments Issued by the Agency	10
Final Debarments Issued by the Agency	20
Proposed Debarments Declined by the Agency	0
Administrative Agreements Entered by the Agency in Lieu of Debarment	3
Suspension and Debarment Actions by Other Agencies	51

*Of these referrals, 18 went to the SBA within 30 days of the close of this reporting period.

Agency Legislative and Regulatory Proposals Reviewed

Legislation, Regulations, Standard Operating Procedures, and Other Issuances Reviewed	93
Comments Provided by OIG to Improve Legislation, Regulations, Standard Operating Procedures, and Other Issuances	46

Appendix I: OIG Reports Issued

April 1-September 30, 2014

Small Business Access to Capital

Title	Report Number	Issue Date	Questioned Costs	Funds for Better Use
Significant Opportunities Exist to Improve the Management of the 7(a) Loan Guaranty Approval Process	14-13	6/6/2014	\$0	\$4,800,000
Program Subtotal	1		\$0	\$4,800,000

Disaster Loans

Title	Report Number	Issue Date	Questioned Costs	Funds for Better Use
Improving Accuracy of Performance Reporting to Better Manage Disaster Loan Processing Time Expectations	14-14	6/30/2014	\$0	\$0
Controls Governing Economic Injury Disaster Loan Approval Need Improvement	14-20	9/29/2014	\$946,400	\$0
Effectiveness and Timeliness of the Hurricane Sandy Disaster Loan Closing and Disbursement Processes August	14-16	8/27/2014	\$0	\$0
Program Subtotal	3		\$946,400	\$0

Small Business Development, Contracting, Education, and Training

Title	Report Number	Issue Date	Questioned Costs	Funds for Better Use
Opportunities Exist for the SBA to Improve the Monitoring of Non-Manufacturer Rule Waivers and Determine the Impact on Small Businesses	14-15	8/14/2014	\$0	\$0
Agencies Are Overstating Small Disadvantaged Business and HUBZone Goaling Credit by Including Contracts Performed by Ineligible Firms	14-18	9/24/2014	\$0	\$0
Improvements Needed in the SBA's Oversight of the Financial Management of the District of Columbia Small Business Development Center	14-19	9/29/2014	\$143,811	\$0
Program Subtotal	3		\$143,811	\$0

Agency Management

Title	Report Number	Issue Date	Questioned Costs	Funds for Better Use
SBA's Progress in Complying with the Improper Payments Elimination and Recovery Act	14-11	4/10/2014	\$0	\$0
Weaknesses Identified During the FY 2013 Federal Information Security Management Act Review	14-12	4/30/2014	\$0	\$0
Evaluation of SBA's 2013 and 2014 Cash Gifts	14-17	8/27/2014	\$0	\$0
Review of the LMAS Incremental Improvement Projects	14-21	9/30/2014	\$0	\$0
Program Subtotal	4		\$0	\$0

TOTALS (all programs)	11		\$1,090,211	\$4,800,000
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Appendix II: OIG Reports

With Questioned Costs

		Reports	Recommendations*	Questioned Costs**	Unsupported Costs***
A.	No management decision made by March 31, 2014	1	2	\$1,730,560	\$1,730,560
B.	Issued during this reporting period	2	2	\$1,090,211	\$946,400
	Universe from which management decisions could be made in this reporting period – Subtotals	3	4	\$2,820,771	\$2,676,960
C.	Management decision(s) made during this reporting period	2	2	\$1,159,927	\$1,016,116
	(i) Disallowed costs	2	2	\$1,159,927	\$1,016,116
	(ii) Costs not disallowed	0	0	0	0
D.	No management decision made by September 30, 2014	2	2	\$ 1,660,844	\$1,660,844

* 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: OIG Reports

With Recommendations that Funds Be Put to Better Use

		Reports	Recommendations*	Recommended Funds For Better Use
A.	No management decision made by March 31, 2014	0	0	\$0
B.	Issued during this reporting period	1	1	\$4,800,000
	Universe from which management decisions could be made in this reporting period – Subtotals	1	1	\$4,800,000
C.	Management decision(s) made during this reporting period	1	1	\$4,800,000
	(i) Recommendations agreed to by SBA management	1	1	\$0**
	(ii) Recommendations not agreed to by SBA management	0	0	\$0
D.	No management decision made by September 30, 2014	0	0	\$0

* Reports may have more than one recommendation.

** For one recommendation, management has agreed to the recommendation but has not made a final decision on the amount of funds for better use (\$4,800,000). Therefore, for this field, we have put the amount agreed to as \$0.

Appendix IV: OIG Reports

With Non-Monetary Recommendations

		Reports	Recommendations
A.	No management decision made by March 31, 2014*	12	57**
B.	Issued during this reporting period	9	37
	Universe from which management decisions could be made in this reporting period - Subtotals	21	94
C.	Management decision(s) made (for at least one recommendation in the report) during this reporting period	15	74
D.	No management decision made by September 30, 2014*	9	20

* 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: OIG Reports

From Prior Periods with Overdue* Management Decisions

Title	Report Number	Date Issued	Status
SBA's Funding of Information Technology Contracts Awarded to ISIKA Technologies, Inc.	11-14	6/2/2011	Management has not responded to 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	Management has not responded to five recommendations in the report.
The Small Business Administration's Improper Payment Rate for 7(a) Guaranty Purchases Remains Significantly Underestimated	13-07	11/15/2012	Management has not responded to one recommendation in the report.
The SBA Mismanaged Certain 8(a) Information Technology Contracts	13-08	2/3/2012	Management has not responded to two recommendations in the report.
SBA's Inappropriate Contracting Practices to reconfigure Space for the Office of International Trade	13-12	3/26/2013	Management has not responded to one recommendation in the report.
The SBA's 417 Unauthorized Commitments Impacted Mission-Related Services and Increased Costs	13-14	3/28/13	Management has not responded to three recommendations in the report.
SBA's Enterprise-wide Controls Over Cosponsored Activities	13-21	9/26/2013	Management has not responded to two recommendations in the report.
Improved Examination Quality Can Strengthen SBA's Oversight of Small Business Investment Companies	13-22	9/30/2013	Management has not responded to three recommendations in the report.
Management Letter-SBA's FY 2013 Financial Statement Audit	14-07	1/15/2014	Management has not responded to one recommendation in the report.

* Overdue as of October 1, 2014. "Overdue" is defined as more than 180 days from the date of issuance.

Appendix VI: OIG Reports

Without Final Action as of September 30, 2014

Report Number	Title	Date Issued	Date of Management Decision	Final Action Target Date
4-34	Audit of SBA's Process for Complying with the Federal Managers' Financial Integrity Act Reporting Requirements	7/29/04	9/9/04	6/30/13
6-10	FY 2005 Financial Statements - Management Letter	1/18/06	3/7/06	9/30/13
8-12	Oversight of SBA Supervised Lenders	5/9/08	6/20/08	12/31/14
9-05	Audit of SBA's Fiscal Year 2008 Financial Statements - Management Letter	12/17/08	2/18/09	12/31/14
10-14	Adequacy of Quality Assurance Oversight of the Loan Management and Accounting System Project	9/13/10	10/21/10	6/13/10
11-06	Weaknesses Identified During the FY 2010 FISMA Review	1/28/11	3/28/11	9/30/11
11-07	Processing of Insurance Recovery Checks at the Disaster Loan Servicing Centers	2/10/11	4/7/11	6/30/14
ROM 11-04	Quality of SBA's Recovery Act Data on Public Websites	3/22/11	10/6/11	**
11-10	Management Advisory Report on Records Management and Documentation Process at the Disaster Loan Servicing Centers	3/29/11	6/20/11	6/30/14
11-14	SBA's Funding of Information Technology Contracts Awarded to ISIKA Technologies, Inc.	6/2/11	8/1/11	12/31/11
12-02	Independent Auditors' Report on the SBA's FY 2011 Financial Statements	11/14/11	12/22/11	**
12-14	The Small Business Administration did not Maximize Recovery for \$171.1 Million in Delinquent Disaster Loans In Liquidation	7/9/12	*	**
12-15	Weaknesses Identified During the FY 2011 Federal Information Security Management Act Review	7/16/12	8/16/12	**
12-16	The Small Business Administration's Inappropriate Use of the Government Purchases Card for Construction Purchases	8/6/12	9/11/12	**
12-18	A Detailed Repayment Ability Analysis is Needed on High-Dollar Early-Defaulted Loans to Prevent Future Improper Payments	8/16/12	11/03/2012	7/30/2014

* 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
12-22	The SBA's Ratification Process Could Lead to Possible Anti-Deficiency Act Violations	9/28/12	10/12/12	3/31/13
13-03	Benefits of Mentor Protégé Joint Ventures are Unknown: Robust Oversight is Needed to Avoid Abuse and Assure Success	10/23/12	1/24/13	9/30/13
13-04	Independent Auditor's Report on the SBA's FY 2012 Financial Statements	11/14/12	*	**
13-07	The Small Business Administration's Improper Payment Rate for 7(a) Guaranty Purchases Remains Significantly Underestimated	11/15/12	*	**
13-08	The SBA Mismanaged Certain 8(a) Information Technology Contracts	12/3/12	*	**
13-09	Audit of the SBA's FY 2012 Financial Statements Management Letter	12/12/12	*	**
13-11	The SBA's Loan Management and Accounting System Incremental Improvement Projects	3/12/13	*	**
13-16R	Purchase Reviews Allowed \$4.6 million in Improper Payments on 7(a) Recovery Act Loans	6/14/13	3/28/14	**
13-17	The SBA's Portfolio Risk-Management Program Can be Strengthened	7/2/13	9/30/13	**
13-18	The SBA Did Not Effectively Manage Defaulted Disaster Loans to Maximize Recovery From 2006-2011	9/27/13	*	**
13-21	SBA's Enterprise-wide Controls Over Co-sponsored Activities	9/26/13	*	**
14-02	The SBA's FY 2012 Reported Improper Payment Rate for Disbursements and Contracting was Inaccurate and Incomplete	10/24/2013	*	9/30/2014
14-03	Opportunities Exist to Further Improve Quality and Timeliness of HUBZone Certifications	11/19/2013	11/14/2014	**
14-04	Independent Auditors' Report on the SBA's FY 2013 Financial Statements	12/16/2013	*	**

* 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
14-07	Management Letter-SBA's FY 2013 Financial Statement Audit.	1/15/2014	*	**
14-08	Improvement is Needed to Ensure Effective Quality Control at Loan Operation Centers	1/17/2014	*	**
14-09	Purchase Reviews Allowed \$3.1 Million in Improper Payments on 7(a) Recovery Act Loans	1/29/2014	1/23/2014	10/31/2014
14-10	The SBA Did Not Follow Regulations and Guidance in the Acquisition of the One Track System	2/12/2014	*	**

* Management decision dates vary with different recommendations.

**Target dates vary with different recommendations.

Appendix VII: Significant Recommendations

From Prior Reporting Periods Without Final Action as of September 30, 2014

Report Number	Date Issued	Recommendation	Date of Management Decision	Final Action Target Date
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
11-06	1/28/11	Update the list of Major Systems to include all the interfaces between each system and all other systems and networks, including those not operated by, or under the control of the agency and obtain written Interconnection Security Agreements for every SBA system that has an interconnection to another system.	3/28/11	9/30/11
11-06	1/28/11	Establish a program at SBA to manage, control and monitor system interconnections throughout their lifecycle. The program should encompass planning, establishing, maintaining, and terminating system interconnections, including enforcement of security requirements.	3/28/11	9/30/11
11-06	1/28/11	Develop and maintain a centralized inventory of all agency hardware and software.	3/28/11	9/30/11
ROM 11-04	3/22/11	Research the \$21,627,140 in this report to determine whether the award has been made or the funds should be deobligated. This research should result in these actions being posted to FPDS.gov.	10/6/11	6/30/12
ROM 11-04	3/22/11	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

Report Number	Date Issued	Recommendation	Date of Management Decision	Final Action Target Date
ROM 11-04	3/22/11	Develop and implement a data quality plan that documents processes to ensure timely, accurate, and complete submission of contracts data to USASpending.gov.	10/6/11	6/30/12
ROM 11-04	3/22/11	Implement continuous monitoring procedures to ensure that contractor-reported information is correct and accurate, and that all prime contractors are accurately reporting the use of subcontractors.	10/6/11	12/31/11
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	12/31/14
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	12/31/14
11-14	6/2/11	Establish procedures to discontinue SBA's practice of inappropriately obligating funds on contracts in anticipation of future needs.	8/1/11	12/31/11
12-02	11/14/11	We recommend the CIO coordinate with SBA program offices to 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

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 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 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
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
12-14	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 NDLCRC has determined that foreclosure is feasible. ◆ Charge off loans for which the NDLCRC has determined that foreclosure on the collateral is not feasible and ensure transfer of the debts to Treasury FMS for cross servicing. 	3/31/14	3/24/15
12-14	7/2/12	Immediately charge off all disaster loans in liquidation status delinquent over 180 days and not secured by collateral, or specifically exempt from referral to Treasury.	3/31/14	3/24/15
12-15	7/16/12	Develop an overall strategy to timely implement audit recommendations issued by the SBA OIG relating to FISMA security requirements.	8/16/12	10/30/12
13-03	10/23/12	Develop specific, measurements (outputs and outcomes) to evaluate benefits of the joint venture agreements to the protégé.	1/24/13	9/30/13
13-04	11/14/12	Ensure that database administrator and system administrator access is restricted through role-based segregation of duties and managed through an effective audit log review process.	3/8/13	3/1/14
13-04	11/14/12	Enforce an organization-wide configuration management process, to include policies and procedures for maintaining documentation that supports testing and approvals of software changes.	3/8/13	9/30/14
13-07	11/15/12	Seek recovery of \$1,016,116, less subsequent liquidation recoveries from American Business Lending, Inc. for loan number 3646765010.	9/4/2014	2/16/2015

Report Number	Date Issued	Recommendation	Date of Management Decision	Final Action Target Date
13-07	11/15/12	Seek recovery of \$714,444, less subsequent liquidation recoveries from Community South Bank for loan number 3076325004.	Overdue	Target date not established.
13-08	12/3/12	Recover \$12,073 from iTechnologies for payments the contractor received in duplicate.	2/5/13	9/30/13
13-08	12/3/12	Initiate debarment proceedings for TLE and its officials to prohibit future contracting with any agency of the Executive Branch of the United States Government.	1/18/13	4/1/13
13-08	12/3/12	Conduct an internal control review of SBA's acquisition function in compliance with OMB Circular A-123 and OMB Memorandum, Conducting Acquisition Assessments under OMB Circular A-123.	1/9/2013	Target date not established.
13-11	3/12/13	Adopt a new IIP under LMAS to facilitate the transfer of data and move its new COBOL code to a full production environment.	5/1/2014	2/15/15
13-11	3/12/13	Implement an Independent Verification and Validation program for the LMAS-IIP that tests and validates that each IIP meets its program and functional requirements.	9/12/13	9/20/15
13-12	3/26/13	For purchase order SBAHQ-11-M-0018, review all invoices and make a determination of whether all the work that was billed to the SBA was actually performed. If not, the CO should take appropriate action.	Overdue	Target date not established.
13-16R	6/14/13	Seek recovery of \$1,425,247 from Compass Bank on the guaranty paid by SBA for loan number 3716355001.	3/28/14	3/31/15
13-16R	6/14/13	Seek recovery of \$669,963 from The Washington Trust Company on the guaranty paid by the SBA for loan number 3432725003.	3/28/14	3/31/15
13-16R	6/14/13	Seek recovery of \$967,869 from High Trust Bank on the guaranty paid by SBA for loan number 3470855008.	3/28/14	3/31/15
13-16R	6/14/13	Seek recovery of \$555,368 from Monadnock Community Bank on the guaranty paid by SBA for loan number 3535715003.	3/28/14	3/25/15

Report Number	Date Issued	Recommendation	Date of Management Decision	Final Action Target Date
13-16R	6/14/13	Seek recovery of \$680,900 from American Bank of Commerce on the guaranty paid by SBA for loan number 3439035000.	3/28/14	3/31/15
13-21	9/26/2013	We recommend the Office of Strategic Alliances establish controls, such as a reporting system, to ensure that all activities are timely and properly closed out, and that all required documents and reports, as specified in SOP 90 75 3, are obtained.	1/23/14	12/12/14
13-21	9/26/2013	We recommend the Associate Administrator, under the provisions of FMFIA, perform periodic quality service reviews to include cosponsorship files and funds disposition, verifying any expenses paid out of cosponsored income are appropriate.	Overdue	Target date not established.
13-18	9/27/2013	We recommend that the Director, Office of Financial Program Operations, mandate that the NDLRC comply with the DCIA and, develop, and implement management controls and processes related to debts, to ensure a. That all eligible charged off loans now designated with loan status comment code "66" are transferred to Treasury for cross servicing promptly.	3/31/14	3/24/15
13-18	9/27/2013	We recommend that the Director, Office of Financial Program Operations, mandate that the NDLRC comply with the DCIA and, develop, and implement management controls and processes related to debts, to ensure a. That the NDLRC does not designate loans charged off in the future to block their transfer to Treasury for cross servicing because the loans have unliquidated real estate collateral.	3/30/14	3/24/15

Report Number	Date Issued	Recommendation	Date of Management Decision	Final Action Target Date
13-18	9/27/2013	We recommend that the Director, Office of Financial Program Operations, mandate that the NDLRC comply with the DCIA by developing and implementing management controls and processes related to debts, to ensure a. The Transfer of all legally enforceable debts already charged off, to Treasury for cross servicing. (Note: \$6.36 m via cross servicing plus \$5.98 m via offset.)	3/30/14	3/24/15
13-18	9/27/2013	We recommend that the Director, Office of Financial Program Operations, mandate that the NDLRC comply with the DCIA by developing and implementing management controls and processes related to debts, to ensure b. That all debtors associated with charged off legally enforceable debts, required to be transferred to Treasury for cross servicing and offset, are successfully transferred. (Over the next two years: \$2.54 m from transferring non-66 coded loans to cross servicing plus \$2.39 m from transferring debts to offset.)	3/31/14	3/27/15
14-02	10/24/2013	Conduct a review of all invoices pertaining to contract number SBAHQ-11-F-0027 (sample item 39) and recover all unauthorized overage charges and insurance fees from the vendor.	11/14/2013	9/30/2014
14-02	10/24/2013	Determine whether the charges for the CPICA CPIC Analyst labor category pertaining to contract number SBAHQ-10-D-0010 were proper and within the scope of the contract. If not, take appropriate action(s), including pursuing reimbursement from the vendor, to protect the interest of the Government.	11/13/2013	9/30/2014
14-03	11/19/2013	Review the HUBZone certification process and identify a means to meet the deadlines established by regulation, through an improved business process.	11/14/2013	9/30/2014

Report Number	Date Issued	Recommendation	Date of Management Decision	Final Action Target Date
14-03	11/19/2013	Review the certification of the three firms identified by the OIG in this report for possible decertification.	11/14/2013	3/31/2014
14-03	11/19/2013	Update HUBZone guidance based on the current certification process, which includes the full supporting documentation review. Consider incorporating into the guidance a search of FPDS-NG database to ensure the firm is not receiving contracts with HUBZone status during the HUBZone application review and a method to maintain a complete history of the firm's status in the DSBS.	11/14/2013	9/30/2014
14-04	12/16/2013	KPMG recommends that the Chief Information Officer coordinates with SBA program offices to address the existing configuration management vulnerabilities noted during our assessment to be in compliance with SBA policy and SBA Vulnerability Assessment Team (VAT) Internal Operating Procedures, Version 1.4. In addition, implement procedures to ensure the consistent implementation and monitoring of SBA approved security configuration baselines across SBA's workstations, servers, databases, network devices, and other security relevant appliances.	5/22/2014	12/31/2014
14-04	12/16/2013	KPMG recommends that the Chief Financial Officer and the Associate Administrator, Office of Disaster Assistance, implement scans of financial systems in its production environment using privileged access authorization.	1/22/2014	5/1/2014
14-04	12/16/2013	KPMG recommends that the Chief Information Officer coordinates with SBA program offices to enforce a network access security baseline(s) across the network, consistent with SBA security policy, Office of Management and Budget directives, and United States Government Configuration Baseline requirements.	4/9/2014	9/30/2014

Report Number	Date Issued	Recommendation	Date of Management Decision	Final Action Target Date
14-04	12/16/2013	KPMG recommends that the Chief Information Officer coordinates with the SBA program offices to review the list of individuals with HQ data center access permissions periodically, to ensure that only authorized personnel retain access to the HQ data center.	5/22/2014	12/31/2014
14-04	12/16/2013	<p>KPMG recommends that the Chief Information Officer coordinates with SBA program offices to improve SBA's administration of logical system access by taking the following actions:</p> <ul style="list-style-type: none"> ◆ Implement an effective off-boarding process and verify periodically that controls to remove logical access for separated employees from SBA systems are implemented and operating as designed; ◆ Establish a process for the identification and removal of separated contractors in order to help ensure that access is timely removed upon contractor separation; and ◆ Remove access to the general support systems and major applications (including development and test environments) timely when terminated employees and contractors are identified. 	4/9/2014	9/30/2014
14-04	12/16/2013	KPMG recommends that the Chief Information Officer coordinates with the SBA program offices to address the vulnerabilities noted during the FY 2013 audit, to be in compliance with SBA policy and SBA Vulnerability Assessment Team (VAT) Internal Operating Procedures, Version 1.4. In addition, implement procedures to ensure the consistent identification, tracking, and resolution of security vulnerabilities across SBA's workstations, servers, databases, network devices, and other security relevant appliances.	4/9/2014	6/30/2014

Report Number	Date Issued	Recommendation	Date of Management Decision	Final Action Target Date
14-04	12/16/2013	KPMG recommends that the Chief Information Officer coordinates with SBA program offices to grant elevated network privileges per business needs only and enforce the concept of least privilege or implement mitigating controls to ensure that activities performed using privileged network accounts (including service accounts) are properly monitored.	5/22/2014	12/31/2014
14-04	12/16/2013	KPMG recommends that the Associate Administrator, Office of Capital Access, in coordination with the Chief Information Officer, designs and implements a combination of preventative and detective controls to address the issues and related risks in the condition above, and ensure an auditable trail of software changes is maintained to prevent and detect unauthorized changes to production programs.	3/28/2014	3/27/2015
14-08	1/17/2014	Ensure the proper allocation of resources and scoping of the quality control program to complete required quality control activities at the loan operation centers.	1/9/2014	10/31/2014
14-09	1/29/2014	#1 - Seek recovery of \$1,473,770 (less any amounts received from liquidation) from TD Bank on the guaranty paid by the SBA for loan number 3387235009.	1/23/2014	10/31/2014
14-09	1/29/2014	#2 - Seek recovery of \$685,691 (less any amounts received from liquidation) from Florida Community Bank (formerly First Peoples Bank) on the guaranty paid by the SBA for loan number 3531455000.	1/23/2014	10/31/2014
14-10	2/12/2014	Conduct a requirements analysis in addition to a cost assessment of the system to determine what still needs to be developed to achieve the objectives of the final system.	1/24/2014	9/30/2014
14-10	2/12/2014	Ensure all appropriate provisions (e.g. testing, conversion, and installation procedures) of the SDM guidance are met prior to placing OneTrack into production.	1/23/2014	6/1/2014
14-10	2/12/2014	Ensure that only Government employees - not Government contractors - provide oversight of any additional contracts used to develop and implement the OneTrack system.	1/24/2014	4/1/2014

Appendix VIII: Significant Recommendations

April 1, 2014-September 30, 2014

Report Number	Title	Date Issued	Recommendation
14-13	Significant Opportunities Exist to Improve the Management of the 7(a) Loan Guaranty Approval Process	6/6/2014	Revise management reports to measure quality against established targets, ensure production credit is given for all loan review actions, and promote compliance with SBA requirements.
14-13	Significant Opportunities Exist to Improve the Management of the 7(a) Loan Guaranty Approval Process	6/6/2014	Develop and issue appropriate guidance that will assist loan specialists with their duties, including loan reviews and screen-outs, to ensure compliance with SBA's regulations and procedures.
14-13	Significant Opportunities Exist to Improve the Management of the 7(a) Loan Guaranty Approval Process	6/6/2014	Allocate LGPC resources to ensure risk is mitigated and quality is emphasized in accordance with the LGPC strategic plan.
14-14	Improving Accuracy of Performance Reporting to Better Manage Disaster Loan Processing Time Expectations	6/30/2014	Report the processing time for automatically declined applications and pre-loss verification declined applications separately from applications that require more extensive processing, rather than continue averaging these processing times together.
14-14	Improving Accuracy of Performance Reporting to Better Manage Disaster Loan Processing Time Expectations	6/30/2014	Establish and report disaster loan processing time goals based on actual average processing times, net of automatically declined and pre-loss verification declined applications. Additionally, we recommend the established goals also consider the full processing time for all applications with withdrawals that had reacceptances.
14-14	Improving Accuracy of Performance Reporting to Better Manage Disaster Loan Processing Time Expectations	6/30/2014	Establishing processing-time standards for different application volumes based on historical performance and include anticipated processing time standards for a range of possible application volumes in the annual Congressional Budget Justification and Annual Performance Report.
14-15	Opportunities Exist for the SBA to Improve the Monitoring of Non-Manufacturer Rule Waivers and Determine the Impact on Small Businesses	8/14/2014	Include the NAICs code and the date of approval on all individual waiver approval letters.

Report Number	Title	Date Issued	Recommendation
14-15	Opportunities Exist for the SBA to Improve the Monitoring of Non-Manufacturer Rule Waivers and Determine the Impact on Small Businesses	8/14/2014	Complete and publish the Standard Operating Procedure for the Non-Manufacturer Rule Waiver Program.
14-15	Opportunities Exist for the SBA to Improve the Monitoring of Non-Manufacturer Rule Waivers and Determine the Impact on Small Businesses	8/14/2014	Require procuring agencies with approved individual waivers to notify the SBA when a contract has been awarded using the approved waiver, the contract number, and the total contract value.
14-18	Agencies are Overstating Small Disadvantaged Business and HubZone Goaling Credit by Including Contracts Performed by Ineligible Firms	9/24/2014	In coordination with the Office of Federal Procurement Policy and the General Services Administration strengthen controls between the SBA's Dynamic Small Business Search Database and the System for Award Management to ensure accuracy of 8(a) and HUB-Zone certification data in FPDS-NG.
14-18	Agencies are Overstating Small Disadvantaged Business and HubZone Goaling Credit by Including Contracts Performed by Ineligible Firms	9/24/2014	Modify the Dynamic Small Business Search so that a firm's profile and certification information for HUBZone and 8(a) status remains visible and accurate to agency contracting officers or develop an alternate list to verify a firm's status.
14-19	Improvements Needed in the SBA's Oversight of the Financial Management of the District of Columbia Small Business Development Center	9/29/2014	Update SOPs 60 15 and 60 16 to address subsequent statutory and regulatory changes, and to establish adequate controls to ensure effective and efficient operations, reliable financial reporting, and compliance with applicable laws and regulations.
14-19	Improvements Needed in the SBA's Oversight of the Financial Management of the District of Columbia Small Business Development Center	9/29/2014	Implement controls to ensure Lead Centers use the appropriate indirect cost rate and category when computing indirect costs.
14-19	Improvements Needed in the SBA's Oversight of the Financial Management of the District of Columbia Small Business Development Center	9/29/2014	Implement controls to ensure that Lead Centers exclude excess sub-recipient costs when computing indirect costs.

Report Number	Title	Date Issued	Recommendation
14-19	Improvements Needed in the SBA's Oversight of the Financial Management of the District of Columbia Small Business Development Center	9/29/2014	Enforce the requirement for the Lead Center to submit variance reports with its Final Annual Performance Report.
14-19	Improvements Needed in the SBA's Oversight of the Financial Management of the District of Columbia Small Business Development Center	9/29/2014	Require Lead Center to submit a revised SF-425 Federal Financial Report for CY 2012 to correct \$109,472 discrepancy.
14-20	Controls Governing Economic Injury Disaster Loan Approval Need Improvement	9/29/2014	Develop a checklist for key requirements and ensure loan officers complete the checklist prior to approving the loan. Include specific requirements such as whether the applicant sustained an economic injury, and whether all required supporting documentation is included in the electronic loan file. Additionally, develop written requirements for loan officers and supervisory loan officers to verify that all documents required to support a loan decision are included in the electronic loan file prior to recommending approval of the loan.
14-20	Controls Governing Economic Injury Disaster Loan Approval Need Improvement	9/29/2014	Provide additional training to loan officers and supervisory loan officers regarding the SOP requirements for which noncompliance was identified.
14-21	Review of the LMAS Incremental Improvement Projects	9/30/2014	We recommend that the LMAS project manager, in coordination with the Chief Financial Officer, develop and utilize a Requirements Traceability Matrix to document user acceptance of the LMAS IIPs.
14-21	Review of the LMAS Incremental Improvement Projects	9/30/2014	We recommend that the BTIC approve all project baselines and re-baselines, and perform project oversight functions as mandated in SOP 90-52.
14-21	Review of the LMAS Incremental Improvement Projects	9/30/2014	We recommend the OCIO provide interim reports of IV&V activity to the oversight committees when significant variances to project timelines or other material thresholds warrant disclosure.

Appendix IX: Cosponsored & Other Activities

April 1, 2014-September 30, 2014

Name/Subject of Event	Name of Cosponsor(s)	Event Location	Date Fully Executed
2014 SBA Maryland Small Business Awards Luncheon and Trade Show	Baltimore DO - Maryland Small Business Week Awards Program, Inc.	Woodlawn, MD	4/1/2014
Emerging Leaders Initiative	Massachusetts DO-Hispanic- American Chamber Institute, Inc., City of Boston Office of Business Development University of Massachusetts Amherst Massachusetts Small Business Development Centers, SCORE, Center for Women & Enterprise, Inc., Supplier Diversity Office of the Commonwealth of Massachusetts, Greater New England Minority Supplier Development Council, Inc. f/k/a Connecticut Minority Supplier Development Council, Inc., Dorchester Bay Economic Development Corporation, First Trade Union Bank, Eastern Bank, Boston Private Bank & Trust Company, Hispanic-American Chamber of Commerce	Boston, MA	4/1/2014
Emerging Leaders Initiative	Cleveland DO - City of Youngstown - Office of Economic Development, Ohio Small Business Development Center - Youngstown State University	Youngstown, OH	4/2/2014
Financing Fair and Lender Matchmaker	New Hampshire DO - New Hampshire Bankers Association, State of New Hampshire Department of Resources and Economic Development	Manchester, NH	4/3/2014
2014 Small Business Awards Luncheon	Nevada DO-Southern Nevada Public Television dba Vegas PBS	Las Vegas, NV	4/10/2014
Emerging Leaders Initiative	Michigan DO-Automation Alley, Center for Empowerment and Economic Development, Detroit Economic Growth Corporation, Detroit Regional Chamber, Michigan Black Chamber of Commerce, Michigan Economic Development Corporation, Michigan Minority Supplier Development Council, SCORE Detroit Chapter 18, TechTown, Michigan Small Business Development Center, Michigan Hispanic Chamber of Commerce	Detroit, MI	4/10/2014

Name/Subject of Event	Name of Cosponsor(s)	Event Location	Date Fully Executed
2014 Small Business Matchmaker, Awards Luncheon, Exposition	Buffalo DO - SCORE Buffalo Niagara Chapter #45, Business First, Inc.	Buffalo, NY	4/10/2014
10th Annual Government Contracting Matchmaking Event	Puerto Rico DO-Colegio de Ingenieros y Agrimensores de Puerto Rico	Hato Rey, PR	4/10/2014
2014 Delaware Small Business Week Awards Event	Delaware DO - Delaware Community Development Corporation, Mid-Atlantic Business Finance Corporation	Newark, DE	4/10/2014
Emerging Leaders Initiative	Washington DC DO-Arlington Economic Development (BizLaunch), Capital One, DC Small and Local Business Development, Fairfax County Economic Development Agency, Greater Washington Hispanic Chamber of Commerce, M&T Bank, Montgomery County Economic Development, PilieroMazza Law Firm, Prince George's Chamber of Commerce, Washington DC Economic Partnership	Arlington, VA	4/10/2014
Mississippi SBA Statewide Lenders' Conference	Mississippi DO-Central Mississippi Development Company, Inc.	Biloxi, MS	4/16/2014
Small Business Workshop – “Reaching Out to You”	Kansas City DO - Federal Deposit Insurance Corporation, Urban Financial Services Coalition	Kansas City, MO	4/16/2014
Emerging Leaders Initiative	Philadelphia DO-Manufacturers & Traders Trust Company, United Bank of Philadelphia, WWDB Radio 860 - The Boardroom (Russell Dinkins, Radio Show Host), Ervina White-Beauford Funeral Services P.C.	Philadelphia, PA	4/16/2014
Meet The Lenders	Springfield BO-Growth Corp, Illinois Department of Commerce of Economic Opportunity, Illinois Small Business Development Center at Lincoln Land Community College, Springfield SCORE Chapter	Springfield, IL	4/16/2014
Julian Chamber & SBA – Making Your Business Grow	San Diego DO-Julian Chamber of Commerce	Julian, CA	4/16/2014

Name/Subject of Event	Name of Cosponsor(s)	Event Location	Date Fully Executed
Export Trade Workshops Series	San Diego DO-Center for International Trade	San Diego, CA	4/16/2014
Capital Matchmaking/ Business Coaching	Springfield BO-Affiliated Chambers of Commerce of Greater Springfield, Inc., Common Capital, Inc.	Springfield, MA	4/16/2014
Celebrating Success in Small Business 2014	Columbus DO-Business Development Finance Corporation, Heartland Bank, First Financial Bank, Huntington National Bank, US Bank, Telohio, Fifth Third Bank, KeyBank	Grove City, OH	4/17/2014
Monthly small business development series on programs and services that are available to small business entrepreneurs	Columbus DO - The Entrepreneurs Center, Cincinnati Hispanic Chamber, Ohio Development Service Agency, Small Business Development Centers, SCORE , PNC Bank, North Central State College, Urban League of Greater Cincinnati	Ohio Statewide	4/17/2014
Heart of a Champion, Small Business Awards Luncheon	Richmond DO-National Association of Certified Government Business Enterprise, SCORE Richmond Chapter 012	Richmond, VA	4/17/2014
2014 Vermont Small Business Awards Ceremony	Vermont DO - Vermont Business Magazine	Shelburne, VT	4/17/2014

Name/Subject of Event	Name of Cosponsor(s)	Event Location	Date Fully Executed
Cyber Security is Good Business Seminar Series	HQ/Office of Entrepreneurial Development- Federal Bureau of Investigation, National Institute of Standards and Technology	Washington, DC; Baltimore, MD; Evansville, IN; Oklahoma City, OK; Albany, NY; Dallas, TX; Waterbury, VT; Richmond, VA; Virginia Beach, VA; Phoenix, AZ; Tucson, AZ; Harrisburg, PA; Santa Fe, NM; Rapid City, SD; Sioux Falls, SD	4/18/2014
Emerging Leaders Initiative	Minnesota DO-City Council of the City of Minneapolis Economic Policy and Development, City of Saint Paul Planning & Economic Development, Ewald Consulting, Metropolitan Economic Development Association, Minnesota Procurement Technical Assistance Center, North Hennepin Community College, SCORE Minnesota District, Minnesota Department of Employment & Economic Development Small Business Development Center, WomenVenture, Federal Executive Board of Minnesota SADBOC, Saint Paul Area Chamber of Commerce	St. Paul, MN	4/18/2014
Small Business Seminars	Santa Ana DO - Greater Corona Valley Chamber of Commerce	Corona, CA	4/23/2014

Name/Subject of Event	Name of Cosponsor(s)	Event Location	Date Fully Executed
Small Business Workshop Series	Rhode Island DO-Office of Town Administrator Antonio Teixeira, Town of Bristol, Joseph G.E. Knight SCORE Chapter 13, Center for Women & Enterprise, BankNewport, People's Credit Union, East Bay Chamber of Commerce	Bristol, RI	4/30/2014
Small Business Week, Disaster Assistance Seminar, Funding Solutions for Your Small Business and Santa Monica Disaster Assistance Workshop	Los Angeles DO-Los Angeles Mayor's Office of Economic Development, BID Consortium – South Park, Minority Business Development Agency – Mayor's Office of Economic Development, Valley Economic Alliance, Los Angeles Regional Small Business Development Center Network, Westwood Village Improvement Association, CD9 Business Resource Center	Santa Monica, Los Angeles, CA	5/1/2014
SBA-MDEAT Business at Breakfast Series	South Florida DO-Miami-Dade Economic Advocacy Trust	Florida City, FL	5/1/2014
SBA Training Track & New England Small Business Persons of the Year Luncheon at the 2014 Build Northeast Conference and Expo	Massachusetts DO - Worcester Business Development Corporation	Worcester, MA	5/5/2014
Connecticut Business Expo	Connecticut DO - Hartford Business Journal, Metro Hartford Alliance	Hartford, CT	5/7/2014
Formation of Massachusetts Export Outreach Team, attendance at quarterly meetings of the Massachusetts Export Outreach Team, and creation of Massachusetts Export Outreach Team handouts, all in support of the National Export Initiative and Interagency Communique	Massachusetts DO-University of Massachusetts Amherst - Massachusetts Small Business Development Centers - Massachusetts Export Center, SCORE Boston Chapter, Massachusetts Office of International Trade and Investment, Massachusetts Development Finance Agency, U.S. Department of Commerce - U.S. Commercial Service - Boston U.S. Export Assistance Center	Massachusetts	5/7/2014
SBA/NACC "Adult Small Business Boot Camp Series"	New York DO - New American Chamber of Commerce	Brooklyn, NY	5/7/2014
SBA/NACC "Youth Small Business Boot Camp Series"	New York DO - New American Chamber of Commerce	Brooklyn, NY	5/7/2014
2014 Small Business Week Celebration	Connecticut DO - Connecticut Small Business - Key to the Future	Bridgeport, CT	5/7/2014

Name/Subject of Event	Name of Cosponsor(s)	Event Location	Date Fully Executed
Southern West Virginia Lender's Roundtable	West Virginia DO - U.S. Department of Agriculture Rural Development, Natural Capital Investment Fund	Beckley, WV	5/7/2014
Meet Your Western Maine Lenders and Resource Partners	Maine DO - Oxford Hills Chamber of Commerce, Oxford Hills SCORE Chapter 479	South Paris, ME	5/7/2014
2014 Colorado District Office Small Business Awards Event	Colorado DO - Pikes Peak Regional Development Corporation	Colorado Springs, CO	5/19/2014
Small Business Workshop Series	Georgia DO-Art Institute of Atlanta-Decatur	Decatur, GA	5/28/2014
Immigrant Entrepreneurs Summit	Des Moines DO-Des Moines Area Community College, Community CPA & Associates, Inc., Community Tax Clinic, Iowa Women's Business Center, ISED Ventures , Immigrant Rights Network Of Iowa, Iowa Finance Authority, Wells Fargo, Double Dragon Food Mart, Bankers Trust Company, Corporation for Economic Development, Greater DM Partnership, Veridan Credit Union	Ankeny, IA	6/2/2014
2014 New Jersey District Office ("NJDO") Small Business Awards Breakfast	New Jersey DO-TD Bank, JPMorgan Chase Bank NA, 1st Colonial Community Bank	Newark, NJ	6/5/2014
Irvine Builds Businesses Webinar Series	Santa Ana DO - Irvine Chamber of Commerce	World Wide Web/ Telephone	6/5/2014
Burlington Business Fair	Vermont DO - City of Burlington-Community and Economic Development Office, Champlain Valley Office of Economic Opportunity Micro Business Development Program	Burlington, VT	6/6/2014
Los Angeles District Office Faith-Based Business Summit	Los Angeles DO - AmPac TriState CDC, City of Los Angeles, CD 9 Business Resource Center	Los Angeles, CA	6/6/2014
Women Entrepreneurs Small Business Boot Camp	Lower Rio Grande Valley DO - Women Business Center, Brownsville Chamber of Commerce	Brownsville, TX	6/6/2014

Name/Subject of Event	Name of Cosponsor(s)	Event Location	Date Fully Executed
2014 SBA Illinois District Office Small Business Awards Luncheon	Illinois DO - Chicago SCORE, Illinois Department of Commerce and Economic Opportunity, Women's Business Development Center, BMO Harris Bank, Ridgestone Bank, JP Morgan Chase Bank NA, Bridgeview Bank Group, Wells Fargo Bank, First Colorado National Bank	Chicago, IL	6/9/2014
Small Business Week Awards and Conference	Los Angeles DO-Los Angeles Area Chamber of Commerce	Los Angeles, CA	6/12/2014
2014 Back to Business Conference	Georgia DO - Ceasar C. Mitchell Atlanta City Council President, US General Services Administration Regional Office of Small Business Utilization Southeast Sunbelt Region 4	Atlanta, GA	7/2/2014
Small Business Workshops	Wyoming DO - Laramie County Library System, Wyoming Entrepreneur Small Business Development Center	Cheyenne, WY	7/2/2014
Vermont's 18th Annual Women's Economic Opportunity Conference	Vermont DO - Office of U.S. Senator Patrick Leahy, SCORE, USDA Rural Development - Vermont, Vermont Agency of Human Services - Office of Economic Opportunity, Vermont Agency of Transportation, Vermont Commission on Women, Vermont Community Loan Fund, Vermont Department of Labor, Vermont Economic Development Authority, Vermont Manufacturing Extension Center, Vermont Procurement Technical Assistance Center, Vermont Technical College - Vermont Small Business Development Center, Vermont Women's Business Center, Vermont Works for Women, YWCA - Vermont	Randolph, VT	7/3/2014
18th Government Procurement Conference	Dallas/Fort Worth DO - University of Texas at Arlington-Cross Timbers Procurement Center, University of Texas at Arlington-TMAC	Arlington, TX	7/28/2014
Webinar on International Legal Considerations: Protecting Your Intellectual Property When Doing Business Overseas	West Virginia DO -U.S. Commercial Service U.S. Export Assistance Center of West Virginia, West Virginia Development Office International Division	World Wide Web	7/28/2014

Name/Subject of Event	Name of Cosponsor(s)	Event Location	Date Fully Executed
Central PA Lender Match	Philadelphia DO-Harrisburg SCORE, Lancaster SCORE, York SCORE, Kutztown University Small Business Development Center, Shippensburg University Small Business Development Center, Community First Fund	Harrisburg, PA	8/1/2014
Sprit of Small Business Awards Luncheon	Los Angeles DO - Pacific Coast Business Times	Goleta, CA	8/1/2014
Boots to Business - Reboot	Los Angeles DO-The Jonas Project, Veteran Business Outreach Center, Los Angeles SBDC Lead Center	Los Angeles, CA	8/1/2014
The Millennial Trains Project's August 7-17, 2014 Study Tour from Portland, OR to New York, NY	HQ/Office of Entrepreneurship Education - Millennial Trains Project	Portland, OR; Seattle, WA; Whitefish, MT; St. Paul/Minneapolis, MN; Milwaukee, WI; New York, NY	8/1/2014
Meet The Lenders	Springfield BO/Illinois DO-Champaign County Chamber of Commerce, Illinois Small Business Development Center at Illinois Department of Commerce and Economic Opportunity, Illinois Small Business Development Center at Champaign County Economic Development Corporation	Champaign, IL	8/5/2014
Meet The Lenders	Springfield BO/Illinois DO-Delta Regional Authority, Illinois Small Business Development Center at Illinois Department of Commerce and Economic Opportunity, Illinois Small Business Development Center at Southern Illinois University Carbondale	Carbondale, IL	8/5/2014
Small Business Forum	Georgia DO-Office of Congressman John Barrow	Augusta, GA	8/5/2014
Business Series Workshop	South Dakota DO-Sioux Falls Area Chamber of Commerce, Sioux Falls SCORE Chapter 136, South Dakota Small Business Development Center	Sioux Falls, SD	8/8/2014

Name/Subject of Event	Name of Cosponsor(s)	Event Location	Date Fully Executed
Clusters and Innovation Networks - Regional Prosperity Through Innovation	HQ/Office of Entrepreneurship Education - State Science & Technology Institute	Chicago, IL	8/8/2014
Selling to the Government Training Series, FY 2015	Wyoming DO-Wyoming Entrepreneur Procurement Technical Assistance Center	World Wide Web; Casper, Laramie, Cheyenne, Riverton, Jackson, Fort Washakie, WY	8/12/2014
Alternative Financing & Resources for Small Businesses & Their Lenders	Maine DO - Maine Small Business Development Centers, Androscoggin County Chamber of Commerce, Androscoggin Valley Council of Governments	Auburn, ME	8/12/2014
Lehigh Valley Meet the Lenders	Philadelphia DO-Community Action Committee of the Lehigh Valley, Lehigh University Small Business Development Center, Lehigh Valley SCORE, Lehigh Economic Development Corporation, Nazareth Chamber of Commerce, Pennsylvania Community Development & Finance Corporation, Slate Belt Chamber of Commerce, Whitehall Chamber of Commerce	Bethlehem, PA	8/14/2014
SBA & CCHC Business Workshops for Prosperity	New York DO-Chinese Christian Herald Crusades	Flushing, NY	8/14/2014
SBA First Friday Ask The Expert Series	Columbus DO - Destiny Center Business Incubator	Columbus, OH	8/14/2014
Boots to Business - Reboot Workshops	HQ/Office of Veterans Business Development - The American Legion, Syracuse University Institute for Veteran and Military Families	Charlotte, NC	8/15/2014

Name/Subject of Event	Name of Cosponsor(s)	Event Location	Date Fully Executed
Monthly Business Forum	New York DO - World Wide Association of Small Churches, Bronx Hispanic Chamber of Commerce	Northern Queens, Bronx, South East Queens, NY	8/20/2014
SBA/EWC Entrepreneurial Workshop Series	North Florida DO - Edward Waters College	Jacksonville, FL	8/27/2014
SBA/Agility Preparedness Website	HQ/OCPL-Agility	World Wide Web	8/27/2014
Entrepreneur Assistance Workshop Series 2015	New York DO - Carroll Gardens Association, Inc.	Brooklyn, NY	8/27/2014
Introduction to Exporting	Santa Ana DO - City of Lake Forest Economic Development Department, Lake Forest Chamber of Commerce	Lake Forest, CA	8/27/2014
How Social Media Can Help Your Small Business Succeed	HQ/OCPL-Hootsuite Media, Inc.	World Wide Web	8/28/2014
2014 Inner City Capital Connections Program	HQ/Office of Entrepreneurship Education - Initiative for a Competitive Inner City	Dallas, TX; New York, NY	9/12/2014
Washington County Speed Dating with Lenders	ME DO - Bangor Savings Bank, Maine Small Business Development Centers at CEI, Sunrise County Economic Council, Women's Business Center at CEI	Machias, ME	9/12/2014
Small Business Workshop Series	New York DO - Sistah's With A Purpose	St. Albans, NY	9/12/2014
2014 Upstate New York SBA Lender Conference	Buffalo DO - SCORE Rochester Chapter 23, College at Brockport SBDC	Rochester, NY	9/15/2014
Export Trade Assistance Program	Santa Ana DO-Inland Empire Center for International Trade Development, Inland Empire Small business Development Center	Chino, CA	9/22/2014
Small Business Workshop "Reaching Out to You/Target Your Future"	Kansas City DO-Federal Deposit Insurance Corporation, Consumer Credit Counseling Service, Missouri State University Small Business Technology Development Center	Springfield, MO	9/23/2014
VGATE-Veterans Growing America Through Entrepreneurship	Columbus DO - Women's Business Center of Ohio, Fifth Third Bank	Columbus, OH	9/30/2014

Appendix X: Legal Actions Summary

April 1-September 30, 2014

State	Program	Jointly with	Alleged Violation(s) Prosecuted	Legal Action
AL	BL	FBI	A borrower of a \$1,760,000 SBA loan provided false receipts related to his equity injection requirement.	Individual was sentenced to 3 years in prison and ordered to forfeit \$1.76 million in assets and pay restitution of \$2.2 million.
AL	BL	DCIS, Army CID, IRS/CI	A borrower of a \$300,000 SBA loan submitted false income and employment information. The owner also falsified information to claim 8(a) status. The owner failed to file his corporate and personal tax returns for 8 years. These false statements to the SBA allowed his company to receive over \$14 million in set-aside contracts.	Individual sentenced to 108 months in prison and ordered to forfeit over \$1 million in assets.
CA	BL	FBI	An individual made false statements related to the deposit of fraudulent SBA loan proceeds into an unauthorized business account. It was determined she had stolen approximately \$362,875.	Individual was sentenced to 3 months in prison and ordered to pay \$362,875 in restitution.
CA	BL	FBI	Two individuals, while under indictment, paid a straw borrower \$100,000 to pose as the owner of a business and apply for a \$4,500,000 loan to purchase two gas stations. False statements were made relating to the down payment to purchase the gas stations, and the individuals also misused the loan proceeds for personal expenses.	Two individuals pled guilty.
CA	BL	TIGTA, FBI, FDIC/OIG, FHFA/OIG	An individual made false statements to a Federal agent regarding her role in a conspiracy to defraud a bank involving a fraudulent \$1.8 million SBA loan. The individual lied about her role in creating false tax forms for the borrower and then destroyed a laptop to conceal the evidence of the crime.	Individual was sentenced to 12 months' home confinement, 36 months' probation, and restitution of \$3,100.

State	Program	Jointly with	Alleged Violation(s) Prosecuted	Legal Action
CA	GC	FBI, NCIS, IRS/CI, DCIS, GSA/OIG	In a complex public corruption scheme involving multiple defendants, contractors provided kickbacks to public officials in order to receive contracts in the 8(a) program on a Navy base. Instances of corruption include bribe payments and remodeling of public official's personal residences at no charge.	One individual was charged by information. One individual pled guilty. Nine individuals were sentenced to a cumulative amount of 42 months in prison and total restitution of \$982,329. One individual was also ordered to forfeit \$106,964.
CO	GC	IRS/CI, Army/CID, DCIS, GSA/OIG	An individual made false statements to the SBA related to his eligibility status in order to remain in the 8(a) program. He also failed to disclose all assets and compensation received on his tax returns.	Individual indicted.
CO	BL	FBI, FHFA/OIG, CO BI	The owner of a company concealed existing debt, tax liabilities and criminal history to receive a \$2.3 million SBA loan. In addition, the owner and family members used their status in the real estate industry to execute a large long-term fraud-for-profit scheme.	Six individuals indicted.
DC	GC	FBI, IRS/CI, Army/CID, DCIS	Government officials received bribes from participants in SBA programs (i.e. 8(a), Alaska Native Corporation, Service-Disabled/Veteran-Owned (SDVO), etc.) in return for the award of contracts. The same Government officials then certified receipt of goods and services and authorized payment of fraudulent invoices submitted by the contractors. The contractors then provided a portion of the proceeds to the Government officials, paid kickbacks to other contractors, and retained portions for themselves. The bribe and kickback payments exceed \$30 million.	Individual was indicted and pled guilty.

State	Program	Jointly with	Alleged Violation(s) Prosecuted	Legal Action
FL	GC	DCIS, NCIS	A law firm prepared and submitted documentation to the SBA that a company was a small business when, in fact, it was not, due to its affiliation with a large business.	Law firm pled guilty and agreed to pay \$30,000 in civil damages.
IA	GC	GSA/OIG, VA/OIG, FDIC/OIG, DCIS	A company made false statements to the SBA to receive SDVOSB status. The owner of this company was a pass-through for other firms as they unlawfully received over 45 set-aside contracts, totaling approximately \$23.5 million.	Individual and two companies pled guilty.
GU	GC	IRS/CI, DHS	The owner of an 8(a) company located in Guam provided false information related to his prior criminal history and visa status in order to receive Government set-aside contracts.	Two individuals indicted.
IL	BL	FBI, IRS/CI, FDIC/OIG	Loan agents sought out unqualified borrowers to purchase gas stations. These individuals provided false documents to the SBA such as false tax returns, and offered kick-backs to lending officials in order to have the loans approved. The loans involved in this case may exceed \$10 million.	One individual pled guilty.
IL	DL	Cook County Sheriff's Office	Two men created false corporate records and bank accounts to divert \$22,300 in SBA disaster funds for their personal benefit.	Two individuals indicted.
IL	BL	FBI	A straw borrower provided false information concerning outstanding debt, work experience, and criminal history to receive two SBA loans totaling over \$1.4 million.	Individual indicted.
IL	BL	FBI, HUD/OIG, ED/OIG, FHFA/OIG	Five individuals submitted false documentation related to identity theft to receive over \$2.4 million in mortgage, education, commercial and SBA loans.	Five individuals indicted.
LA	BL	None	During an offer in compromise to satisfy a \$511,400 balance on a loan, the borrower misrepresented the value of the collateral for the loan and sold it to another company he owned. He also provided false financial information to the lender and the SBA.	Individual sentenced to 6 months' home confinement, 24 months' probation, and a \$200 fine.

State	Program	Jointly with	Alleged Violation(s) Prosecuted	Legal Action
LA	DL	None	Working in collusion with a private contractor, a borrower submitted false documents (repair receipts) to the SBA to receive a \$98,700 disaster loan.	Individual sentenced to 5 years' probation and \$36,000 in restitution.
MA	BL	IRS/CI	A borrower obtained a series of loans, including two SBA loans. He submitted numerous financial statements and records that did not reflect \$2.6 million of his business funds, which were actually used for personal expenses. He also altered his financial books and records to conceal this information.	Individual was sentenced to 9 months in prison and ordered to pay \$3,400,000 in restitution.
MD	BL	FBI, USPIS	The owners of a loan brokerage company and others encouraged prospective borrowers to apply for SBA business loans using the services of that company. The individuals submitted fraudulent SBA loan applications and supporting documentation (e.g. bank statements, cashier's checks, IRS documents) on behalf of their clients. These fraudulent documents falsely enhanced the creditworthiness of the borrowers and made it appear that they had more money for their equity injections than they actually did. To date, the conspiracy has resulted in losses of over \$100 million to the SBA.	Individual pled guilty.
MD	BL	USPIS	An owner of a loan brokerage company encouraged prospective borrowers to apply for SBA business loans. False and altered tax documents and income levels were submitted to SBA in order for the loans to be approved. The potential loss in this case is over \$14 million.	Individual indicted.

State	Program	Jointly with	Alleged Violation(s) Prosecuted	Legal Action
MD	GC	DCIS, GSA/OIG, IRS/CI	The owner of an 8(a) company and his wife provided false statements to the SBA by concealing his control and related improper financial arrangements with an affiliated company. He also concealed the use of over \$1 million in personal expenses, which he recorded as a business expense. The affiliated company received over \$50 million in Federal contracts.	The owner was sentenced to 42 months in prison, ordered to forfeit \$7,033,844, and make restitution of \$7,033,844. A second individual was sentenced to eight months' home confinement and \$250,000 in restitution. The owner's wife pled guilty.
MD	GC	Air Force/OSI, DOI/OIG	An owner of an 8(a) company acted as a pass-through for a large business to work contracts set aside for qualified 8(a) companies. The large firm paid a 4.5 percent fee on all contracts received through this scheme.	Two individuals indicted.
MD	GC	DOL/OIG, IRS/CI, DCIS	An 8(a) company provided false documents to the SBA and received multiple SDVOSB set-aside contracts. As part of this investigation, the owners embezzled over \$284,000 from employee retirement plans and failed to pay required taxes as they filed fraudulent tax returns.	Three individuals indicted.
MI	BL	USSS, DHS/ICE	A borrower provided false statements to the SBA related to the required equity injection as he obtained a \$1.1 million loan.	Individual was ordered to make restitution in the amount of \$470,286.

State	Program	Jointly with	Alleged Violation(s) Prosecuted	Legal Action
MO	BL	FBI	To date, a total of 18 defendants have been charged and pled guilty in a complex scheme to defraud the SBA. These defendants conspired to assist failing businesses which had significant outstanding/past due loans with a bank. Lending officials organized limited liability companies solely as nominee borrowers to funnel SBA loan proceeds back to them. This was done to conceal failing loans and to cure overdraft issues at the bank. The lending official(s) at this bank caused false statements to be made in approximately \$10 million in loans, approximately \$7 million of which were guaranteed by the SBA.	Four individuals were sentenced to cumulative probation time of 192 months and \$250,398 in restitution.
MO	GC	GSA/OIG, VA/OIG, DCIS	The owner of a company and his son made false statements to qualify for the SDVOSB program. As a result of these false statements, the company received over \$7 million in set-aside contracts.	Individual pled guilty.
NC	GC	NCIS, DCIS	The president of a masonry company and his chief financial officer used an affiliated company as a "front" in order to receive a \$9.4 million subcontract to do masonry work at a military base.	Owner sentenced to 12 months in prison and a \$50,000 fine. The CFO was sentenced to six months in prison and a \$50,000 fine.
NC	GC	NCIS, DCIS	After being awarded a \$14 million contract, the owner created a construction firm to obtain two small business subcontracts on a Navy contract. The owner controlled both businesses. She also provided false documents to the SBA in support of her claim that this business was eligible for HUB-Zone status.	Individual pled guilty.
NJ	DL	NJ/Office of Attorney General, DHS/OIG, HUD/OIG	Individuals applied for SBA disaster loans claiming their primary residences were damaged by Hurricane Sandy. In fact, they were not their primary residences.	Eight individuals indicted. Four individuals were sentenced to pre-trial diversion and ordered to pay \$87,988 in restitution.

State	Program	Jointly with	Alleged Violation(s) Prosecuted	Legal Action
NJ	GC	VA/OIG, GSA/OIG, IRS/CI	The owner of a company claimed SDVSOB status when she was not eligible to receive this status. Her company received over \$1 million in Federal contracts.	Individual pled guilty.
OH	GC	DCIS	A construction firm provided false statements to the SBA in order to receive certification as a HUB-Zone company. As a result, this company received millions of dollars in contracts using their HUB-Zone certification.	Owner and company pled guilty.
PA	GC	Army/CID, DCIS, Air Force/OSI	The owner of an SBA-certified women-owned business provided false information to the SBA. In fact, he was a convicted felon and the business was owned and operated by him. The fraudulent owner diverted \$1.2 million in Government progress payments to personal use. He also presented altered checks to auditors in an effort to cover-up the scheme.	Individual charged by information and pled guilty.
PA	BL	FBI, IRS/CI, ED/OIG	An owner received \$50,000 in SBA loans which soon went into default. During offer in compromise negotiations, the owner made false statements concerning repayment ability.	Individual indicted.
TN	GC	VA/OIG, DOI/OIG, USSS	Individuals conspired to obtain 8(a) status for their company when the company had already graduated from the program. They also provided false documentation to receive SDVOSB status. As a result of these actions, the company obtained over \$15 million in contracts.	Four individuals indicted.
TX	GC	DCIS, IRS/CI, FBI, Army/CID	An owner of an 8(a) company paid bribes and gratuities (exceeding \$500,000) to two senior contracting officers in exchange for the award of multiple Government contracts. The owner also made false statements to SBA in order to qualify for set-aside contracts in the HUBZone program.	One individual sentenced to 30 months in jail and over \$163,000 in restitution. The second individual was sentenced to 20 months in jail and a \$10,000 fine.

State	Program	Jointly with	Alleged Violation(s) Prosecuted	Legal Action
TX	BL	FBI	Two individuals misrepresented their assets and source of their equity injection to receive loans totaling over \$3 million.	One individual was sentenced to 27 months in prison. The second individual was sentenced to 18 months in prison. Joint restitution of \$4.2 million was ordered by the court.
TX	GC	VA/OIG	A company recruited a disabled veteran as a front in order to receive federal contracts under their SDVOSB status. In fact, the disabled veteran had no financial investment in the firm, performed no work for the company, and did not exercise a controlling interest in the company.	Individual was sentenced to 90 days home confinement, two years' probation, and ordered to pay a \$1,000 fine.
VA	GC	DHS/OIG, VA/OIG, GSA/OIG	An employee of a company with SDVOSB status conspired with other SDVOSB-certified companies in a bid-rigging scheme. The employee received over \$80,000 for his participation in this scheme. A second employee received over \$1 million for his participation. Value of the contracts involved in this case was \$33 million.	One individual pled guilty. A second individual was sentenced to 10 months in prison, \$351,761 in restitution, and \$351,761 in asset forfeiture.
WA	BL	FBI	A borrower obtained a \$50,000 loan using fraudulent information. The investigation uncovered 10 additional loans which were also approved due to false information supplied in the application process.	Individual indicted.
WA	BL	FDIC/OIG	A borrower provided false information related to personal information, appraisal documents and the required equity injection to receive an SBA loan for \$1,853,000.	Individual was sentenced to six months' home confinement and restitution of \$334,242.
WI	BL	FBI	A borrower made false statements by providing false financial information related to the business' profitability, fixed assets, and existing liabilities on a \$750,000 loan.	Individual was sentenced to 18 months in prison and ordered to pay \$966,466 in restitution.

State	Program	Jointly with	Alleged Violation(s) Prosecuted	Legal Action
WV	GC	DCIS, FBI, VA/OIG, DOL/OIG	Individuals conspired by submitting altered and inflated invoices in a bid proposal under an 8(a) set-aside contract. The SBA had previously issued a notice of suspension to the individual/company.	One individual was indicted. A second individual pled guilty.
WY	BL	None	A bank made false statements in order to conceal information that a borrower was delinquent on his bank debts and in financial distress. The borrower received a \$2 million SBA loan.	Through a settlement agreement, the bank agreed to pay \$3,000,000.

Legal Actions Summary Program Codes:

Business Loans (BL)
 Disaster Loans (DL)
 Government Contracting and Section 8(a) Business Development (GC)
 Integrity Assurance (IA)
 Small Business Investment Company (SBIC)

Joint-investigation Agency Acronyms:

Colorado Bureau of Investigation (CO BI)
 Defense Criminal Investigative Service (DCIS)
 Department of Education Office of Inspector General (ED/OIG)
 Department of Homeland Security Office of Inspector General (DHS/OIG)
 Department of Housing and Urban Development Office of Inspector General (HUD/OIG)
 Department of Interior Office of Inspector General (DOI/OIG)
 Department of Labor Office of Inspector General (DOL/OIG)
 Department of Transportation Office of Inspector General (DOT/OIG)
 Department of Veterans Affairs Office of Inspector General (VA/OIG)
 Federal Bureau of Investigation (FBI)
 Federal Deposit Insurance Corporation Office of Inspector General (FDIC/OIG)
 Federal Housing Finance Agency Office of Inspector General (FHFA/OIG)
 General Services Administration Office of Inspector General (GSA/OIG)
 Internal Revenue Service – Criminal Investigation (IRS/CI)
 Naval Criminal Investigative Service (NCIS)
 Treasury Inspector General for Tax Administration (TIGTA)
 United States Air Force Office of Special Investigations (Air Force/OSI)
 United States Army/Criminal Investigation Division (Army/CID)
 United States Postal Inspection Service (USPIS)
 United States Secret Service (USSS)

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 three years.

The OIG did not have a peer review conducted during this semiannual reporting period. The last peer review of the OIG was conducted by the National Aeronautics and Space Administration Office of Inspector General, which issued its final report on September 27, 2012. The OIG received a rating of “Pass” in that report (federal audit organizations can receive a rating of Pass, Pass with Deficiencies, or Fail). There are no outstanding recommendations from previous peer reviews of the OIG.

Peer Reviews Conducted

The OIG conducted a peer review of the Railroad Retirement Board Office of Inspector General in the Fall 2012 reporting period. On October 18, 2012, the OIG issued its final report. The Railroad Retirement Board OIG received a rating of “Pass” in that report (federal audit organizations can receive a rating of Pass, Pass with Deficiencies, or Fail).

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. As such, the OIG received its review in September 2014, which was conducted by the US Department of the Interior, Office of Inspector General. The results will be reported in FY 2015.

Peer Reviews Conducted

The OIG conducted a peer review of the General Services Administration Office of Inspector General in May of 2013. On July 26, 2013, the OIG issued its final report. The OIG found the system of internal safeguards and management procedures for the investigative function of the 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: OIG Organization

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

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

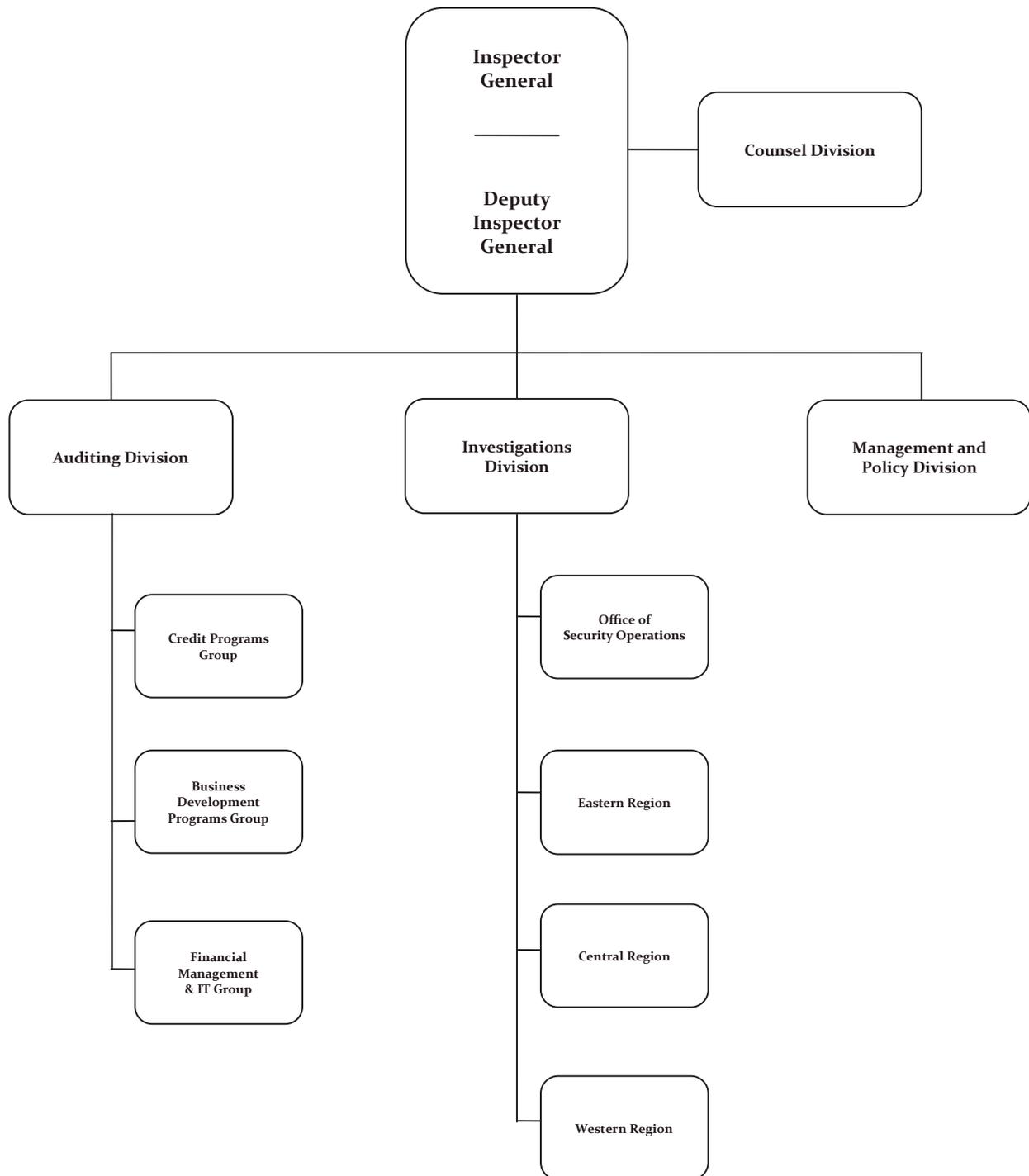
The **Investigations Division** manages a program to detect and deter illegal and improper activities involving SBA programs, operations, and personnel. The criminal investigations staff carries out a full range of traditional law enforcement functions. The security operations staff ensures that SBA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

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

The **Management and Policy Division** provides business support (e.g., budget and financial management, human resources, IT, and procurement) for the various OIG functions; coordinates preparation of the OIG's Semiannual Report to Congress, and other OIG-wide reports and documents; maintains the OIG website; and operates the OIG's Hotline.

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

Appendix XIII: OIG Organization Chart



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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.