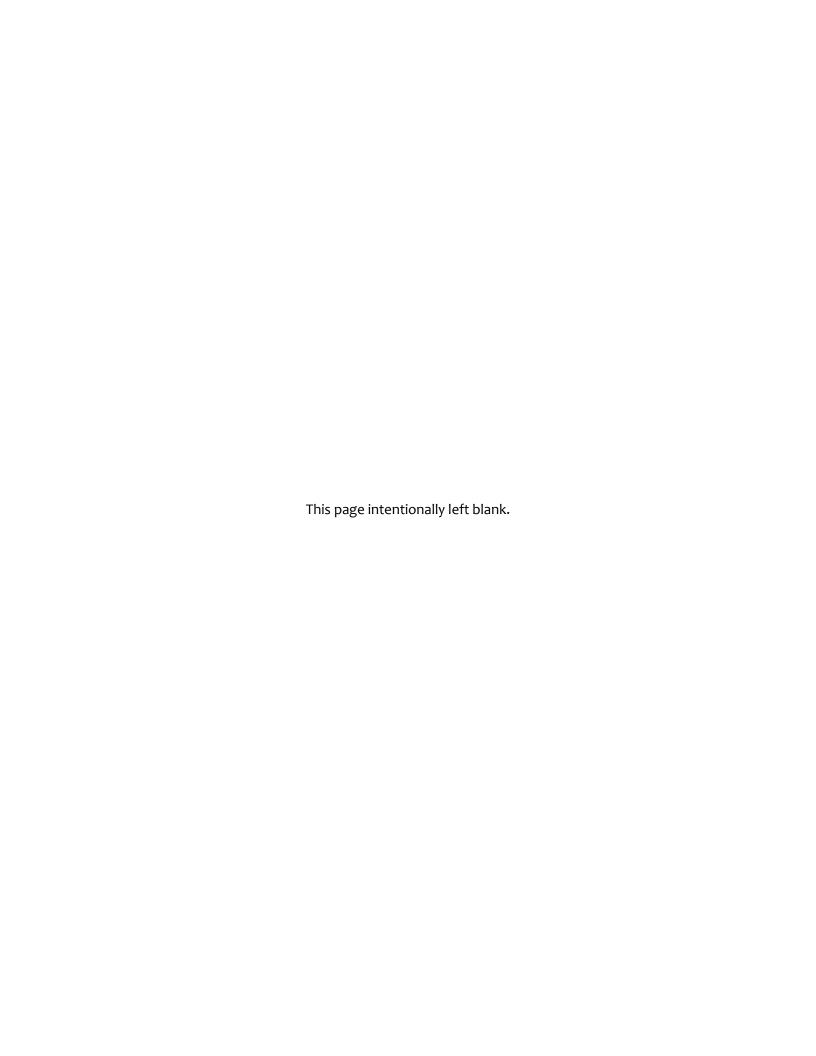
U.S. Small Business Administration Office of Inspector General

Semiannual Report to Congress October 1, 2019–March 31, 2020



April 29, 2020





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

I am pleased to present this Semiannual Report to Congress which provides a summary of the Office of Inspector General's (OIG) activities from October 1, 2019 through March 31, 2020. Once again, this report details our independent oversight of the U.S. Small Business Administration (SBA) in which we continue to focus on the most critical risks facing SBA, directing resources at the most serious management and performance challenges facing the Agency.

During this reporting period, we issued 10 reports with 67 recommendations to improve SBA operations and reduce fraud and unnecessary losses in Agency programs. In addition, we completed investigations that led to 16 indictments and 24 convictions. Overall, our audits and investigations achieved savings and monetary recoveries of \$18,035,009. We also sent 43 present responsibility referrals to SBA and had 15 suspension or debarment actions taken at other agencies based on joint casework. These referrals typically result in a suspension, debarment, or administrative agreement.

In achieving these results, we dedicated our oversight resources toward the principal program areas of SBA. A few noteworthy reviews and investigative outcomes detailed in this report include:

- OIG issued Report 20-01, Report on the Most Serious Management and Performance Challenges Facing the Small Business Administration in Fiscal Year 2020. This report represents our current assessment of Agency programs and/or activities that pose significant risks, including those that are particularly vulnerable to fraud, waste, error, mismanagement, or inefficiencies.
- OIG issued Report 20-03, Audit of SBA's Oversight of High-Risk Lenders. We determined SBA did not always perform effective oversight of high-risk lenders to identify and mitigate risks.
 We made six recommendations to improve SBA's internal controls, enhance communication, and mitigate losses incurred on loans with material deficiencies.
- OIG issued Report 20-08, on SBA's Community Advantage Pilot Program, which is intended to provide access to capital in underserved markets by providing 7(a) loan guaranties as high as 85 percent. We found the program increased lender participation in the 7(a) program but improvements are needed to ensure the program effectively expands access to capital to benefit small businesses in underserved markets.
- Two former Jacksonville (FL) City Council members were found guilty in Federal court of fraud, money laundering, and conspiracy in connection with a \$2.65 million SBA guaranteed loan and other funding. The joint investigation found that the two council members used their businesses to funnel nearly \$252,000 for unauthorized expenses.

- A Georgia man who owned a defense contractor company pled guilty in Federal court to conspiracy and will forfeit over \$1.1 million. A joint investigation found that he conspired with U.S. Army colonels in a kickback and bribery scheme for government contracts to build and modernize a communications network.
- Four Oklahoma companies agreed to pay the Federal government over \$2.8 million in a settlement agreement. The government alleged that one company orchestrated a scheme to obtain Federal set-aside contracts. The company also created and caused two of the other firms to obtain and receive payments on the contracts causing materially false claims and statements.

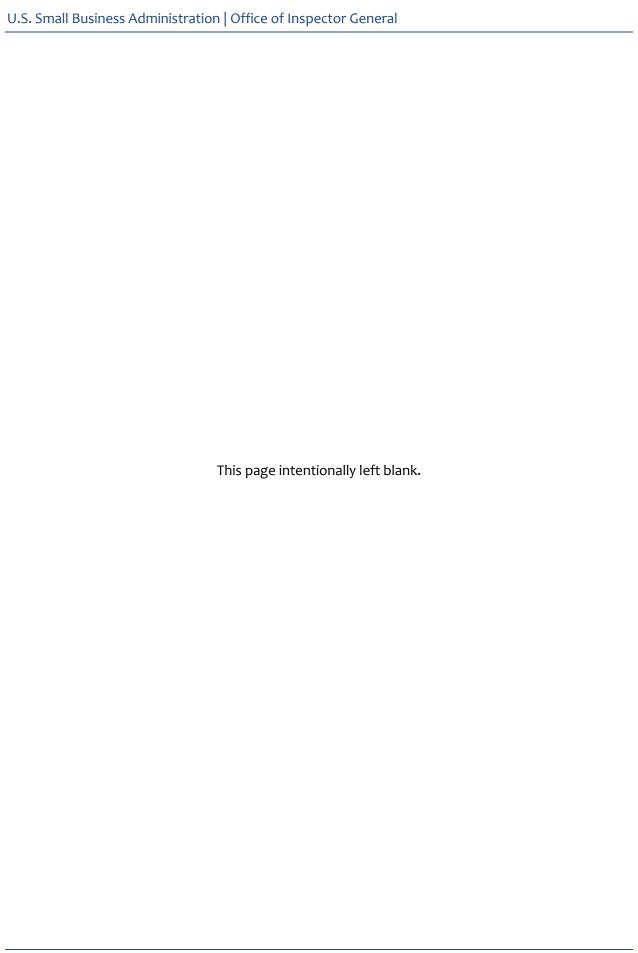
I would like to thank OIG's employees for their outstanding efforts to promote economy, efficiency, effectiveness, and integrity in SBA programs and operations. I look forward to working with all of our stakeholders as we continue to play a key role in addressing the issues and challenges ahead.

Hannibal "Mike" Ware

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Organization Overviews

The U.S. Small Business Administration

The mission of the U.S. Small Business Administration (SBA) under the Small Business Act, as amended, is to maintain and strengthen the Nation's economy by enabling the establishment and vitality of small businesses and assisting in the economic recovery of communities after disasters. The Agency's strategic plan for fiscal years (FYs) 2018–2022 has four overarching goals:

- support small business revenue and job growth,
- build healthy entrepreneurial ecosystems and create business friendly environments,
- restore small businesses and communities after disasters, and
- strengthen SBA's ability to serve small businesses.

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

To deliver business products and services, SBA has its headquarters in Washington, DC, and has staff in 10 regional offices, 68 district offices and corresponding branch offices, and 4 disaster field offices. There also are six government contracting area offices. 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 SBA and its programs for the benefit of the American people. While SBA's programs are essential to strengthening America's economy, the Agency faces several 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.

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. OIG's activities also help to ensure that SBA employees possess a high level of integrity. This is critical to the proper administration of SBA's programs because it helps ensure that SBA resources are used by those who need them the most. Copies of OIG reports and other products are available at https://www.sba.gov/office-of-inspector-general.

OIG has three divisions and several supporting program offices to carry out its functional responsibilities.

The **Audits Division** performs and oversees audits and reviews to evaluate and assist SBA in administering its programs and operations economically, efficiently, and effectively. Key areas of emphasis are SBA's loan programs, disaster assistance, business development and government contracting programs, as well as mandatory and other statutory audit requirements involving computer security and financial reporting. The balance of the engagements is discretionary and focuses on high-risk activities and management issues facing SBA.

The Investigations Division conducts investigations to deter and detect illegal and improper activities involving SBA's programs, operations, and personnel. OIG criminal investigators carry out a full range of traditional law enforcement functions. The security operations staff conducts required OIG employee background investigations to achieve a high level of integrity in the workforce and adjudicates OIG employees and contractors for issuance of personal identity verification cards pursuant to Homeland Security Presidential Directive-12 background investigations requirements. The OIG Hotline, under the purview of the Investigations Division, reviews allegations of waste, fraud, abuse, or serious mismanagement within SBA or its programs from employees, contractors, and the public. Hotline staff members conduct a preliminary review of all complaints to determine the appropriate course of action and may coordinate reviews of allegations within OIG, SBA program offices, or other government agencies.

The **Management and Operations Division** provides business support (e.g., budget and financial management, human resources, information technology, administrative, and communication) for OIG functions and activities.

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

OIG's headquarters is in Washington, DC. Its field staff are located in Atlanta, GA; Chicago, IL; Dallas-Fort Worth, TX; Detroit, MI; Denver, CO; Herndon, VA; Houston, TX; Los Angeles, CA; Miami, FL; New York, NY; Philadelphia, PA; Federal Way, WA; and Washington, DC.

Management Challenges

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

For each management challenge, OIG provides SBA with recommended remedial actions together with an assessment of Agency progress on each recommended action during the preceding fiscal year. If enough progress occurs during the previous fiscal year, OIG assigns a higher color score and the arrow indicator shows upward movement. The following table provides a summary of this year's management challenges. (Access Report 20-01 at https://www.sba.gov/sites/default/files/2019-10/SBA-OIG-Report-20-01_0.pdf.)

		Status at End of FY 2019			Change from Prior Year		
#	Challenge	Green	Yellow	Orange	Red	Up 1	Down ↓
1	Small Business Contracting	0	2	0	0	0	0
2	IT Leadership	1	5	0	0	1	0
3	Human Capital	1	0	0	0	1	0
4	SBA Loan Program Risk Management and Oversight	2†	0	0	0	1	0
5	8(a) Business Development Program	0	3	2	0	0	2
6	Ensuring Quality Deliverables and Reducing Improper Payments at SBA Loan Operation Centers	1	0	0	0	o	0
7	Disaster Assistance Program	1	3	0	0	1	0
8	Grant Management Oversight	3	1	0	0	0	0
	Total	9	14	2	0	4	2

[†] For challenge 4 recommendation 1, 7(a) was rated green, while 504 was rated yellow. For challenge 4 recommendation 2, 7(a) was rated yellow while 504 was rated green. For simplicity, they are reflected as green in this table.

Small Business Access to Capital

SBA provides small businesses with capital and financial assistance through several key programs and has a financial assistance portfolio of guaranteed and direct loans totaling about \$122.7 billion. Over the years, OIG has worked closely with the Agency to identify potential points of risk and to improve SBA's oversight and controls to ensure that eligible participants most in need of assistance benefit from these programs.

For example, the Agency's largest lending program, the Section 7(a) Loan Program, is 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 most loans being made by lenders to whom SBA has delegated loan-making authority. Additionally, SBA has centralized many loan approval and servicing functions and reduced the number of staff performing these functions, placing more responsibility on—and giving greater independence to—its lenders. Past OIG reviews have reported on these trends, and OIG continues to identify weaknesses in SBA's lender and loan agent oversight processes.

Criminals use a wide array of techniques to fraudulently obtain—or induce others to obtain—SBA-guaranteed loans. These include submitting fraudulent documents, making fictitious asset claims, manipulating property values, using loan proceeds contrary to the terms of the loans, and failing to disclose debts or prior criminal records. Consequently, there is a greater chance of financial loss to the Agency and its lenders. OIG dedicates a significant portion of its resources to identifying wrongdoers and, whenever possible, to recovering funds.

Audit of SBA's Oversight of High-Risk Lenders

SBA is authorized by statute to provide financial assistance to small businesses through government-guaranteed loans and debentures. SBA's Office of Credit Risk Management (OCRM) is responsible for the oversight of SBA lenders and its \$120 billion 7(a) and 504 loan portfolio. OCRM's mission is to maximize the efficiency of SBA's lending programs by effectively managing program credit risk, monitoring lender performance, and enforcing lending program requirements.

We found that OCRM did not always perform effective oversight of high-risk lenders to identify and mitigate risks. Specifically, OCRM did not always conduct planned high-risk lender reviews, recommend adequate and consistent risk mitigation actions, or communicate loan deficiencies they noted during their reviews to SBA approval and purchase loan centers. Several factors contributed to these conditions. OCRM did not have policies and procedures requiring them to document their justification for not conducting planned reviews and identifying and prioritizing additional lenders for review, a comprehensive database to manage its oversight of high-risk lenders, or clear and specific guidance to outline adequate corrective and enforcement actions. Further, OCRM did not conduct an overall assessment of the high-risk lender review results to ensure analysts recommended adequate

and consistent actions or have a requirement to communicate significant lender review findings and loan deficiencies to SBA's loan centers.

As a result, there is an increased risk that lenders with repeated identified systemic deficiencies will continue to participate in SBA's 7(a) and 504 loan programs, which could jeopardize the integrity of the programs and increase the risk of financial loss to the \$120 billion loan portfolio. For example, OCRM identified material deficiencies in 21 defaulted loans, for which SBA honored its guaranty by purchasing the defaulted loans. However, we did not find evidence that SBA validated whether the lenders had corrected the deficiencies. Therefore, we questioned SBA's guaranty purchases of these 21 defaulted loans totaling \$13.3 million. Additionally, five lenders that did not receive planned reviews had an average default rate of 19 percent for loans approved and disbursed in FYs 2015–2017. These lenders originated and disbursed \$1 billion in loans in which \$112.5 million was transferred to liquidation because the loans defaulted.

We made six recommendations to improve SBA's internal controls, enhance communication, and mitigate losses incurred on loans with material deficiencies. (Access report 20-03 at https://www.sba.gov/sites/default/files/2019-11/SBA-OIG-Report-20-03.pdf.)

Audit of SBA's Community Advantage Pilot Program

The Community Advantage (CA) pilot program is intended to provide access to capital in underserved markets by providing 7(a) loan guaranties as high as 85 percent. We determined whether SBA's CA pilot program expanded capital to benefit small businesses in underserved markets and whether SBA established internal controls to mitigate the risk of loss. Our audit found the CA pilot program increased lender participation in the 7(a) program, but improvements are needed to ensure the program effectively expands access to capital to benefit small businesses in underserved markets. The CA program was duplicative of other 7(a) programs, charged higher interest rates, provided limited management and technical assistance (M&TA) and did not mitigate risk of loss to the agency. As a result, CA borrowers are projected to pay about \$49.4 million more than they would have for non-CA 7(a) loans, and loans with M&TA performed worse than loans without M&TA.

All the CA loans in our scope were also likely eligible for 7(a) loans; lenders provided M&TA to only 34 percent of CA loans and did not report complete M&TA information. Also, loans in our audit scope with M&TA defaulted at higher rates than loans without M&TA (15 versus 13.5 percent). We also determined that the default rate for all CA loans approved between FYs 2011 and 2016 exceeded 14 percent compared to an 8.7 percent default rate for similarly sized non-CA 7(a) loans during the same period.

In addition, SBA did not always follow established internal controls to mitigate the risk of loss and did not always monitor and mitigate identified risks timely. SBA's 2015 CA performance analysis found that loans with Small Business Scoring Service (SBSS) scores below 140 represented increased risk but did not conduct additional SBSS analyses on CA loan performance until 2018. During this

period, 35 loans with SBSS scores below 140 were approved which later defaulted and were purchased by SBA for approximately \$2.1 million.

We made six recommendations to evaluate options to facilitate the program's ability to effectively expand access to capital in underserved markets, strengthen controls, reduce the burden on CA borrowers, and improve the quality of loans. (Access report 20-08 at https://www.sba.gov/sites/default/files/2020-03/SBA-OIG-Report-20-08.pdf.)

Two Former Florida Officials Found Guilty in \$2.65 Million SBA Loan Scheme

Two former Jacksonville (FL) City Council members were found guilty in Federal court on multiple counts of fraud, money laundering, and conspiracy. The woman served as principal for two businesses while the man served as the primary principal for two other businesses. In addition, SBA suspended both individuals and their companies from future procurement and non-procurement transactions with any Federal executive branch agency.

The investigation disclosed that from late 2013 through early 2015, the two individuals conspired to defraud SBA. The woman conspired with the man to start his two companies so that she could submit fraudulent invoices for business expenses for a barbeque sauce bottling plant affiliated with her. The plant received a \$2.65 million SBA Section 7(a) guaranteed loan and \$590,000 in city grants and loans. One of the man's companies served as a conduit to receive \$251,919 in SBA loan proceeds from a lender. He then funneled at least \$166,500 back to a business bank account that the woman controlled.

The man kept the difference in one of his business accounts and used most of the money for personal expenses. The SBA authorization agreement with the lender required that the sauce bottling plant submit detailed invoices of its expenses for the lender to release money in installments. The investigation was conducted jointly with the Federal Bureau of Investigation (FBI) and the Internal Revenue Service, Criminal Investigation (IRS CI).

California Man Sentenced and Ordered to Pay \$250,000

The owner of a California insurance agency was sentenced in Federal court to time served on a recommended 18-month sentence, one year in a residential re-entry center, and three years of supervised release. He was also ordered to pay a \$250,000 fine.

As part of his guilty plea, the man stated that beginning around November 2015, he submitted an SBA form for a \$2,325,000 SBA guaranteed loan to purchase two businesses. The form falsely stated that he would only use the SBA loan proceeds for business-related purposes specified in the SBA loan application documents.

To support the SBA loan application, the man caused his loan broker to submit a false asset purchase agreement to a bank. The purchase agreement falsely inflated the business' purchase price. Based on the false documents, the SBA loan closed. Approximately \$648,000 to which the man was not

entitled was deposited into two bank accounts he controlled. The remainder of the loan was used to purchase the two businesses. Instead of using the \$648,000 for business-related purposes, he used the funds for his own benefit for tuition, credit card, and mortgage payments. This was a joint investigation with the FBI and U.S. Immigration and Customs Enforcement, Homeland Security Investigations (ICE HSI).

Washington State Men Admit Fraud Involving a Nearly \$1.6 Million Loan

Three Washington State men entered into felony diversion agreements with a State court. The first man admitted to committing theft by deception and identity theft. The terms and conditions of the agreement include the man (1) waiving his Fifth Amendment privilege to remain silent and agreeing to testify truthfully at trial(s) against co-defendants; (2) paying a \$300 evaluation fee, a \$150 contract signing fee, and \$50 per month in felony diversion program fees; (3) performing 100 hours of community service; and (4) reporting to the county jail for booking and fingerprinting for the above crimes. Upon successful completion of the felony diversion program, the State of Washington will cease further prosecution.

In addition to entering into state felony diversion agreements, the second and third co-defendants admitted to committing theft by deception. The terms and conditions of their agreements include the same elements described above. Again, upon successful completion of the felony diversion program, the State of Washington will cease further prosecution.

The investigation revealed that the three co-defendants intentionally submitted false statements to a bank and SBA when obtaining a \$1,573,800 SBA guaranteed loan. They led the bank and SBA to believe the loan proceeds would be used to start a restaurant; however, the money was used to start a retail marijuana business. The three men would not have been eligible for the loan if the true nature of the loan proceeds were disclosed to the bank.

Pennsylvania Man Ordered to Pay Additional \$809,000 in Restitution and Forfeit \$60,000

A Pennsylvania man was ordered by a Federal court in Delaware to pay an additional \$809,000 in restitution and \$60,000 in forfeiture. He was previously sentenced to 18 months of incarceration, three years of supervised release, and ordered to pay \$2,459,150 in restitution. His total amended restitution is \$3,268,150. He also previously pled guilty to bank fraud, conspiracy, and attempted bank fraud.

The man admitted that he conspired with a client to obtain loans from two banks under false pretenses. Specifically, he stated that he and his client agreed to submit loan requests in the names of third parties when they knew that the client would control the proceeds. The loans consisted of a \$1.76 million SBA guaranteed loan funded by the first bank in July 2012, and a \$2.183 million loan funded by the second bank in August 2013. Moreover, he failed to disclose to both banks his extensive business relationship with his client, as well as the \$60,000 loan and BMW he received

from the client during the time he acted as the client's loan officer. As part of his guilty plea, the man agreed to forfeit the BMW and \$60,000 in cash.

In addition, he admitted that he submitted a false "Request for Verification of Deposit" form on his client's behalf. The client had requested a \$5 million loan from a third bank for a separate business venture. Although the form showed that the client had maintained a checking account for the business with an average balance of \$1.6 million, the man admitted that the account had been opened the day before he submitted the form and was funded via a single check from a different entity controlled by the client. The form was important because the third bank had determined that the business needed to show proof of equity or cash on hand of at least \$1.38 million to qualify for an SBA guarantee. Although the third bank approved the \$5 million loan, the loan was never funded because SBA determined that the loan did not qualify for the guarantee. This investigation was worked jointly with the Federal Housing Finance Agency OIG and Federal Deposit Insurance Corporation OIG.

Bank Official Pleads Guilty to Making False Statements

The former chief lending officer (CLO) of a New Jersey bank pled guilty to a Federal criminal information charging him with making false statements. The man knowingly made false statements in the bank's application package related to \$5 million in SBA guaranteed loans disbursed to a business. FDIC has issued an order removing the CLO from office and prohibited him from further participation in financial institutions. FDIC also ordered him to pay \$15,000. The CLO is suspected of unsafe and unsound banking practices and breaches of fiduciary duties while employed at the bank. This investigation is ongoing.

Massachusetts Man Sentenced to 30 Months in Prison

A Massachusetts man was sentenced in Federal court to 30 months imprisonment and five years of supervised release. The man previously pled guilty to conspiracy, bank fraud, aggravated identity theft, and a forfeiture allegation.

The investigation revealed that he and his company obtained two SBA guaranteed loans, in the amounts of \$35,000 and \$10,000, by providing false information on bank loan applications. The man did not disclose that he and his partner were both previously indicted and convicted of felony charges. The SBA loans were charged off with losses totaling approximately \$46,000. The man also obtained 32 credit cards for his business from numerous financial institutions by using his information, the identity and information of others he recruited under the guise of a business relationship, and the personal information of family and friends. He also made charges on the credit cards at businesses he controlled, locations of associates, or merchants that supported his businesses. The man would then issue payments to the credit cards from bank accounts which were closed or did not have enough funds to cover the payment in a credit card scheme commonly known as a "bust out" scheme. He used checks from SBA guaranteed loans in this scheme. Credit cards

losses totaled approximately \$531,000. This was a joint investigation with the U.S. Postal Inspection Service.

Nevada Man Sentenced and Ordered to Pay Over \$127,000 in Restitution

A Nevada man was sentenced in State court to five years of probation with a suspended prison sentence of 12 to 48 months. He was ordered to pay \$127,441 in restitution and permitted to enter Veterans Treatment Court. The man previously pled guilty to assault with a deadly weapon. Per his plea agreement, the man would plead guilty to assault charges and pay restitution for the theft and identity theft charges. The cases were merged so his assault charges would be adjudicated, and his theft charges would be dismissed.

The investigation revealed that the man used the personal identifying information of his prospective business partner to obtain a \$150,000 SBA loan. The loan's outstanding principal balance was \$145,809. He also used his partner's information to obtain multiple fraudulent credit cards without the partner's knowledge or consent. This was a joint investigation with the Las Vegas (NV) Metropolitan Police Department and the U.S. Secret Service.

Disaster Assistance Program

Disaster assistance has been part of the Agency since its inception in 1953. Through its Office of Disaster Assistance, SBA provides long-term, low-interest financial assistance to businesses of all sizes, private nonprofit organizations, homeowners, and renters following a disaster. Each year, SBA approves hundreds of millions of dollars in disaster assistance loans.

The Disaster Loan Program is the only form of SBA assistance not limited to small businesses; the program's disaster loans are the primary form of federal assistance for repairing and rebuilding nonfarm, private sector disaster losses. The program includes four categories of loans for disaster-related losses: home disaster loans, business disaster loans, economic injury disaster loans, and military reservist economic injury loans.

Unfortunately, the need to disburse such loans quickly poses many complications and may create opportunities for dishonest applicants to commit fraud. OIG and GAO audits have identified that SBA's disaster loans have been vulnerable to fraud and losses in the past because loan transactions are often expedited to provide quick relief to disaster survivors, and disaster lending personnel, who are brought into the workforce quickly, may lack enough training or experience. Additionally, the volume of loan applications may overwhelm SBA's resources and its ability to exercise careful oversight of lending transactions. OIG audits and investigations have identified specific instances of fraud as well as necessary systemic improvements to reduce fraud and provide effective and efficient loan delivery and protect taxpayer dollars.

Audit of the Office of Disaster Assistance Improper Payment Appeal Process

Improper payments are payments that should not have been made or that were made in an incorrect amount. If an agency's review is unable to discern whether a payment was proper because of insufficient or lack of documentation, the payment must be considered an improper payment.

For disaster loans, Quality Control (QC) Specialists conduct improper payment reviews and identify any payments that appear to be improper. Department managers review the exception and if they agree, the payment is reported as improper. If the manager disagrees, the exception is appealed to the QC Supervisor. If the supervisor disagrees with the appeal, the manager can further appeal to the Policy and Evaluation (PP&E) Director, who makes the final decision regarding whether the payment is improper.

We assessed the disaster assistance improper payment appeal process and found that although there was an effective process to assess improper payments, the initial review process was inefficient. We found that the PP&E Director appropriately removed 31 of 35 (89 percent) exceptions. However, 310 of 563 (55 percent) of exceptions identified by QC Specialists in FY 2018 were appealed and removed by either the QC Supervisor or the PP&E Director. This occurred because QC Specialists were inexperienced in improper payment reviews; the related standard operating procedures (SOPs), training guides, and checklist did not provide clear and comprehensive

guidance to assist QC Specialists to accurately identify exceptions; and the QC Supervisor did not always provide adequate oversight of the QC Specialists or conduct quality reviews of the exceptions identified by the QC Specialists.

Although alleged in a hotline complaint, we did not identify any misconduct or misuse of authority by the PP&E Director. However, we believe SBA should assess the current structure of the appeal process to determine if changes are needed to minimize the risk of a perceived appearance of impropriety and the risk of misconduct or misuse of authority.

We made three recommendations to improve the QC process by providing additional training to QC Specialists; updating SOPs, training guides, and checklists; and establishing internal controls to ensure the QC Supervisor provides adequate oversight of QC Specialists and conducts quality reviews of identified exceptions. (Access report 20-07 at

https://www.sba.gov/sites/default/files/2020-02/SBA-OIG-Report-20-07.pdf.)

Florida Man to Pay Over \$171,000 in Restitution for Disaster Fraud

A Florida man was sentenced in a State of New Jersey court to one year of probation and was ordered to pay \$171,099 in restitution. At the time of sentencing, he already paid \$35,000 toward the restitution. The man previously pled guilty to theft by deception. He submitted fraudulent applications to secure disaster funding offered for Hurricane Sandy victims. The man claimed his damaged property address in New Jersey was his primary residence, when in fact he was living in Florida at the time of the storm. Consequently, he received \$171,099 in disaster assistance, including \$2,270 in Federal Emergency Management Agency (FEMA) grants, a \$10,000 Homeowner Resettlement Program (RSP) grant, and a \$150,000 Reconstruction, Rehabilitation, Elevation and Mitigation (RREM) Program grant. The latter two grants are funded by the U.S. Department of Housing and Urban Development (HUD) and are administered by the New Jersey State Department of Community Affairs (DCA). In addition, he received approximately \$8,829 in Sandy Homeowner and Renter Assistance Program (SHRAP) funds through the New Jersey Department of Human Services.

The man also was approved for a \$71,200 SBA Disaster Home Loan. However, at his request, the loan was cancelled and never disbursed. This investigation is being worked jointly with the Superstorm Sandy Task Force comprised of SBA OIG, HUD OIG, U.S. Department of Homeland Security (DHS) OIG, U.S. Department of Health and Human Services (HHS) OIG, New Jersey Division of Criminal Justice, and DCA. The last two are under the direction of the New Jersey Office of the Attorney General.

Investigation Results in Administrative Recovery

A \$47,647 administrative recovery to SBA was realized when the SBA National Disaster Loan Resolution Center received full payment on an SBA Disaster Loan from a Georgia woman. The recovery resulted from an SBA OIG investigation related to Superstorm Sandy. The woman

previously obtained a \$50,000 disaster loan by allegedly falsifying disaster loan documents for her New York State property.

New Jersey Woman Pays Remaining \$121,881 in Restitution

A New Jersey woman entered into pretrial intervention (PTI), and a waiver of indictment was filed in State court related to the charge of theft by deception. As ordered, she paid restitution for the remaining balance of \$121,881 in relief funds by the time of the PTI order. The woman filed false applications following Superstorm Sandy which resulted in \$155,751 in relief funds for which she was not entitled. The woman falsely claimed in her application that a New Jersey home damaged by Superstorm Sandy was her primary residence at the time of the storm when in fact her primary residence was in New York, NY.

As a result of the fraudulent applications, she received \$2,270 in FEMA rental assistance, a \$10,000 RSP grant, and \$111,881 in RREM Program grant funds. The woman also received a \$31,600 SBA Disaster Home Loan, which she later paid in full. This investigation was conducted jointly with the Superstorm Sandy Task Force comprised of New Jersey Division of Criminal Justice, New Jersey DCA, DHS OIG, HUD OIG, and HHS OIG.

Texas Man Pleads Guilty to Disaster Fraud

A Texas man pled guilty in Federal court to engaging in monetary transactions in property derived from specified unlawful activity. He received \$53,000 for alleged damage caused by Hurricane Harvey to a residential rental property in Houston, TX. The man failed to provide receipts and refused an onsite inspection of the damaged property. The investigation revealed that the property did not sustain any hurricane damage and the man used the funds to pay off credit cards and to send an international wire. This ongoing investigation is being worked jointly with DHS OIG.

Procurement Assistance

Each year, the federal government spends hundreds of billions of dollars in federal contracts to procure goods and services. SBA has worked to maximize opportunities for small business firms to receive these contract awards. For the current fiscal year, the federal government aims for 23 percent of these award dollars to go to small businesses.

To accomplish this goal, SBA has specific programs that focus on strengthening particular types of small businesses, including firms owned and controlled by service-disabled veteran-owned small businesses (SDVOSBs) and women-owned small businesses (WOSBs), and small businesses that are disadvantaged or located in historically underutilized business zones (HUBZones). For example, the HUBZone Program helps small businesses stimulate their economically challenged local economies. Similarly, to help small, disadvantaged businesses gain access to federal and private procurement markets, 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.

SBA also aids 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 SCORE Association, and women's business centers. SBA also designed the Boots to Business Program to provide transitioning service members interested in exploring business ownership or other self-employment opportunities with technical assistance and access to information on available resources and on start-up capital. These programs require effective and efficient management, outreach, and service delivery.

Even with effective controls, some businesses misrepresent their eligibility for the HUBZone, WOSB, SDVOSB, and 8(a) programs in order to wrongfully receive preference for government contracts. OIG and other federal investigations 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. In other schemes, perpetrators use bribery or fraudulent procurement documents to achieve their ends.

Audit of SBA's Cooperative Agreement with Arsenal Business and Technology Partnership's Veterans Business Outreach Center

SBA's Veterans Business Outreach Center (VBOC) program provides entrepreneurial development services to transitioning service members, veterans, guardsmen, reservists, and military spouses interested in starting or growing a small business. SBA administers the program through cooperative agreements awarded to a nationwide network of VBOCs.

In 2016, SBA awarded Arsenal Business and Technology Partnership (Arsenal) a cooperative agreement for \$180,000 to perform veterans outreach initiatives in New York and New Jersey. The following year, SBA extended Arsenal's cooperative agreement and awarded \$250,000 to continue

its support of the VBOC program. Subsequently, in 2018, SBA awarded Arsenal another cooperative agreement for \$300,000 for the initial year, with options to extend performance for four additional years. The 2018 cooperative agreement also expanded the coverage area to include Puerto Rico.

We found that SBA undermined the transparency of the award to Arsenal by not maintaining required pre-award documentation to justify their decision in awarding the 2016 and 2018 cooperative agreements to Arsenal. In addition, SBA did not adhere to its policy for selecting a Technical Evaluation Panel (TEP) member who participated in evaluating proposals for the 2016 funding opportunity announcement. Further, program officials did not ensure that Arsenal fully complied with the cooperative agreement performance requirements and did not enforce the performance reporting requirements. Further, SBA reimbursed Arsenal \$300,000 in federal funds for the 2018 cooperative agreement and exercised the first option year of the agreement, despite the VBOC not having achieved its intended impact. Lastly, we questioned \$10,168 of unallowable costs as a result of Arsenal reporting expenditures that exceeded budgeted cost categories.

We made nine recommendations to improve SBA's oversight and management of Arsenal's cooperative agreement. (Access report 20-09 at https://www.sba.gov/sites/default/files/2020-03/SBA-OIG-Report-20-09_508.pdf.)

Oklahoma Man Pleads Guilty to \$1.2 Million Theft Involving 8(a) Firm

An Oklahoma man pled guilty in Federal court to (1) theft by an agent of an Indian tribal government receiving Federal funds, (2) bribery concerning programs receiving Federal funds, and (3) conspiracy to commit bribery. He also pled guilty to tax fraud.

This investigation was based on allegations received from the FBI relating to an Oklahoma tribally owned Section 8(a) company. The company was formed by a former tribal town chief. Even though the tribal town was a 51 percent owner of the 8(a) company, the town had no oversight and was not aware of what services the 8(a) company performed. Although the tribal town requested financial documents from the 8(a) company for several years, the 8(a) company declined to provide requested documents, claiming they were classified due to the nature of the contracts. In addition, other tribal town elected officials alleged that the former chief had formed the 8(a) company for his personal gain.

The investigation determined that the Oklahoma man helped establish the 8(a) company and other business entities established under the tribal town. He and a woman serving as the controller/chief financial officer for these tribal town-owned businesses diverted funds to the man for personal expenses unrelated to tribal town business. From 2012 through 2019, these unauthorized withdrawals from the business entities exceeded \$1.2 million.

A second man who was the chairman of the Economic Development Authority (EDA) for the tribal town, engaged in wrongdoing. The EDA identified, planned, initiated, and developed economic strategies and activities on behalf of the town. The chairman pled guilty to accepting \$61,900 in

payments from the Oklahoma man. These payments were intended to influence or reward the chairman in deciding ongoing or future business transactions for the town.

Georgia Man Pleads Guilty in 8(a) Firm Bribery Scheme

A Georgia man pled guilty in Federal court to making false statements in connection with a bribery and kickback scheme that directed 8(a) set-aside contracts in the Fort Gordon/Augusta, GA, area to an 8(a) communications and engineering firm. The investigation revealed that, in 2017, the man willfully made materially false statements by stating that he had no knowledge of how the 8(a) firm was awarded a contract, and by stating that he did not read the firm's technical proposal. These assertions were false because while serving as a U.S. Army Signal Network Enterprise Center official at Fort Gordon, he emailed a contracting officer about the matter. He informed the contracting officer that the vendor he would recommend for the contract was the 8(a) firm. He signed the firm's technical proposal for the contract and found the proposal technically acceptable. This is an ongoing joint investigation with the Defense Criminal Investigative Service (DCIS) and U.S. Army Criminal Investigation Command.

Georgia Man to Forfeit Over \$1.1 Million

A Georgia man who owned a defense contractor company pled guilty in Federal court to conspiracy. Between 2008 and 2014, he conspired with two then U.S. Army colonels and a retired colonel in a kickback and bribery scheme for government contracts at Fort Gordon, GA, to build and modernize the communications network. As part of his plea, the man will forfeit \$1,131,861. This is a joint investigation with the U.S. Army Criminal Investigation Command and DCIS.

Alaska Man Signs Plea Agreement After \$725,000 Contract Fraud

An Alaska man signed a plea agreement in Federal court after having been charged by a criminal information with conspiracy. His company, a service-disabled veteran-owned small business (SDVOSB), fraudulently obtained a \$725,226 SDVOSB set-aside contract with the VA in 2014 for snow removal at VA locations in Anchorage, Alaska. A second man, who owned a non-SDVOSB, previously agreed to manage and control 100 percent of the SDVOSB's daily operations and long-term decision-making related to its performance of the contract. He knew that his firm was not certified or eligible to bid on or perform 100 percent of the contract. The two men and their co-conspirators then knowingly submitted numerous invoices to the VA for work that was not performed. The contracting officer representative approved the false invoices in exchange for bribery payments from the second man. During the conspiracy, the second man paid the first man approximately \$54,302 as an unlawful "kickback" in exchange for the use of his firm's SDVOSB certification. This was a joint investigation with the FBI, VA OIG, and General Services Administration (GSA) OIG.

Colorado Women Sentenced for HUBZone Fraud

A Colorado woman who served as the majority owner of a business was sentenced in Federal court to three years of supervised probation and 250 hours of community service. She was also ordered to

pay a \$100 special assessment. The sentence was based on her previous guilty plea to falsification of documents.

In addition, a second Colorado woman was sentenced in Federal court to one year of supervised probation and 100 hours of community service. She was also ordered to pay a \$100 special assessment. The sentence was based on her previous guilty plea to misprision of a felony.

The business' majority owner was responsible for preparing documents submitted to SBA in connection with contracts set aside for HUBZone Program certified companies. However, company employees allegedly made false statements to the HUBZone Program in connection with Federal contracts they obtained from GSA, U.S. Air Force, and U.S. Army.

The investigation revealed that the majority owner and the second woman, who worked for the owner, created false documents for maintaining certification as a HUBZone small business. As a result of their illicitly obtained HUBZone certification, the company was awarded set-aside government contracts it would not have otherwise been eligible to receive. In one instance, HUBZone status enabled the company to receive a cost preference on a government construction contract that was \$4 million higher than the lowest eligible bid. This investigation was conducted jointly with the DCIS, U.S. Army Criminal Investigation Command, U.S. Air Force Office of Special Investigations (OSI), and GSA OIG.

Colorado Men Sentenced in Contract Steering Scheme

A Colorado man was sentenced in Federal court to 30 months incarceration and three years of supervised probation. He had previously pled guilty to conspiracy to commit bribery. He was remanded to the custody of the U.S. Marshals Service while he awaits sentencing related to a separate Federal investigation.

A second Colorado man was sentenced in Federal court to 18 months of incarceration and three years of supervised probation. He was also ordered to pay a \$600 assessment and forfeit \$9,000. He previously pled guilty to conspiracy to commit bribery, receipt of a bribe, attempted extortion under color of official right, and criminal conflict of interest.

A third Colorado man was sentenced in Federal court to 12 months of supervised probation and was fined \$4,500. He previously pled guilty to illegal supplementation of government salary.

This investigation was based on a complaint received through the SBA Colorado District Office. The owner of an 8(a) small disadvantaged business relayed information about its relationship with a consulting firm. The consulting firm was operated by two of the above men for the purpose of gaining access to government contracts through another previously mentioned man, a former SBA business opportunity specialist and VA small business utilization specialist.

The investigation revealed the close relationship between the three men, which existed to steer contract opportunities with the VA to small businesses who had a contract with the consulting firm.

One of the men acknowledged in his plea agreements that another man was paid to maintain an appearance that a relationship with the consulting firm would help their clients secure government contracts. This other man acknowledged in his plea agreement, that while using his official government position, he sought payment in order to secure government contracts. Moreover, he attempted to sell SBA training materials for personal profit to small businesses that had a relationship with the consulting firm. This was a joint investigation with the FBI and VA OIG.

Oklahoma Firms Enter into \$2.8 Million Civil Settlement Agreement

Four Oklahoma companies entered into a civil settlement agreement with the U.S. Department of Justice in which they agreed to pay the Federal government \$2,812,486 to resolve a qui tam action brought by a competing construction firm. A qui tam action is brought by a third party (i.e., the Relator) on behalf of the government against a party. A portion of any monetary penalty is awarded to the party bringing the action. In this matter, the Relator's share of the settlement was \$520,309. In addition, the Relator's attorney's fees, \$234,571, were paid by the defendants separately from the settlement.

According to the agreement, the government alleged one of the four companies was not eligible to receive set-aside contracts issued under the 8(a), HUBZone, Women-Owned Small Business, and/or Economically Disadvantaged Women-Owned Small Business programs. The government further alleged the company orchestrated a fraudulent scheme to obtain such contracts awarded by the U.S. Department of Defense and others, including the U.S. Army Corps of Engineers, U.S. Navy, U.S. Air Force, Indian Health Service, Bureau of Indian Affairs, VA, and GSA. To further the scheme, the government also alleged the company created, controlled, and caused two of the other firms to obtain, perform, and receive payments on set-aside contracts, thus causing the submission of materially false claims and statements. The companies denied the government's allegations and did not admit liability in the settlement agreement.

In addition to the civil settlement agreement, two of the companies and their owner signed an administrative agreement with SBA. In this agreement, the company that orchestrated the fraud scheme agreed that neither it nor any affiliate will apply, represent, certify, or hold itself out as a HUBZone small business concern, or participate in the 8(a) Mentor Protégé or All-Small Mentor Protégé Programs with immediate family members or current or former employees for three years. They also agreed to notify SBA before any change of control or ownership during this period. The company represented that it has implemented a business ethics programs, which it agreed to maintain and expand. Consequently, SBA or any other U.S. agency will not suspend or debar the company based on the facts or allegations in the previously discussed settlement agreement. The settlements are the result of a joint investigation with the U.S. Army Criminal Investigation Command, GSA OIG, VA OIG, IRS CI, Naval Criminal Investigative Service, and U.S. Air Force OSI.

Agency Management

OIG is responsible for ensuring that Agency management appropriately safeguards SBA from fraud, waste, and abuse, and that SBA activities directly further Agency goals. As part of these efforts, OIG works with the Offices of the Chief Financial Officer, the Chief Information Officer, and the Chief Operating Officer to review financial reporting and performance management, human resources, procurements and grants, space and facilities, and maintenance of SBA's information systems and related security controls.

Independent Auditors' Report on SBA's Compliance with DATA Act Reporting

We contracted with the independent certified public accounting firm KPMG LLP (KPMG) to perform a performance audit as required by the Digital Accountability and Transparency Act of 2014 (DATA Act). The objectives of this engagement were to assess (1) the completeness, accuracy, timeliness, and quality of SBA's fiscal year (FY) 2019, first quarter financial and award data submitted for publication on USASpending.gov, and (2) SBA's implementation and use of the governmentwide financial data standards established by the Office of Management and Budget (OMB) and the U.S. Department of the Treasury (Treasury).

KPMG reported the following:

- The data submission was of higher quality; however, SBA did not submit certain data completely, accurately, or timely. Overall, for the 385 sampled transactions, KPMG tested 14,262 individual data elements and identified 628 errors. Those errors resulted in the following error rates: completeness 0.01 percent, accuracy 2.35 percent, and timeliness 2.03 percent.
- SBA implemented and used the governmentwide financial data standards established by OMB and Treasury under the DATA Act.

KPMG did not report any instances or matters regarding noncompliance. The report included nine recommendations that SBA officials agreed to implement. (Access report 20-02 at https://www.sba.gov/sites/default/files/2019-11/SBA-OIG-Report-20-02.pdf.)

Independent Auditors' Report on SBA's FY 2019 Financial Statements

We contracted with KPMG to audit SBA's consolidated financial statements as of and for the fiscal year ended September 30, 2019. This audit is an annual requirement of the Chief Financial Officers Act of 1990, as amended, and was conducted in accordance with generally accepted government auditing standards; the Office of Management and Budget Bulletin No. 19-03, Audit Requirements for Federal Financial Statements; and the U.S. Government Accountability Office's Financial Audit Manual and Federal Information System Controls Audit Manual.

The independent auditors' report presented an unmodified opinion on SBA's consolidated financial statements for fiscal year 2019. Specifically, KPMG reported that:

- the financial statements were fairly presented, in all material respects, in accordance with U.S. generally accepted accounting principles.
- there were no instances in which SBA's financial management systems did not substantially comply with the Federal Financial Management Improvement Act of 1996 (FFMIA).
- there is one material weakness related to internal control over financial reporting where improvement is needed in SBA's risk assessment processes.
- there is a significant deficiency related to disaster loan processing controls; and
- there is also a significant deficiency related to SBA's information technology security controls, which has been identified in the past.

The report included 17 recommendations to address control deficiencies in the above areas. (Access report 20-04 at https://www.sba.gov/sites/default/files/2019-11/SBA-OIG-Report-20-04.pdf.)

KPMG's Management Letter Communicating Matters Relative to SBA's FY 2019 Financial Statement Audit

We contracted with KPMG to audit SBA's consolidated financial statements as of and for the fiscal year ended September 30, 2019. This audit is an annual requirement of the Chief Financial Officers Act of 1990, as amended, and was conducted in accordance with generally accepted government auditing standards; the Office of Management and Budget Bulletin No. 19-03, Audit Requirements for Federal Financial Statements; and the U.S. Government Accountability Office's Financial Audit Manual and Federal Information System Controls Audit Manual.

The management letter represents matters that were identified during the audit. Specifically, KPMG reported that SBA:

- did not fully comply with the Debt Collection Improvement Act of 1996, as amended.
- needs to improve its process to analyze and document the applicability of recently issued and existing standards.

KPMG addressed four recommendations to the Acting Chief Financial Officer and the Associate Administrator for Capital Access. (Access report 20-05 at

https://www.sba.gov/sites/default/files/2020-02/SBA-OIG-Report-20-05_o_o.pdf.)

SBA's FY 2019 Cash Contributions and Gifts

We reviewed SBA's FY 2019 cash contributions and gifts to determine the adequacy of SBA controls over the solicitation, acceptance, holding, and utilization of cash contributions and gifts in fiscal year 2019.

The Consolidated Appropriations Act of 2019 granted SBA the authority to accept gifts and to cosponsor activities. The Administrator may solicit and accept gifts on behalf of SBA after proper approvals, including a conflict of interest determination by SBA's Office of General Counsel. SBA is authorized to solicit gifts in support of cosponsored activities, SBA-sponsored activities, general SBA

marketing and outreach activities, and other activities that further the mission of the Agency, as determined by the Administrator or designee.

We found that SBA had adequate controls over the solicitation, acceptance, and holding of cash contributions and gifts. However, improvement is needed in the Agency's controls over the utilization of gift funds in accordance with SBA policies. Specifically, SBA grant personnel did not ensure that claimed grant costs had adequate supporting documentation. As a result, we identified \$7,602 in reimbursed grant costs that were not adequately supported in accordance with SBA policy. We made two recommendations that we consider resolved. (Access report 20-06 at https://www.sba.gov/document/report-20-06-sbas-fy-2019-cash-contributions-gifts.)

Weaknesses Identified During the FY 2019 Federal Information Security Modernization Act Review

The Federal Information Security Modernization Act (FISMA) requires that OIG review SBA's information security program. To determine SBA's compliance with FISMA, OIG contracted with an independent public accountant, KPMG, to perform review procedures relating to FISMA. OIG monitored KPMG's work and reported SBA's compliance with FISMA in the Agency FISMA filings in October 2019. We also assessed the Agency's progress in implementing open recommendations and compared our current year assessment with our fiscal year 2018 FISMA evaluation. OIG made 11 recommendations to address FISMA-related vulnerabilities (Access report 20-10 at https://www.sba.gov/sites/default/files/2020-03/SBA_OIG_Report_20-10_508.pdf.)

Other Significant OIG Activities

OIG Background Investigations Ensure Integrity

During this reporting period, OIG initiated 46 background investigations and issued 6 security clearances for OIG employees and contractors. Moreover, OIG adjudicated 21 background investigative reports. Finally, OIG processed 1,656 internal name check requests for Agency activities such as success stories and "Small Business Person of the Year" nominees.

OIG Promotes Debarment and Other Administrative Enforcement Actions

OIG promotes program integrity by making present responsibility referrals to SBA and to other agencies. These present responsibility referrals often result in suspensions, debarments, and similar administrative enforcement actions. These actions protect taxpayer funds from parties that are not a good risk for the government. A typical OIG referral contains a summary of allegations, and a suggested administrative record (evidence supporting the case). Most OIG administrative referrals involve SBA's loan and contract programs. OIG ensures that a suspension and debarment official reviews all appropriate allegations arising in other contexts, such as the investigation of False Claims Act qui tam cases. During this reporting period, OIG sent 43 present responsibility referrals to SBA and had 15 actions taken based upon referrals to other agencies.

- Attorneys Referred for Actions Related to an Ability to Pay Settlement. SBA OIG referred defense counsel in a False Claims Act matter to the SDO based upon their apparent knowledge of additional funds related to an ability to pay settlement. After the submission of ability to pay settlement documentation, the attorneys were involved with, or knew of, an insurance settlement intended to cover the False Claims Act liability. The attorneys did not disclose the existence of the insurance settlement to the Federal Government. In fact, the insurance company's agreement to pay the settlement was the actuating event driving the clients to accept the government's settlement demand. Both attorneys consistently and aggressively pursued funds from the insurance company to offset the amount a DOJ analyst deemed the defendants could pay, while not informing the Government of the ultimate success of these efforts until after their clients signed the False Claims Act settlement.
- Pot Proprietor Referred for Misrepresenting Intended Use of SBA Guaranteed Loan Funds.
 An individual and related companies were referred to the SDO based upon evidence indicating an intentional misrepresentation regarding the intended use of SBA guaranteed loan funds. The borrower had represented to the bank that the funds were intended to support storage and equipment rental lines of business at a specific location. That location however, appeared intended to be used as, and was actually used for, a marijuana growing operation.
- Former Local Officials and Associated Entities Referred for Loan Scheme. SBA OIG referred two former local officials and their associated companies to the SBA SDO after a jury found they conspired to unlawfully obtain money from an SBA guaranteed loan. The conspiracy

- included the use of falsified documents to circumvent an internal control a bank had in place to ensure SBA guaranteed loan funds were only used for authorized purposes.
- False Damage Claims Sink Marina Owner. SBA OIG referred the owner of a marina company and the marina company itself for present responsibility review after a Federal court convicted that individual of making false statements to obtain an SBA Disaster Loan. The marina owner claimed Hurricane Sandy caused a tidal surge that damaged structures including floating docks, a boat ramp, and a bath house. The floating docks, boat ramp, and bath house subject to the claim did not, however, exist at the time of Hurricane Sandy. The SBA does not provide loans for damage to imaginary structures. Lying about the existence of those structures to get a disaster loan is fraud.

OIG Provides Training to Multiple Agencies on Small Business Procurement Integrity and Other Oversight Concerns

During this reporting period, the SBA OIG taught a small business procurement integrity section embedded within the Council of the Inspectors General on Integrity and Efficiency (CIGIE) Training Academy's Contract and Grant Fraud Training Program. We also began making arrangements to deliver the Fiscal Year 2020 Small Business Procurement Integrity Seminar (SB-ProIS) virtually. SB-ProIS is an annual training the SBA OIG has produced each year since Fiscal Year 2015. This training equips members of the Federal Oversight community with the knowledge to identify, develop, and pursue small business procurement fraud cases. SBA OIG has also developed shorter versions of this training for delivery to specific Federal offices upon request. The training equips members of the Federal oversight community with the knowledge to identify, develop, and pursue small business procurement fraud cases.

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 OIG's proactive efforts to promote accountability and integrity and reduce inefficiencies in SBA programs and operations, OIG reviews changes that SBA proposes to make to its program directives, such as regulations, internal operating procedures, Agency policy notices, and SBA forms completed by the public. OIG often identifies material weaknesses in the proposals and works with the Agency to promote more effective controls to deter waste, fraud, and abuse. During the reporting period, OIG reviewed 68 proposed revisions of these program directives and submitted comments designed to improve 23 of these initiatives.

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 a Small Business Development Center (SBDC) and to limit the Agency's use of such information. The provision also required 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 OIG that it would issue regulations as required by the statute. In April 2014, 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 must approve any SBDC client survey, as well as the use of any survey information, and must also include this approval in OIG's Semiannual Report to Congress. SBA did not submit any surveys of SBDC clients for OIG review during the reporting period.

OIG Hotline

OIG's Hotline reviews allegations of waste, fraud, abuse, or serious mismanagement within SBA or its programs from employees, contractors, and the public. During this reporting period, the Hotline received 585 complaints. The Hotline conducts a preliminary review of each allegation and may consult with OIG's Investigations Division, Audits Division, and Office of Counsel to determine the appropriate course of action. Referrals within OIG may result in corrective actions, audits, or administrative, civil, or criminal investigations. Matters referred to SBA program offices for further action are monitored by Hotline staff for timely response, for adequate resolution of the allegations, and to document any corrective action taken.

In 2019, OIG was recertified under the Office of Special Counsel (OSC) 2302(c) Certification Program. The program requires federal agencies to inform their workforces about the rights and remedies available to them under the Whistleblower Protection Act, the Whistleblower Protection and Enhancement Act, and related civil service laws. In accordance with the certification requirements, the whistleblower coordinator provided training to all OIG and Agency employees on protections against whistleblower retaliation and other prohibited personnel practices. OIG was initially certified in 2015.

Comprehensive information on whistleblower protection may be found on OIG's website at https://www.sba.gov/oig/whistleblower-rights-and-protection.

Reporting Period Statistical Highlights

Summary of OIG Dollar Accomplishments

Dollar Accomplishments as a Result of Investigations and Related Activities	
Potential Investigative Recoveries and Fines	\$4,642,281
Asset Forfeitures Attributed to OIG Investigations	\$69,000
Loans/Contracts Not Approved or Canceled as a Result of Investigations	\$ 0
Investigations Subtotal	\$ 4,711,281
Dollar Accomplishments as a Result of Audit Activities	
Disallowed Costs Agreed to by Management	\$13,323,728
Recommendations That Funds Be Put to Better Use Agreed to by Management	\$0
Audit Subtotal	\$13,323,728
Total OIG Dollar Accomplishments	\$18,035,009

Efficiency and Effectiveness Activities Related to Audit, Other Reports, and Followup Activities

Reports Issued	10
Recommendations Issued	67
Dollar Value of Costs Questioned	\$64,804,274
Dollar Value of Recommendations That Funds Be Put to Better Use	\$0
Recommendations for Which Management Decisions Were Made	55
Recommendations Without a Management Decision	23
Collections as a Result of Questioned Costs	\$29,712

Indictments, Convictions, and Case Actions

Indictments from OIG Cases	16
Convictions from OIG Cases	24
Cases Opened	38
Cases Closed	56

SBA Personnel Actions Taken as a Result of Investigation

Dismissals	0
Resignations/Retirements	1
Suspensions	0
Reprimands	0

Program Actions Taken During the Reporting Period as Result of OIG Action

Present Responsibility Referrals to the Agency	43
Pending at the Agency as of April 1, 2020	68*
Suspensions Issued by the Agency	19
Proposed Debarments Issued by the Agency	20
Final Debarments Issued by the Agency	7
Proposed Debarments Declined by the Agency	0
Administrative Agreements Entered by the Agency in Lieu of Debarment	4
Present Responsibility Actions by Other Agencies	15

^{*}The Agency closed four of these referrals after the reporting period.

Agency Legislative and Regulatory Proposals Reviewed

Legislation, Regulations, Standard Operating Procedures, and Other Issuances Reviewed	68
Comments Provided by OIG to Improve Legislation, Regulations, Standard Operating Procedures, and Other	23
Issuances	

Reports Issued

Top Management Challenges

Title	Report Number	Issue Date	Questioned Costs	Funds for Better Use
The Most Serious Management and Performance Challenges	20-01	10/11/2019	\$0	\$0
Facing SBA in FY 2020				
Program Subtotal	1	_	\$0	\$0

Agency Management

Title	Report Number	Issue Date	Questioned Costs	Funds for Better Use
Independent Auditors' Report on SBA's Compliance with Data	20-02	11/7/2019	\$0	\$0
Act Reporting				
Independent Auditors' Report on SBA's FY 2019 Financial	20-04	11/15/2019	\$0	\$0
Statements				
KPMG Management Letter Communicating Matters Relative	20-05	12/10/2019	\$0	\$0
to SBA's FY 2019 Financial Statement Audit				
SBA's FY 2019 Cash Contributions and Gifts	20-06	2/11/2020	\$7,602	\$O
Weakness Identified During the FY 2019 Federal Information	20-10	3/30/2020	\$0	\$0
Security Modernization Act Review				
Program Subtotal	5	_	\$7,602	\$O

Credit/Capital Programs

Title	Report Number	Issue Date	Questioned Costs	Funds for Better Use
Audit of SBA's Oversight of High-Risk Lenders	20-03	11/12//2019	\$13,313,560	\$O
Audit of the SBA's Community Advantage Pilot Program	20-08	3/18/2020	\$51,472,944	\$0
Program Subtotal	2	_	\$64,786,504	\$0

Disaster Assistance

Title	Report Number	Issue Date	Questioned Costs	Funds for Better Use
Audit of the Office of Disaster Assistance Improper Payment	20-07	2/20/2020	\$0	\$0
Appeal Process				
Program Subtotal	1	_	\$0	\$0

Contracting/Counseling Programs

Title	Report	Issue Date	Questioned	Funds for
	Number		Costs	Better Use
Audit of SBA's Cooperative Agreement with Arsenal Business	20-09	3/24/2020	\$10,168	\$0
and Technology Partnership's Veterans Business				
Program Subtotal	1	_	\$10,168	\$0

Reports with Questioned Costs

		Reports	Recommendations*	Questioned Costs**	Unsupported Costs***
Α.	No management decision made by September 30, 2019	2	4	\$672,748,578	\$672,748,578
В.	Issued during this reporting period	4	5	\$64,804,274	\$64,794,106
	total (Universe from which management sions could be made in this reporting od)	6	9	\$737,552,852	\$737,542,684
C.	Management decisions made during this reporting period	5	7	\$686,079,908	\$686,069,740
	(i) Disallowed costs	2	2	\$13,323,728	\$13,313,560
	(ii) Costs not disallowed	3	5	\$672,756,180	\$672,756,180
D.	No management decision made by March 31, 2020	2	4	\$51,472,944	\$51,472,944

Reports may have more than one recommendation.

Reports with Recommendations That Funds Be Put to Better Use

		Reports	Recommendations	Recommended Funds for Better Use
A.	No management decision made by September 30,	_	_	_
	2019			
В.	Issued during this reporting period	_	_	_
	Subtotal (Universe from which management decisions	_	_	_
	could be made in this reporting period)			
C.	Management decisions made during this reporting	_	_	_
	period			
	(i) Recommendations agreed to by SBA management	_	_	_
	(ii) Recommendations not agreed to by SBA	_	_	_
	management			
D.	No management decision made by March 31, 2020	_	_	_

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.

Reports from Prior Periods with Overdue Management Decisions

There were no reports from prior periods with overdue management decisions.

Reports from Prior Periods with Open Recommendations as of March 31, 2020

Report Number	Title	Date Issued	Number of Open Recommendations	Aggregate Potential Cost Savings
15-16	SBA Needs to Improve Its Oversight of Loan Agents	9/25/2015	1	_
17-19	Audit of SBA's Microloan Program	9/28/2017	2	\$137,199,806
18-03	Independent Auditor's Report on the SBA's FY 2017 Financial Statements	11/14/2017	1	_
18-07	Accuracy of the FY 2015 7(a) Loan Guaranty Purchase Improper Payments Rate	12/11/2017	1	\$1,903,213
18-13	Evaluation of SBA 7(a) Loans Made to Poultry Farmers	3/6/2018	1	_
18-18	Audit of SBA's Women-Owned Small Business Federal Contracting Program	6/20/2018	1	_
18-21	OIG High Risk 7(a) Loan Review Program 2018	8/15/2018	2	\$1,351,565
18-22	Improvements Needed in SBA's Oversight of 8(a) Continuing Eligibility Processes	9/7/2018	8	_
18-23	OIG High Risk 7(a) Loan Review Program	9/13/2018	2	\$1,303,403
19-02	Consolidated Findings of OIG Reports on SBA's Grant Programs FYs 2014-2018	11/8/2018	1	_
19-06	SBA's District Offices' Customer Service	12/19/2018	1	_
19-07	Audit of SBA's Controls Over 7(a) Loans Sold on the Secondary Market	3/14/2019	1	_
19-08	SBA's HUBZone Certification Process	3/28/2019	3	_
19-12	Audit of SBA's Oversight of the SCORE Association	4/25/2019	2	\$696,743
19-14	SBA's 2018 and 2019 Cash Contributions and Gifts	6/19/2019	2	_
19-15	OIG High Risk 7(a) Loan Review Program	7/10/2019	1	\$3,000,297
19-16	The Office of Inspector General High Risk 7(a) Loan Review Program	8/14/2019	2	\$2,059,132
19-17	Evaluation of SBA's All Small Mentor- Protégé Program	9/17/2019	4	_
19-18	Audit of SBA's Suspension and Debarment Process	9/18/2019	5	_
19-19	Office of Inspector General High Risk 7(a) Loan Review Program	9/19/2019	1	\$1,267,223
19-20	Review of Women's Business Center, Inc. Compliance with Cooperative Agreement Requirement	9/19/2019	2	_
19-23	Audit of SBA's Desktop Loss Verification Process	9/26/2019	4	\$4,738,300
	Total		48	\$153,519,682

Significant Recommendations from Prior Reporting Periods Without Final Action as of March 31, 2020

Number 15-16 9/25/2015 Deve performance processing approach proce		Recommendation	Date of Management Decision	Final Action Target Date	
		Develop benchmarks for contractor performance and require the FTA to implement appropriate application controls and follow-up procedures with lenders to ensure the integrity of the Form 159 database.	9/20/2018	7/31/2020	
17-19	9/28/2017	Continue efforts to improve the information system to include outcome-based performance measurements and ensure the data captured can be used to effectively monitor the Microloan Program compliance, performance, and integrity.	1/4/2018	6/30/2020	
17-19	9/28/2017	Update the microloan reporting system manual to reflect current technology capabilities.	1/4/2018	6/30/2020	
18-03	11/14/2017	Monitor and perform procedures over the service organization's attestation report regarding user control considerations. This assessment should be performed annually.	1/10/2018	9/30/2020	
18-13	3/6/2018	Review the arrangements between integrators and growers under the revised regulations, and establish and implement controls, such as supplemental guidance, to ensure SBA loan specialists and lenders make appropriate affiliation determinations.	3/1/2018	9/30/2020	
18-18	6/20/2018 Implement a Women-Owned Small Business Federal Contracting Program certification process as required by the National Defense Authorization Act for FY 2015.		9/28/2018	6/30/2020	
18-21	8/15/2018	Require the lender to bring the loan into compliance or, if not possible, seek recovery of \$799,159 on the guaranty paid by SBA.	8/7/2018	1/31/2020	
18-21	8/15/2018	Require the lender to bring the loan into compliance or, if not possible, seek recovery of \$552,406 on the guaranty paid by SBA.	8/7/2018	12/31/2019	
18-22	9/7/2018	Revise its current process to ensure that it accurately identifies all high-risk firms to receive continuing eligibility reviews from the Office of Certification and Eligibility.	12/3/2019	3/31/2020	
18-22	9/7/2018	Establish and implement clear policies and procedures for evaluating 8(a) continuing eligibility, including ensuring that district offices use standardized analysis tools that conform with 8(a) continuing eligibility requirements found in 13 CFR 124, and train employees on these procedures.	12/19/2019	8/15/2020	

Report Date Issued Number 9/7/2018		Recommendation	Date of Management Decision	Final Action Target Date	
		Develop and implement a comprehensive oversight plan to ensure completion of continuing eligibility reviews of all 8(a) firms, monitor the quality of continuing eligibility reviews, and eliminate duplication between the Office of Certification and Eligibility and the district offices.	12/19/2019	3/30/2020	
18-22	9/7/2018	Develop and implement a centralized process to track and document all adverse actions and voluntary withdrawals from the 8(a) program, from recommendation through resolution.	9/7/2018	3/30/2020	
18-22	9/7/2018	Establish and implement clear policies and procedures that include timelines for sending Notices of Intent to Terminate and to Graduate Early firms after eligibility issues are first identified.	12/19/2019	4/30/2020	
18-22	9/7/2018	Establish and implement clear policies and detailed procedures, consistent with 13 CFR 124.112(c), to timely and effectively review and address complaints regarding 8(a) continuing eligibility, including communicating the content of the complaint to the district office, and train employees implementing the 8(a) program on the updated procedures.	12/19/2019	4/30/2020	
18-22	9/7/2018	Develop a robust system for tracking complaints that are received regarding firms' continuing eligibility for the 8(a) program, and tracking the actions taken to address the complaints.	9/7/2018	4/30/2020	
18-23	9/13/2018	Require the lender to bring the loan into compliance or, if not possible, seek recovery of \$448,287 plus interest on the guaranty paid by SBA.	9/20/2018	3/31/2020	
18-23	9/13/2018	Require the lender to bring the loan into compliance or, if not possible, seek recovery of \$855,116 plus interest on the guaranty paid by SBA.	9/20/2018	3/31/2020	
19-02	11/8/2018	Implement controls to ensure that grants officers and program personnel responsible for reviewing grant applications verify that the applicants' proposals include plans to measure performance that will help SBA determine program outcomes.	11/9/2018	9/30/2020	
19-06	12/19/2018	Revise SOP 90 75 4, Outreach Activities, to clarify the expectation for using SBA Form 20, Outreach Event Survey, and establish a process to collect and analyze customer feedback.	12/19/2018	1/31/2020	
19-07	3/14/2019	Update secondary market guidance to ensure that it aligns with current secondary market requirements.	3/21/2019	6/30/2020	

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Report	Date Issued	Recommendation	Date of	Final Action	
Number			Management	Target Date	
			Decision		
19-08	3/28/2019	Implement a plan to mitigate IT issues affecting the HUBZone certification process.	3/29/2019	1/1/2020	
19-08			3/29/2019	4/30/2020	

Significant Recommendations from This Reporting Period

Report Number	Title	Date Issued	Recommendation
20-02	Independent Auditors' Report	11/7/2019	Develop a procedure that requires the consistent and timely generation of documentary evidence to support an obligation and
	on SBA's		ensure it is readily available.
	Compliance with		erisure it is readily available.
	DATA Act		
	Reporting		
20-02	Independent	11/7/2019	Monitor the effective operation of the subsequent corrective action
	Auditors' Report	,,,	implemented to the loan origination system to prevent the ability to
	on SBA's		change loan terms without approval. In addition, determine the
	Compliance with		impact of the system deficiency across all loans and make the
	DATA Act		necessary corrections in the various systems and reports affected.
	Reporting		necessary corrections in the various systems and reports affected.
20-02	Independent	11/7/2019	Implement a control to ensure the Business Type element reported
	Auditors' Report	_	for each recipient is in accordance with DAIMS and the appropriate
	on SBA's		business size and type criteria.
	Compliance with		71
	DATA Act		
	Reporting		
20-02	Independent	11/7/2019	Implement validation controls to verify the accuracy of the Funding
	Auditors' Report		Office Code and Awarding Office Code elements.
	on SBA's		
	Compliance with		
	DATA Act		
	Reporting		
20-02	Independent	11/7/2019	Ensure updated vendor and grantee information is obtained from
	Auditors' Report		SAM.gov at time of award.
	on SBA's		
	Compliance with		
	DATA Act		
	Reporting		
20-02	Independent	11/7/2019	Provide notification to Treasury's DATA Act Broker Program
	Auditors' Report		Management Office of the Primary Place of Performance Code
	on SBA's		element that has been derived incorrectly.
	Compliance with		
	DATA Act		
	Reporting		
20-02	Independent	11/7/2019	Prior to the end of the reporting period, perform a review of the
	Auditors' Report		submission to ensure timing differences are reduced.
	on SBA's		
	Compliance with		
	DATA Act		
	Reporting		
20-02	Independent	11/7/2019	Implement sufficient review of the reconciliation between File B and
	Auditors' Report		File C to ensure all variances are researched and necessary
	on SBA's		corrections are made to the submission prior to the Senior
	Compliance with		Accountable Official's certification.
	DATA Act		
20.02	Reporting	44/7/2040	Porform a regular review to ensure the Data Quality Plan is suggested
20-02	Independent	11/7/2019	Perform a regular review to ensure the Data Quality Plan is current
	Auditors' Report		and updated as changes to the DATA Act broker system and DAIMS
	on SBA's		guidance are communicated.
	Compliance with		
	DATA Act		
	Reporting		

Report Number	Title	Date Issued	Recommendation
20-03	Audit of SBA's Oversight of High-Risk Lenders	11/12/2019	Develop and implement policies and procedures to document OCRM's justification for (1) not conducting planned reviews and (2) identifying and prioritizing additional lenders for review.
20-03	Audit of SBA's Oversight of High-Risk Lenders	11/12/2019	Develop and implement a comprehensive database to manage its oversight of high-risk lenders to ensure performance of all planned reviews, implementation of risk mitigation actions, and identification of noncompliant lender and systemic material loan deficiencies.
20-03	Audit of SBA's Oversight of High-Risk Lenders	11/12/2019	Develop and implement policies and procedures to provide clear and specific guidance to analysts regarding the appropriate corrective and enforcement actions for identified lenders and loan deficiencies to ensure analysts recommend appropriate and consistent corrective and enforcement actions.
20-03	Audit of SBA's Oversight of High-Risk Lenders	11/12/2019	Conduct periodic overall assessments of the high-risk lender review results and recommended risk mitigation actions to ensure analysts recommend appropriate and consistent corrective and enforcement actions.
20-03	Audit of SBA's Oversight of High-Risk Lenders	11/12/2019	Develop and implement policies and procedures that require OCRM to communicate systemic lender issues and material loan deficiencies to the appropriate SBA loan approval and purchase centers to facilitate proactive portfolio management and to mitigate the risk of improper guaranty purchases in the event of default.
20-03	Audit of SBA's Oversight of High-Risk Lenders	11/12/2019	Determine whether the lenders corrected the deficiencies on the 21 loans purchased for a total of \$13.3 million. If not, require the lenders to bring the loans into compliance or, if not possible, seek recovery of the guaranty paid by SBA from lenders.
20-04	Independent Auditors' Report on SBA's FY 2019 Financial Statements	11/15/2019	Integrate the Office of Chief Financial Officer's risk identification and assessment process with its enterprise risk management processes.
20-04	Independent Auditors' Report on SBA's FY 2019 Financial Statements	11/15/2019	Ensure management personnel document their interpretation with respect to applicability of requirements (e.g., such as the need to determine a materiality threshold in the risk assessment process).
20-04	Independent Auditors' Report on SBA's FY 2019 Financial Statements	11/15/2019	Formally document a comprehensive risk assessment process every year, including the determination of materiality thresholds, as applicable under the requirements.
20-04	Independent Auditors' Report on SBA's FY 2019 Financial Statements	11/15/2019	Work with the relevant program offices to develop, document, and implement procedures outlining the SOC 1 report evaluation process for relevant service organizations, to ensure reviews are performed in accordance with OMB and GAO guidance.
20-04	Independent Auditors' Report on SBA's FY 2019 Financial Statements	11/15/2019	Formally document a comprehensive risk assessment process, including the consideration of the applicability and implementation of new accounting standards.

Report Number	Title	Date Issued	Recommendation
20-04	Independent Auditors' Report on SBA's FY 2019 Financial Statements	11/15/2019	Implement adequate internal controls to prevent or detect and correct material misstatements to the financial statements and notes.
20-04	Independent Auditors' Report on SBA's FY 2019 Financial Statements	11/15/2019	Develop and enforce a policy/procedure that requires the consistent and timely generation of documentary evidence to support the establishment and modification of loan terms subsequent to loan obligation and ensure it is readily available.
20-04	Independent Auditors' Report on SBA's FY 2019 Financial Statements	11/15/2019	Implement adequate controls to ensure changes to loan terms subsequent to loan obligation are consistently and timely processed within the loan processing and repository system.
20-04	Independent Auditors' Report on SBA's FY 2019 Financial Statements	11/15/2019	Consider creating an Agency wide working group to provide effective oversight and solutions to address the entity-wide conditions cited and implement streamlined, efficient and effective user access "best practices" currently used by the private sector and other Federal agencies.
20-04	Independent Auditors' Report on SBA's FY 2019 Financial Statements	11/15/2019	Develop and document procedures over the separation process that identify the roles and responsibilities for each office.
20-04	Independent Auditors' Report on SBA's FY 2019 Financial Statements	11/15/2019	Create a process to identify separated contractors from their respective program office/Contracting Officer, centrally track and monitor for contractor separations, and communicate contractor separations to stakeholders that are required for the timely removal of logical access.
20-04	Independent Auditors' Report on SBA's FY 2019 Financial Statements	11/15/2019	Implement a stricter policy for account suspension after inactivity to account for SBA employees who may not have been removed via the manual account removal process.
20-04	Independent Auditors' Report on SBA's FY 2019 Financial Statements	11/15/2019	Continue to enhance and strengthen the audit logging and review controls to specify which events were reviewed, who performed the review, and whether issues were identified, escalated, and resolved.
20-04	Independent Auditors' Report on SBA's FY 2019 Financial Statements	11/15/2019	Implement segregation of duties and implement mitigating controls to help ensure that personnel with the ability to the develop code, are restricted from migrating code into the production environment.
20-04	Independent Auditors' Report on SBA's FY 2019 Financial Statements	11/15/2019	Train personnel who are responsible for the provisioning of accounts to grant access in compliance with SBA policy and procedures.

Report	Title	Date Issued	Recommendation
Number			
20-04	Independent	11/15/2019	Evaluate and redesign user access forms to remove any redundant
	Auditors' Report		or unnecessary data fields.
	on SBA's FY 2019 Financial		
	Statements		
20-04	Independent	11/15/2019	Periodically train personnel involved with the implementation of
20-04	Auditors' Report	11/15/2019	operating system patches to follow the requirements of the patch
	on SBA's FY 2019		management process in accordance with SBA and OCA policy.
	Financial		management process in accordance with 3DA and OCA policy.
	Statements		
20-05	KPMG	12/10/2019	Update appropriate Center Desk Manuals to specify relevant staff
	Management	_	involved in the charge-off and referral processes to ensure the Next
	Letter		Due Date field in the loan repository system is timely updated when
	Communicating		a loan's liable parties change. Any change to policy should be
	Matters Relative to		communicated to relevant staff.
	SBA's FY 2019		
	Financial		
	Statement Audit		
20-05	KPMG	12/10/2019	Perform a regular review of liable parties with outstanding
	Management		receivable balances to ensure they are referred timely.
	Letter Communicating		
	Matters Relative to		
	SBA's FY 2019		
	Financial		
	Statement Audit		
20-05	KPMG	12/10/2019	Implement a process to perform and formally document a
-	Management		comprehensive analysis of the applicability and implementation of
	Letter		new and existing accounting standards.
	Communicating		
	Matters Relative to		
	SBA's FY 2019		
	Financial		
	Statement Audit		
20-05	KPMG	12/10/2019	Memorialize the results of the analyses in the form of a complete set
	Management		of approved policies/procedure documents that are readily available.
	Letter		
	Communicating		
	Matters Relative to		
	SBA's FY 2019 Financial		
	Statement Audit		
20-06	SBA's FY 2019 Cash	2/11/2020	Continue to train program office grant personnel responsible for
	Contributions and	_,, 2020	monitoring grant recipient performance to enforce compliance with
	Gifts		SBA's established policies and procedures for grants management
	dires		and best practices for administering grant awards and monitoring
			performance.
20.06	CDA's EV 2040 Cash	2/4/2020	Review \$7,602 of incurred costs, in accordance with SOP oo 18, to
20-06	SBA's FY 2019 Cash Contributions and	2/11/2020	
			ensure that expenditures are properly categorized as travel, other,
	Gifts		or supplies on the A 11, Budget Detail Worksheet.

Report Number	Title	Date Issued	Recommendation
20-09	Audit of SBA's Cooperative Agreement with Arsenal Business and Technology Partnership's Veterans Business	3/24/2020	Implement procedures to include a quality control checklist to ensure that all documentation related to the award of the cooperative agreement is maintained in the official grant file.
20-09	Outreach Center Audit of SBA's Cooperative Agreement with Arsenal Business and Technology Partnership's Veterans Business Outreach Center	3/24/2020	Implement controls to ensure that grants management officials effectively oversee that agency officials select technical evaluation panel members in accordance with grants management policy.
20-09	Audit of SBA's Cooperative Agreement with Arsenal Business and Technology Partnership's Veterans Business Outreach Center	3/24/2020	Revise the grants management policy to require that agency officials establish safeguards, to include separation of duties, when officials with oversight responsibility of any applicant during the grant lifecycle are required to serve on the Technical Evaluation Panel and maintain documentation in the official grant file.
20-09	Audit of SBA's Cooperative Agreement with Arsenal Business and Technology Partnership's Veterans Business Outreach Center	3/24/2020	Require Arsenal to establish quarterly goals for its performance measures, enforce cooperative agreement terms and conditions requirement to provide justification for not achieving quarterly goals and propose corrective actions, and implement the quarterly report and feedback template prior to exercising the next cooperative agreement option year.
20-09	Audit of SBA's Cooperative Agreement with Arsenal Business and Technology Partnership's Veterans Business Outreach Center	3/24/2020	Reconcile actual performance results with proposed goals on a quarterly basis, document the reconciliation, provide feedback to Arsenal using the quarterly report and feedback template, and maintain the documentation as part of the official cooperative agreement file.
20-09	Audit of SBA's Cooperative Agreement with Arsenal Business and Technology Partnership's Veterans Business Outreach Center	3/24/2020	Require program officials to enforce the cooperative agreement terms and conditions to withhold reimbursements if Arsenal does not provide justifications and corrective action when it does not achieve its quarterly goals.

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Report Number	Title	Date Issued	Recommendation
20-09	Audit of SBA's	3/24/2020	Review the expenditures for the \$10,168 transfer of funds to ensure
	Cooperative		these costs are allowable and document the rationale for approving
	Agreement with		the transfer.
	Arsenal Business		
	and Technology		
	Partnership's		
	Veterans Business		
	Outreach Center		
20-09	Audit of SBA's	3/24/2020	Develop a tracking mechanism to monitor Arsenal's cumulative
	Cooperative		reallocation of funds to ensure it does not exceed the allowable
	Agreement with		amount and enforce that Arsenal comply with the terms and
	Arsenal Business		conditions for reporting expenditures that exceed their budgeted
	and Technology		cost categories.
	Partnership's		
	Veterans Business		
	Outreach Center		
20-09	Audit of SBA's	3/24/2020	Implement procedures to ensure program officials enforce financial
	Cooperative		examination results.
	Agreement with		
	Arsenal Business		
	and Technology		
	Partnership's		
	Veterans Business		
	Outreach Center		

Significant Management Decisions with Which OIG Disagrees

There were no significant management decisions with which OIG disagrees during this reporting period.

Significant Revised Management Decisions

There were no significant revised management decisions during this reporting period.

Federal Financial Management Improvement Act

OIG's Independent Public Accountant, KPMG, found in the FY 2019financial statement audit that there were no instances in which SBA's financial management systems did not substantially comply with the Federal Financial Management Improvement Act of 1996.

Instances of Interference

There were no attempts by SBA officials to interfere with OIG independence during the reporting period.

Investigations Reporting Statistics

Investigative Reports Issued

Report Type	Number of Reports
Report of Investigation	60
Preliminary Case Closing Reports of Investigation	11
Total	71

Persons Referred for Prosecution

Referred To	Number of Persons
Department of Justice	39
State Attorney	4
Local Attorney	0
Total	43*

^{*}Number includes persons and entities referred for prosecution.

Whistleblower Retaliation Cases

There were no OIG investigations involving Whistleblower retaliation during the reporting period.

Investigations Involving a Senior Government Employee Where Misconduct Was Substantiated

There were no OIG investigations involving a senior government employee where misconduct was substantiated during the reporting period.

Investigations Involving a Senior Government Employee That Is Closed and Not Disclosed to the Public

An SBA official was alleged to have attempted to use his authority to attempt to transfer a Small Business Investment Company (SBIC) into liquidation despite SBIC complying with the program's financial requirements. The official reportedly had attempted to obtain employment with the SBIC many years ago, and the complainant believed that the attempted transfer was taken in retribution for being denied employment.

The OIG investigation did not substantiate the allegations. After interviews with officials of the SBIC, as well as SBA program and ethics officials, there was no evidence of any conflict of interest or apparent misuse of official government authority. Moreover, the interviews revealed that the initial attention to the SBIC was warranted by its high capital impairment percentage. Although the SBA official seemed to take interest in SBIC, none of the things asked of it fell outside of the program's authority. There was also no evidence indicating that the SBA official's conduct harmed the SBIC or that its treatment was inconsistent with program regulations. Based on the above facts, OIG closed this matter with no action. The incident was referred to SBA management for their determination as to the relevance of the OIG's findings.

Legal Actions Summary

October 1, 2019 – March 31, 2020

State	Program	Jointly With	Alleged Violation(s) Prosecuted	Legal Action
AK	GC	GSA/OIG, VA/OIG	Individuals conspired to submit fraudulent invoices for work not performed.	Individual pled guilty to criminal information and two individuals indicted.
CA	BL	FBI, ICE	Individual provided false information on SBA Form 1919 and used loan proceeds for personal expenses.	Individual sentenced to time served for 18 months; one year in a residentiary re-entry center, followed by 3 years of supervised release; an ordered to pay a \$250,000 fine. Company's State of California Insurance License revoked.
СО	GC	FBI, Energy/OIG, VA/OIG	Individuals conspired to pay and receive bribes in exchange for securing government contracts.	One individual sentenced to 30 months of incarceration, followed by 3 years of supervised probation, and ordered to pay a \$100 assessment. Another individual sentenced to 18 months of incarceration, followed by 3 years of supervised release and ordered to pay a \$600 assessment and forfeited \$9,000. Another individual was sentenced to 12 months of supervised probation, fined \$4,500 and ordered to pay a \$100 assessment.
СО	GC	Army/CID, Air Force/OSI, DCIS, GSA/OIG	Individuals submitted false documents and statements to the Historically Underutilized Business Zones (HUBZone) Program to obtain set-aside contracts the company would not have otherwise been eligible to receive.	One individual sentenced to 3 years of supervised probation, 250 hours of community service, and ordered to pay a \$100 assessment. Another individual sentenced to one year of probation, 100 hours of community service, and ordered to pay a \$100 special assessment.
СТ	DL		Company falsified documents to obtain an SBA loan in the aftermath of Superstorm Sandy.	Individual sentenced to 24 months of probation; assessed a fine of \$5,000; and ordered to complete 150 hours of community service.
DC	GC	NASA/OIG	Individual misrepresented company as a Woman-Owned Small Business in order to receive contracts to which the company would not otherwise be entitled.	Individual indicted.
FL	BL	FBI, IRS/CID	Individuals submitted fraudulent invoices for payment and used loan proceeds for personal expenses.	Two individuals found guilty.
FL	DL	HHS/OIG, DHS/OIG, HUD/OIG	Individual falsified the location of their primary residence in order to obtain government assistance in the aftermath of Superstorm Sandy.	Individual pled guilty and sentenced to 12 months of probation and ordered to pay \$171,000 in restitution and fees and penalties in the amount of \$305.

State	Program	Jointly With	Alleged Violation(s) Prosecuted	Legal Action
FL	IA		Individual created an appearance of a conflict of interest due to overlapping relationships between SBA and Small Business Development Center.	Individual retired during investigation
GA	DL	DHS/OIG, HUD/OIG	Individual falsified loan documents to receive disaster assistance in the aftermath of Superstorm Sandy.	SBA realized an administrative recovery of \$47,647.
GA	GC	Army/CID, DCIS	Individuals conspired to commit conflict of interest violations and engaged in a scheme to defraud the U.S. Army through overbilling and illegally steering 8(a) sole-source contracts.	Two individuals pled guilty to criminal information.
LA	DL		Individual conspired to commit disaster fraud by misusing loan proceeds for personal purchases and expenses.	Individual pled guilty to an information.
LA	DL	DHS/OIG	Individual submitted false documents to obtain a disaster loan.	Individual pled guilty.
MD	BL	FDIC/OIG, FHFA/OIG	Individuals conspired to submit fraudulent information in order to obtain SBA guaranteed loans.	Individual ordered to pay an additional \$809,000 in restitution and forfeited \$60,000.
MI	GC	GSA/OIG, VA/OIG	Company misrepresented itself as a Service-Disabled Veteran-Owned Small Business (SDVOSB) to obtain a government contracts to which the company would not otherwise be entitled.	Individual sentenced to 12 months of incarceration, 24 months of supervised release, and ordered to pay a \$50,000 fine and \$100 special assessment.
МО	BL	FBI, IRS/CID	Individual provided false statements on loan application and laundered loan proceeds.	Individual pled guilty.
NM	GC	Army/CID, DCAA, DCIS	Individuals conspired to fraudulently misappropriate federal funds for lobbying services to obtain 8(a) sole source contracts.	Individual indicted and pled guilty.
NJ	BL		Individual made false statements to obtain an SBA guaranteed loan.	Individual pled guilty.

State	Program	Jointly With	Alleged Violation(s) Prosecuted	Legal Action
NJ	DL	HUD/OIG	Individual falsified the location of their primary residence in order to obtain government assistance in the aftermath of Superstorm Sandy.	Individual charged by complaint summons.
NJ	DL	HHS/OIG, DHS/OIG, HUD/OIG	Individual falsified the location of their primary residence in order to obtain government assistance in the aftermath of Superstorm Sandy.	Individual charged by complaint summons.
NY	DL	FEMA/OIG, HUD/OIG	Individual falsified the location of their primary residence in order to obtain government assistance in the aftermath of Superstorm Sandy.	Individual agreed to deferred prosecution for two years and to pay \$59,254 in restitution.
NJ	DL	HUD/OIG	Individual falsified the location of their primary residence in order to obtain government assistance in the aftermath of Superstorm Sandy.	Individual entered pretrial intervention and ordered to pay \$121,881 in restitution.
NJ	DL	HHS/OIG, DHS/OIG, HUD/OIG, NJ DCA	Individual falsified the location of their primary residence in order to obtain government assistance in the aftermath of Superstorm Sandy.	Individual sentenced to 5 years of probation and ordered to pay \$142,414 in restitution and \$155 in fees and penalties.
NY	BL	DHS, FBI, FDIC/OIG, SIGTARP/OIG	Bank employee accepted bribes and used position to approve loans to entities in which there was a personal financial interest.	Individual indicted.
NV	BL	USSS	Individual used another another's personal identifying information to obtain an SBA loan.	Individual sentenced to 5 years of probation with a suspended sentence of 12 to 48 months and ordered to pay \$127,441 in restitution.
ОН	GC		Individuals conspired to defraud government by creating a pass-through company to obtain 8(a) contracts to which the company would not otherwise be entitled.	Four individuals indicted.
ОК	GC	FBI, NCIS, Army/CID, DCIS, GSA/OIG	Two Individuals used loan proceeds for personal expenses and one individual accepted bribes as influence for conducting business transactions.	One individual pled guilty and two individuals indicted.

State	Program	Jointly With	Alleged Violation(s) Prosecuted	Legal Action
ОК	GC	Army/CID, DCIS, GSA/OIG	Company falsely represented itself in order to receive set-aside contracts to which the company would not otherwise be entitled.	Company entered into a civil settlement agreement in the amount of \$2.8 million. Company also agreed that neither itself nor any affiliate of the company will apply, represent, or certify as a HUBZone Small Business Concern or participate in the 8(a) Mentor Protégé Programs for a period of 3 years; and will notify SBA prior to any change of control or change of ownership.
PA	GC	DCIS, DOJ/OIG	Company did not operate within the recorded HUBZone.	Company agreed to include extensive business ethics training within the company for two years.
SC	GC	DCIS, USDA/OIG	Individuals falsely represented the eligibility of a company in order to receive set-aside 8(a) contracts to which the company would not otherwise be entitled.	Individual entered a pretrial diversion and required to complete 40 hours of community service.
TX	DL		Individual misused loan proceeds and submitted falsified documents in support of loan.	Individual indicted.
TX	DL	DHS/OIG	Individual submitted false documents to obtain disaster loan and misused proceeds for personal expenses.	Individual pled guilty.
TX	DL		Individual submitted fraudulent invoices to obtain disaster assistance.	Individual sentenced to 48 months of probation and ordered to pay \$19,866 in restitution and a \$100 special assessment fee.
TX	DL	DHS/OIG	Individuals falsified the location of their primary residence in order to obtain government assistance.	Individual sentenced to 3 years of probation and ordered to pay \$16,541 in restitution and a \$100 special assessment fee.
WA	GC	DOI/OIG	Individual received bribes to steer government contracts and to release non-public information to a contractor.	Individual served with target letter.
WA	BL		Individuals conspired to make false statements regarding the true purpose of a loan that a company would not have otherwise been entitled to receive.	Three individuals entered a pretrial diversion, and each agreed to pay \$450 in fees and \$50 per month in Felony Diversion Program fees; and will perform 100 hours of community service.

State	Program	Jointly With	Alleged Violation(s) Prosecuted	Legal Action
WI	GC	DCIS, DOT/OIG, GSA/OIG	Individuals posed as straw owners of a company to fraudulently obtain 8(a) SDVOSB status to obtain government contracts to which the company would not otherwise be entitled.	Individual sentenced to 78 months of imprisonment, 24 months of supervised release, and assessed a \$5,000 fine and \$200 special assessment. One individual found guilty.

Legal Actions Summary Program Codes

BL—Business Loans

DL—Disaster Loans

GC—Government Contracting and Section 8(a) Business Development

IA—Internal Affairs

Joint Investigation Agency Acronyms

Defense Contract Audit Agency (DCAA)

Defense Criminal Investigative Service (DCIS)

Department of Energy Office of Inspector General (Energy/OIG)

Department of Health and Human Services Office of Inspector General (HHS/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

Department of Justice Office of Inspector General (DOJ/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 and Finance Agency Office of Inspector General (FHFA/OIG)

Federal Emergency Management Agency Office of Inspector General (FEMA/OIG)

General Services Administration Office of Inspector General (GSA/OIG)

Immigration and Customs Enforcement (ICE)

Internal Revenue Service – Criminal Investigation Division (IRS/CID)

National Aeronautics and Space Administration Office of Inspector General (NASA/OIG)

New Jersey Department of Community Affairs (NJ DCA)

Office of the Special Inspector General for the Troubled Asset Relief Program (SIGTARP/OIG)

United States Air Force Office of Special Investigations (Air Force/OSI)

United States Army/Criminal Investigation Division (Army/CID)

United States Department of Agriculture Office of Inspector General (USDA/OIG)

Cosponsored and Other Activities

SBA's authorization to cosponsor events requires OIG to report to Congress on the Administrator's use of that authority semiannually. The following list of activities was provided by the Office of Strategic Alliances.

International Trade Event		Location	Executed
international frade Event	New Mexico DO - New Mexico International	Albuquerque,	February 25, 2020
	Trade Alliance	NM	
Southeast Idaho Opportunity	Boise DO - Bannock Development Corporation,	Pocatello, ID	February 20, 2020
Zone Connection Forum	Citizens Community Bank		
Financial Empowerment	Washington, DC DO - Hispanic Chamber of	Washington, DC	February 18, 2020
Workshop Series	Commerce Montgomery County		
Financial Empowerment	Washington, DC DO - Greater Washington	Bethesda, MD	February 18, 2020
Workshop Series	Hispanic Chamber of Commerce		
Opportunity Zone and	Pittsburgh DO - Focus on Renewal, Sto Rox	McKees Rocks,	February 4, 2020
Entrepreneurship Summit	Neighborhood Corporation	PA	
Export Trade Assistance	Orange County/Inland Empire DO - Riverside	Riverside, CA	December 20, 2019
Partnership Program	County Economic Development Agency Office of		
	Foreign Trade		
Pittsburgh Equity in Energy	Pittsburgh DO - U.S. Department of Energy,	Community	December 13, 2019
	Community College of Beaver County, General	College of	
	Trade Corporation	Beaver County	
Small Business Workshops and	Rhode Island DO - Rhode Island Hospitality	Rhode Island	December 6, 2019
Lender Matchmakers Series	Association, University of Rhode Island Rhode	Statewide	
	Island Small Business Development Center		
Small Business Roundtable	Rhode Island DO - Rhode Island Society of	Kingston, RI	December 6, 2019
	Certified Public Accountants		
Business Development Series	Hawaii DO - Honolulu Minority Business Center	Hawaii	December 4, 2019
	University of Hawaii at Manoa Shidler College of	Statewide	
	Business, State of Hawaii Department of		
	Transportation Office of Civil Rights		
	Disadvantaged Business Enterprise		
ACBA Business Resource Page	Arkansas DO - Arkansas Community Bankers	World Wide	November 15, 2019
	Association	Web	
International Banking &	Orange County/Inland Empire DO - District Export	Irvine, CA	October 22, 2019
Finance Seminar	Council of Southern California		
Small Business Saturday 2019	HQ OCPL - American Express, Women Impacting	Nationwide	October 15, 2019
	Public Policy		

Appendix: External Peer Reviews

Section 5(a) of the IG Act requires OIGs to report peer review results in their Semiannual Reports to Congress. The following information is provided in accordance with these requirements.

Audits Division

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

OIG's Audits Division was reviewed by the U.S. Department of State OIG for the year ended March 31, 2018. In September 2018, SBA OIG received a peer review rating of "pass."

Investigations Division

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.

In September 2017, the U.S. Federal Deposit Insurance Corporation (FDIC) OIG reviewed our Investigations Division. The FDIC OIG issued its final report December 19, 2017. The FDIC found that the system of internal safeguards and management procedures for the investigative function of OIG was 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.

Reporting Requirements in the Inspector General Act of 1978, As Amended

Section	Reporting Requirement	Location
4(a)(2)	Review of legislation and regulations	Other Significant OIG Activities
5(a)(1)	Significant problems, abuses, and deficiencies	Throughout
5(a)(2)	Recommendations with respect to significant	Significant Recommendations from This Reporting
	problems, abuses, and deficiencies	Period
5(a)(3)	Prior significant recommendations on which	Significant Recommendations from Prior Reporting
	corrective action has not been completed	Periods Without Final Action as of March 31, 2019
5(a)(4)	Matters referred to prosecutive authorities	Legal Actions Summary
5(a)(5)	Instances in which requested information was	N/A
	refused	
5(a)(6)	List of audit, inspection, and evaluation reports	Reports Issued; Reports with Questioned Costs
5(a)(7)	Significant reports	Throughout
5(a)(8)	Audit, inspection, and evaluation statistical	Statistical Highlights
	tables	
5(a)(9)	Audit, inspection, and evaluation reports with	Reports with Recommendations That Funds Be Put
	recommendations that funds be put to better	to Better Use
	use	
5(a)(10)	Audit, inspection, and evaluation reports	Reports from Prior Periods with Overdue
	without management decision, without	Management Decisions; Reports from Prior Period
	comment within 60 days, or with	with Open Recommendations as of March 31, 2019
	unimplemented recommendations	
5(a)(11)	Revised management decisions	Significant Revised Management Decisions
5(a)(12)	Management decisions with which the	Significant Management Decisions with Which OIG
	Inspector General disagrees	Disagrees
5(a)(13)	Information described under section 05(b) of	Federal Financial Management Improvement Act
	the Federal Financial Management	
	Improvement Act of 1996	
5(a)(14)(16)	Peer review results	External Peer Reviews
5(a)(17)(18)	Investigative statistical tables and supporting	Investigations Reporting Statistics
	metrics	
5(a)(19)	Investigations involving a senior government	Investigations Involving a Senior Government
	employee where allegations of misconduct	Employee Where Misconduct Was Substantiated
	were substantiated	
5(a)(20)	Whistleblower retaliation	Whistleblower Retaliation Cases
5(a)(21)	Attempts to interfere with the independence of OIG	Instances of Interference
5(a)(22)	Each closed inspection, evaluation, and audit	Investigations Involving a Senior Government
	not disclosed to the public; each closed	Employee That Is Closed and Not Disclosed to the
	investigation involving a senior government	Public
	employee not disclosed to the public	

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: https://www.sba.gov/oig/hotline

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.

