

U.S. Small Business Administration Office of Inspector General

**Semiannual Report to Congress
October 1, 2017–March 31, 2018**



April 30, 2018

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Small Business Administration
Office of Inspector General
Washington, DC 20416



I am pleased to present the U.S. Small Business Administration (SBA) Office of Inspector General (OIG) Spring 2018 Semiannual Report to Congress. The report provides a summary of OIG's activities from October 1, 2017, through March 31, 2018. OIG continues to focus on the most critical risks facing SBA. Our resources are directed at key SBA programs and operations, to include financial assistance, Government contracting and business development, financial management and information technology, disaster assistance, Agency management challenges, and security operations.

During this reporting period, OIG issued 15 reports with 76 recommendations to improve SBA operations and reduce fraud and unnecessary losses in Agency programs. In addition, OIG investigations resulted in 21 indictments and 18 convictions. OIG also provided critical investigative and legal support in reaching multimillion-dollar settlements on five separate small business contracting fraud cases brought under the False Claims Act. Overall, OIG's investigations and audits achieved monetary recoveries and savings of \$199,359,256. OIG also sent 68 present responsibility referrals to SBA and 12 additional present responsibility referrals to other agencies. These referrals typically result in a suspension, debarment, or administrative agreement.

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

- OIG issued [Audit Report 18-01](#), Report on the Most Serious Management and Performance Challenges Facing the Small Business Administration in Fiscal Year 2018. This report represents our current assessment of Agency programs and/or activities that pose significant risks.
- OIG issued [Audit Report 18-11](#), which included six recommendations to ensure that SBA maximizes the impact of its State Trade Expansion Program (STEP).
- OIG issued [Evaluation Report 18-13](#), Evaluation of SBA's 7(a) Loans to Poultry Farmers. We found that 7(a) loans made to growers did not meet regulatory and SBA requirements for eligibility, and we determined that SBA guaranteed approximately \$1.8 billion in loans that may be ineligible.

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

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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) 2014–2018 has three overarching goals:

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

SBA's headquarters is in Washington, DC—with staff in 10 regional offices, 68 district offices and corresponding branch offices, and 4 disaster field offices—to deliver business products and services. There are also six Government contracting area offices. 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 a number of challenges in carrying out its mission. Challenges include fraudulent schemes affecting all SBA programs, significant losses from defaulted loans, procurement flaws that allow large firms to obtain small business awards, excessive improper payments, and outdated legacy information systems.

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 review 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. SBA 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 Agency's 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 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, IT, and procurement) for various 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; 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 located 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; Kansas City, MO; 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 sufficient 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 18-01 at https://www.sba.gov/sites/default/files/oig/SBA_OIG_Report_18-012.pdf.)

#	Challenge	Status at End of FY 2017				Change From Prior Year	
		Green	Yellow	Orange	Red	Up ↑	Down ↓
1	Small Business Contracting	0	2	1	0	1	0
2	IT Leadership	0	5	1	0	5	0
3	Human Capital	1	1	0	0	1	0
4	SBA Loan Program Risk Management and Oversight	1	3†	1	0	1	0
5	8(a) Business Development Program	2	0	1	0	3	0
6	Ensuring Quality Deliverables and Reducing Improper Payments at SBA Loan Operation Centers	1	2	0	0	1	0
7	Disaster Assistance Program	0	4	0	0	1	0
8	Acquisition Management	4	0	0	0	4	0
	Total	9	17	4	0	17	0

† For Management Challenge number 4 recommendation 3, 7(a) was rated yellow, while 504 was rated orange. For simplicity, it is reflected as yellow 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 \$118.8 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 Guaranty 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 the majority of 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.

Accuracy of the FY 2015 7(a) Loan Guaranty Purchase Improper Payment Rate

Report 18-07 presents the results of our audit on the accuracy of the FY 2015 improper payments rate for the 7(a) Loan Program purchases. SBA did not detect all improper payments when conducting improper payment reviews to estimate its FY 2015 rate for 7(a) guaranty purchases. As a result, it understated the FY 2015 improper payments rate for the 7(a) Loan Program purchases. SBA reported improper payments of \$7.91 million, or 0.9 percent, of the \$880.2 million in guaranty purchases during the year. In contrast, OIG statistically estimated the improper payment rate to be approximately four times the reported rate at 3.61 percent, or \$31.8 million. Office of Management and Budget Circular A-123 Appendix C, which defines improper payments, includes disbursements that were made based on incomplete information in addition to disbursements to ineligible recipients. Based upon this definition of improper payments, we concluded that 11 of the 32 loan guaranty purchases we reviewed included improper payments.

OIG identified eight loan guaranty purchases as improper that SBA's Quality Control team did not identify as improper payments. We believe these differences resulted from SBA loans not being reviewed with the scrutiny required to identify improper payments, the SBA guaranty purchase

centers basing decisions on internal documentation that is not consistent with the standard operating procedures, and SBA's review process guides not specifically requiring loan specialists to recalculate and verify lenders' calculations. As a result, SBA was not able to accurately report and assess the risk of improper payments related to 7(a) loan guaranty purchases, and therefore, did not establish appropriate reduction targets and implement commensurate corrective actions to reduce improper payments, to enhance program integrity, and to ensure the 7(a) loan guaranty purchase process is operating as intended.

OIG made nine recommendations to the Director of the Office of Financial Program Operations to improve SBA's accuracy in reporting the estimated improper payments rate for the 7(a) Loan Program purchases. SBA management agreed with the nine recommendations. SBA management's proposed actions resolve all nine of our recommendations. (Access Report 18-07 at https://www.sba.gov/sites/default/files/oig/SBA_OIG_Report_18-07_Redacted.pdf.)

Evaluation of SBA's 7(a) Loans to Poultry Farmers

Report 18-13 presents the results of our evaluation of SBA's 7(a) loans made to poultry farmers. The 7(a) Loan Program is SBA's primary program for helping startup and existing small businesses, offering financing guarantees for loan amounts up to \$5 million to fund startup costs, to expand existing businesses, to purchase equipment, to repair existing capital, and for other uses. Our evaluation objective was to determine whether 7(a) loans made to poultry farmers (growers) met statutory, regulatory, and SBA requirements for eligibility.

We found that 7(a) loans made to growers did not meet regulatory and SBA requirements for eligibility. The large chicken companies (integrators) in our sample exercised such comprehensive control over the growers that SBA OIG believes the concerns appear affiliative under SBA regulations. Therefore, SBA and lenders approved 7(a) loans that were apparently ineligible under SBA size standard regulations and requirements.

We found integrator control exercised through a series of contractual restrictions, management agreements, oversight inspections, and market controls. This control overcame practically all of a grower's ability to operate their business independent of integrator mandates. As a result, from FY 2012 to FY 2016, SBA guaranteed approximately \$1.8 billion in loans that may be ineligible.

We provided two recommendations to improve SBA's oversight of the 7(a) Loan Program. (Access Report 18-13 at <https://www.sba.gov/sites/default/files/oig/SBA-OIG-Report-18-13.pdf>.)

Texas Couple Pleads Guilty in Massive Fraud Scheme

A Texas man pled guilty in Federal court to money laundering conspiracy. In addition, his wife pled guilty in Federal court to conspiracy. The investigation began when the U.S. Department of Homeland Security (DHS) OIG referred this matter to SBA OIG. In 2013, DHS OIG began reviewing reports that Indian nationals living in the United States were being defrauded in a massive "tele-fraud" scam. Numerous victims reported that they had been contacted by persons claiming to be

officials with the U.S. Citizenship and Immigration Services, Internal Revenue Service (IRS), U.S. Attorney's Office, or another Government agency. Among other tactics, victims were often told that they had an outstanding order of deportation or a past due tax bill, and that they would be arrested immediately. To avoid arrest or deportation, the victims were instructed to pay large sums of money to the scam callers.

In 2014, SBA OIG checked agency records to determine whether DHS OIG case subjects held SBA loans. An initial check revealed that 13 suspects were believed to have obtained 23 SBA guaranteed loans, with approval dates ranging from 1990 to 2014. The disbursement amounts for all loans totaled \$16,384,918. In particular, the investigation found that a \$698,700 SBA guaranteed loan was approved in 2008 to a Wisconsin property management company. The loan's purpose was to fund a gas station owned by the Texas man and his wife, with the man listed as the loan's guarantor. Moreover, the loan officer worked with an Illinois bank and had been indicted for bank fraud in 2013.

The investigation identified the Texas man as a domestic manager for the scam who was responsible for directing runners' activities. At times, he provided runners with resources, such as vehicles and credit cards for travel expenses. He would often serve as a point of contact with the call center operators and payment processors in India, including negotiating his runner crew's payout of scammed funds. His wife was identified as a runner in the scheme. She would help purchase temporary general purpose reloadable (GPR) cards, forward the unique GPR card numbers to the payment processors so the cards could be registered, purchase money orders using GPR cards funded with fraud proceeds, retrieve cash payments of scammed funds via money transmitters such as Western Union and MoneyGram by using fake identification documents, and deposit scammed funds into bank accounts. In addition, over \$250,000 in scam proceeds were being laundered through the gas station that the couple owned.

The individuals in this enormous scheme caused hundreds of millions of dollars of victim losses throughout the United States. The scheme's design and the rapid movement of funds often resulted in victims being unable to report the fraud in time for their funds to be recovered. Over 15,000 known victims have been identified thus far, and approximately 50,000 individuals have had their identities misappropriated based on the unauthorized use of their personal information to register GPR cards used to move tele-fraud funds.

New Jersey Man Sentenced to Prison and Ordered to Pay Over \$4.3 Million in Penalties

A New Jersey man was sentenced in Federal court to serve 6 months in prison and 48 months of supervised release. He also was ordered to pay \$2,657,687 in restitution and to forfeit \$1,696,506. He previously had pled guilty to making false statements. The man had submitted to a bank an SBA loan application for \$1,750,000 and a commercial loan application for \$2,000,000, purportedly for restaurant financing. The SBA loan for \$1,750,000 and the commercial loan funds, for a total package of \$2,082,229, were disbursed. The loan terms required that the funds be used for construction, acquisition of machinery and equipment, and working capital. Instead, the man used the funds for

his benefit, including paying off gambling debts, sending money to family members, and paying a Federal tax bill. This investigation was conducted in conjunction with the Federal Bureau of Investigation (FBI) and the Special Inspector General for the Troubled Asset Relief Program (SIGTARP).

Missouri Man Sentenced to Prison and Ordered to Pay Over \$1.6 Million in Restitution

A St. Louis, Missouri, area entrepreneur was sentenced in Federal court to 30 months of imprisonment and 5 years of supervised release, and was ordered to pay \$1,675,495 in restitution. He previously had pled guilty to bank fraud and to making false statements to a financial institution in connection with his role in defrauding SBA and a bank. The investigation revealed that the man and others were involved in a scheme to obtain a \$2.9 million SBA loan through the use of straw companies and false business records. The false records included bogus manufacturing licenses, invoices, sales contracts, and false profit and loss statements, which were submitted to the lender to support a loan application from a purportedly viable lock manufacturing company owned by an unindicted co-conspirator. The co-conspirator previously had entered into a settlement agreement with the bank wherein he agreed to pay back \$1.8 million of misappropriated SBA loan proceeds.

The scheme caused the bank to approve and disburse the loan. Although the stated purpose of the SBA loan was for the manufacturing of locks and related expenses, the investigation determined that the entrepreneur diverted loan proceeds for his and for others' personal benefit. The investigation also determined that over \$600,000 of loan proceeds were used to pay delinquent debts of another company, which were unrelated to the manufacturing of locks. This investigation was conducted in conjunction with the FBI and Federal Deposit Insurance Corporation (FDIC) OIG.

Missouri Man Pleads Guilty to Fraud and Ordered to Pay \$262,000 in Restitution

The former owner of a Missouri machine and engineering firm pled guilty in Federal court to loan application fraud. The investigation revealed that he falsified financial documents in 2015 and 2016 to influence a Georgia bank to originate a \$1,744,000 SBA loan in connection with the sale of his firm to a couple who cashed in much of their retirement savings to purchase the business. The purchasers agreed to pay \$1,975,208 for the firm, which the investigation determined was an inflated business value based on altered bookkeeping. The owner had inflated his income by approximately \$583,827 prior to the sale of the business. The total loss resulting from his criminal conduct is estimated at \$1,347,608. Under the terms of his plea agreement, he must pay the purchasers of the firm \$262,000 in restitution for their closing costs and their cash infusion into the business. This investigation is being conducted in conjunction with the FBI.

California CEO to Serve 33 Months in Prison and to Pay Over \$5.7 Million in Restitution

The chief executive officer (CEO) and director of a California capital corporation was sentenced in Federal court to 33 months of imprisonment and 3 years of supervised release. He also was ordered to pay \$5,724,667 in restitution. The CEO had previously pled guilty to mail fraud.

According to the plea agreement, he admitted that he participated in a scheme to defraud and obtained money and property through false pretenses. The CEO obtained money from individuals who invested in funds controlled by his company by misrepresenting how he would use the money.

Specifically, the corporation managed a wholly owned subsidiary of one of its investment funds, which is an SBA small business lending program participant. The CEO and corporation failed to disclose to investors that they had improperly taken over \$7 million from the investment funds in loans and management fees, and caused the investment funds to record the amounts loaned as assets in the form of receivables. The “receivables” were actually unsecured loans. The corporation borrowed additional money from one of the investment funds to make interest payments on the receivables. In addition, the investment funds were not able to assess the collectability of these receivables.

Around June 2012, the corporation held over \$5.5 million in unsecured loans owed to the investment funds, and the CEO had made “Ponzi” payments to lull investors into a false sense of security by creating the appearance that the investment funds were engaging in successful debt financing, including SBA-guaranteed loans. In the process, the CEO diverted about \$2 million to his personal benefit. This is a joint investigation with the FBI.

New York Area Entrepreneur to Pay Over \$20.3 Million in Penalties

The owner of numerous businesses in and around New York and New Jersey was ordered in Federal court to pay an \$8 million forfeiture, \$11,265,098 in restitution to SBA and two banks, \$77,395 in restitution to the IRS, and a \$1 million fine. He also will serve 3 years of supervised release. The man previously had pled guilty to bank fraud, making a false statement in a tax return, and obstruction of justice (destroying evidence). Moreover, the United States intends to seek a forfeiture of property constituting, or derived from, proceeds resulting from his offenses.

The business owner engaged in bank fraud involving both SBA and non-SBA loans beginning around 2003, whereby he falsely minimized his ownership interests in numerous businesses. This allowed him and his partners to obtain more SBA and other loans than they would have otherwise qualified for. The owner also allegedly operated a Ponzi scheme, whereby he would use the proceeds of one business loan to finance the start-up of another business. The investigation was jointly conducted with SIGTARP and IRS Criminal Investigation.

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, to private non-profit organizations, to homeowners, and to 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 non-farm, private sector disaster losses. The program includes four categories of loans for disaster-related losses: (1) home disaster loans, (2) business disaster loans, (3) economic injury disaster loans, and (4) 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 in order to provide quick relief to disaster survivors, and disaster lending personnel, who are brought into the workforce quickly, may lack sufficient 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 to provide effective and efficient loan delivery and protect taxpayer dollars.

Audit of RISE Act Eligibility Controls

Report 18-09 presents the results of our audit of SBA's Recovery Improvements for Small Entities after Disaster Act of 2015 (RISE Act) eligibility controls. The RISE Act, enacted 3 years after Hurricane Sandy, reopened the Hurricane Sandy disaster loan application filing period for an additional 1-year period, and required OIG to review the controls for ensuring applicant eligibility for these loans. We audited a statistically valid sample of 26 of disbursed RISE Act loans to determine whether the borrowers were eligible based on statute, regulation, and Agency policy.

SBA did not establish controls to ensure that loss verifiers obtained documentary evidence of incurred costs prior to RISE Act loan approval when real estate already had been repaired. For 6 of 26 loans we reviewed, loss verifiers did not obtain receipts, invoices, and other documentation of incurred costs needed to support damage claims. As a result, SBA approved loans without sufficiently verifying damages and determining eligible loan amounts. Since some properties had been fully repaired, with no remaining physical damage to view, this documentary evidence was critical for determining the eligible loan amount. When projecting these results to the population of 640 disbursed loans, we estimate that proper controls were not applied to ensure that approximately 63 loans and disbursements of approximately \$415,579 were awarded in accordance with program requirements.

We also found that 5 of the 26 RISE Act disaster loans reviewed, totaling \$1,714,110, contained ineligible disbursements due to wrongful acts by borrowers or errors in loan processing. Three of these loans had indications of fraud or misapplied loan proceeds and were subsequently referred to our Investigations Division for review.

We provided two recommendations to improve SBA's management of the Disaster Assistance Program and to prevent loans to ineligible borrowers and protect against fraud. SBA management agreed to implement both recommendations and proposed actions sufficient to resolve the recommendations. (Access Report 18-09 at https://www.sba.gov/sites/default/files/oig/SBA_OIG_Report_18-09.pdf.)

Inspection of SBA's Initial Disaster Assistance Response to Hurricane Harvey

Report 18-10 presents the results of our inspection of the SBA's initial disaster assistance response to Hurricane Harvey, a Category 4 hurricane that made landfall August 25, 2017. It devastated much of southeastern Texas and affected residents of Louisiana, Mississippi, Tennessee, and Kentucky, impacting about 13 million people.

We evaluated SBA's response to Hurricane Harvey during the first 2 months following the disaster and found that overall, SBA's initial response to Hurricane Harvey was expeditious. Within 9 days after Hurricane Harvey was declared a disaster, SBA provided 33 staff for 2 Disaster Recovery Centers set up by the Federal Emergency Management Agency in Texas, and it independently opened a Business Recovery Center. By the end of October 2017, SBA's ODA had more than quadrupled its staff to 4,310 employees and had operated 84 recovery centers. As of November 2, 2017, ODA had served 60,694 Hurricane Harvey disaster survivors. Despite its quick initial response, due to the magnitude of the three successive hurricanes impacting the United States and its territories between August 25 and September 20, 2017, SBA was unable to meet all of its goals for disaster response.

Also, by the end of October, SBA had accepted 88,803 Hurricane Harvey loan applications; however, 21,571, or about 24 percent, were in a backlog, waiting to be processed. The high volume of loan applications received from all 3 disasters contributed to this backlog and resulted in a backlog for all 3, totaling 51,259 at the end of October, as well as a backlog of 11,565 damage loss verifications. By November 30, 2017, the number of Hurricane Harvey loans waiting to be processed was down to 7,066.

Lastly, we evaluated SBA's processing time data for Hurricane Harvey disaster loan applications with a loan approval or denial decision as of October 30, 2017. The average processing time was 17 days for applications that SBA was able to complete. When these computer-generated declines were included, the overall average processing time was 11 days. SBA has a goal to process disaster loan applications in 21–28 calendar days; however, because of the volume of loan applications in the backlog, we were unable to fully determine whether SBA met this goal. (Access Report 18-10 at https://www.sba.gov/sites/default/files/oig/SBA_OIG_Report_18-10.pdf.)

New Jersey Man to Pay Over \$190,000 in Restitution

A New Jersey man was sentenced in State court to non-custodial probation and ordered to pay \$190,213 in restitution. He had previously pled guilty to theft by deception for filing false applications to collect Federal relief funds after Superstorm Sandy. He claimed that his primary residence was located in a New Jersey city, when in fact it was a secondary home. The man must make full restitution of \$30,213 to the Federal Emergency Management Agency (FEMA), \$10,000 to the Homeowner Resettlement Program (RSP), and \$150,000 to the Reconstruction, Rehabilitation, Elevation, and Mitigation (RREM) Program. The latter two programs are funded by the U.S. Department of Housing and Urban Development (HUD) and administered by the New Jersey State Department of Community Affairs (DCA).

The man also applied for an SBA home disaster loan and was approved for \$107,400. At his request, the loan was never disbursed and was cancelled. This case was investigated jointly by the Superstorm Sandy Fraud Task Force comprised of SBA OIG, HUD OIG, DHS OIG, the New Jersey Division of Criminal Justice, and the New Jersey State DCA under the direction of the New Jersey Office of the Attorney General.

Investigation Results in Nearly \$400,000 Recovery on Disaster Loan

Because of an OIG investigation, SBA realized a \$399,419 administrative recovery when SBA's National Disaster Loan Resolution Center (NDLRC) received payment in full from a New York company for an SBA disaster business loan related to Superstorm Sandy. The firm had obtained a \$462,700 loan, which had been placed into default for over 2 years. The investigation disclosed a dispute between the business partners and that some loan proceeds had been misused.

Originally the firm's partners claimed to be returning most of the loan money and that the loan's collateral was being sold with sufficient equity to make SBA whole. However, the NDLRC contacted the OIG and explained that the partners never returned any loan proceeds. While each business partner blamed the other for taking loan proceeds, nobody was returning money to SBA, and the loan was in default.

After the U.S. Attorney's Office accepted the case, grand jury subpoenas yielded bank information showing that the partners withdrew approximately \$210,000 from the firm's account and that the proceeds were not used to rehabilitate or replace its property. The money was used to keep the partners afloat in violation of the loan agreement. This ongoing investigation is being worked with the U.S. Attorney's Office.

SBA Recovers Over \$273,000 on Disaster Loan Due to Investigation

SBA realized a \$273,819 administrative recovery when the SBA NDLRC received full payment from a New York man on an SBA disaster loan related to Superstorm Sandy.

The payment in full was made when the man learned of a possible investigation into his application for this loan. The recovery resulted from an OIG investigation that found he had made multiple material misrepresentations regarding his financial condition on his SBA disaster loan applications as well as on his “Build it Back, New York” grant application. “Build it Back” is a New York program to aid homeowners who suffered damage in Superstorm Sandy. Based on the false representations, the man obtained a \$312,700 SBA disaster loan.

SBA OIG notified SBA of the false application information, resulting in SBA placing the loan into liquidation. This case is being investigated jointly with the New York Hurricane Sandy Working Group, which includes SBA OIG, HUD OIG, FEMA, the Governor’s Office for Storm Recovery, and the New York City Department of Investigations.

New York Man Ordered to Pay Over \$265,000 in Restitution

A New York man was sentenced in Federal court to 6 months of home confinement and 3 years of supervised release, and was ordered to pay \$265,195 in restitution to SBA. He previously had pled guilty to making false statements. The man had made false statements to SBA when he applied for a Superstorm Sandy SBA disaster loan for his construction business. It was approved for a \$257,800 working capital loan, which later defaulted. He failed to disclose to SBA his firm’s outstanding Federal tax debt, a pending lawsuit by a labor union, and a judgment filed by the New York State Department of Labor. This investigation was conducted in conjunction with the U.S. Attorney’s Office.

Louisiana Woman Who Pled Guilty to Disaster Fraud Will Pay Restitution

A Louisiana woman pled guilty in Federal court to fraud in connection with a major disaster or emergency benefits. She had allegedly stolen another person’s identity and was approved for a \$20,900 loan in that person’s name for personal property loss sustained during a declared disaster in Oklahoma. The investigation concluded that the post office box and bank account listed on the SBA loan application for the victim was actually registered to the Louisiana woman. The plea includes \$20,900 in restitution. The investigation continues and 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 which 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 provides assistance to existing and prospective small businesses through a variety of counseling and training services offered by partner organizations. Among these partners are small business development centers (SBDCs), the 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 State Trade Expansion Program

Report 18-11 presents the results of our audit of the SBA's State Trade Expansion Program (STEP) with the objectives (1) to determine the extent to which STEP recipients measured program activity performance and the results of those measurements and (2) to review the overall management and effectiveness of STEP. The purpose of SBA's STEP is to make grants to states to carry out programs that assist eligible small business concerns in the state exploring significant new trade opportunities as established by the Trade Facilitation and Trade Enforcement Act of 2015.

We found that while SBA has made significant progress in improving the overall management and effectiveness of STEP since the audit of the pilot program in 2012, SBA needs to improve its

performance measures and its program oversight. Absent improving existing performance measurements and providing effective oversight to assist recipients with meeting their goals, SBA is at risk of not fully realizing the impact of the program in increasing the number of small businesses exploring significant new trade opportunities. The OIG made six recommendations to improve SBA's State Trade Expansion Program. SBA's management planned actions resolve five recommendations and one recommendation has been closed. (Access Report 18-11 at <https://www.sba.gov/sites/default/files/oig/SBA-OIG-Report-18-11.pdf>.)

Businesses and Owners to Pay \$480,000 in Civil Claims for Procurement Schemes

A Virginia small business and its owner agreed to pay \$400,000 to settle civil claims relating to a fraudulent scheme in which they falsely represented that the company qualified as a SDVOSB. In reality, the business was affiliated with a firm that sells tactical equipment. The small business, a supplier of goods for the military and law enforcement, also participated in an illegal bid collusion scheme with the tactical equipment firm.

Another business, a Virginia police supply store, and its owner agreed to pay \$80,000 to settle civil claims relating to a fraudulent scheme in which they falsely represented that the business qualified as a Section 8(a) company. In reality, the police supply store was controlled by a former 8(a) company and above tactical equipment firm. This matter is being jointly investigated with the U.S. General Services Administration (GSA) OIG and the Defense Criminal Investigative Service (DCIS). The U.S. Department of Justice and U.S. Attorney's Offices are overseeing the civil aspect of the case.

Washington State Firm to Pay \$280,000 in Settlement Agreement

Under a settlement agreement between the United States and a Washington State firm claiming to be a woman-owned small business, the firm will pay \$235,000 to the United States and \$45,000 to the company that originated allegations against the firm to cover attorney fees and costs.

In 2005, the U.S. Department of Energy (DOE) awarded a multibillion dollar, 10-year contract to a major contractor for the environmental restoration, cleanup, and closure of the Hanford Nuclear Site near the Columbia River Corridor. As part of the contract, the major contractor was required to implement a small business subcontracting plan in accordance with SBA requirements. A large subcontractor allegedly used the subject firm to obtain subcontracts otherwise restricted to small disadvantaged businesses but performed the actual work itself. The result was the submission of false claims for payment by the major contractor to DOE. The settlement agreement reached between the United States and the subject firm is not an admission of liability by the firm, nor is it a concession by the United States that its claims are not well founded.

Affiliated Firms' Officers to Settle Civil Claims Related to Procurement Schemes

Officers of various affiliated companies have agreed to pay the U.S. Government to settle civil claims. The violations of the False Claims Act usually resulted from a small company's improper affiliation with a large company. In addition, there were violations of SBA subcontracting limitations with

respect to small business set-aside contracts. The comprehensive settlements against the numerous co-conspirators include:

- An officer of a Georgia-based sanitation firm agreed to pay \$75,000 to the U.S. Government to settle civil claims relating to a fraudulent scheme to use a small business to improperly bid on and receive set-aside contracts for which the Georgia firm was not eligible. The small business provided training and shelter to the U.S. Military.
- A former Chief Financial Officer (CFO) and current Controller of the same Georgia firm agreed to pay \$75,000 to the U.S. Government for the same reason.
- The owner of a construction company agreed to pay \$10,000 to the U.S. Government to settle civil claims relating to its improper affiliation with the Georgia-based sanitation firm. The United States contends that, from December 2007 through September 2008, as a result of the improper affiliation, the owner presented, and conspired to present, false claims for payment to the U.S. Government in violation of the False Claims Act.
- A different owner of the same construction company agreed to pay \$15,000 to the U.S. Government for the same reason.
- A former CFO of the Georgia sanitation firm agreed to pay \$15,000 to the U.S. Government to settle civil claims relating to a fraudulent scheme to use two small businesses to improperly bid on and receive set-aside contracts for which the Georgia firm was not eligible. The United States contends that from September 2007 through September 2010, this CFO presented, and conspired to present, false claims for payment to the U.S. Government in violation of the False Claims Act. One of the small businesses provides training and shelter to the U.S. Military, and the other is a construction company.
- The owner of the small business providing training and shelter to the U.S. Military agreed to pay \$25,000 to the U.S. Government to settle civil claims relating to his company's improper affiliation with a large company that provides temporary structures for social and business events. The United States contends that, from January 2008 through June 2017, as a result of the improper affiliation with the large company, he presented, and conspired to present, false claims for payment to the U.S. Government in violation of the False Claims Act.

This matter is being jointly investigated with the DCIS, U.S. Army Criminal Investigation Command, and the Naval Criminal Investigative Service (NCIS). The U.S. Attorney's Office is overseeing the civil aspect of the case.

Guilty South Carolina Defendants to Pay \$500,000 Thus Far for Contracting Fraud

Six defendants and one company in South Carolina either pled guilty or were sentenced in Federal court on charges relating to a complex contracting fraud scheme. One individual was sentenced to 36 months of probation after having pled guilty to misprision of a felony. Two other individuals pled guilty to misprision of a felony. A fourth individual pled guilty to making false statements. A company and a fifth individual each pled guilty to conspiracy. The company was ordered to pay a \$500,000 fine and to serve 5 years of probation. The individual was sentenced to 2 years of incarceration and 3

years of supervised release. His forfeiture and fine will be determined at the conclusion of the civil case against him. Finally, a sixth person who created fictitious invoices pled guilty to wire fraud.

The charges stemmed from four separate but related schemes involving four companies other than the one previously mentioned. The indictment alleged that two individuals formed a firm and designated one of them as the majority owner in the firm's application to the 8(a) program. In fact, that firm was controlled at various times by the other individual and another man through his two businesses, one of which was ordered to pay the above mentioned \$500,000 fine. An accountant helped the defendants prepare false 8(a) annual updates. The updates failed to disclose the actual control of the firm by non-disadvantaged individuals.

The indictment also alleged that one of the above individuals and his wife, a service-disabled veteran, formed a second firm and designated her as the owner. The firm was in fact controlled and operated by the husband.

The couple allegedly submitted a false application to the Department of Veteran Affairs (VA) as well as to SBA to enable the second firm to receive Economically Disadvantaged Woman-Owned Small Business status.

Throughout the husband's control of these two firms, he transferred or caused to be transferred almost \$1.3 million dollars from them to an investment account used for his personal benefit. Both firms were subsequently controlled by another man after the husband withdrew from the two companies.

The new owner of the above firm allegedly caused the formation of a third firm and designated another person as the owner in order to obtain 8(a) certification. The defendants concealed the relationships between the third firm, its second owner, and his affiliated businesses.

Finally, the indictment alleges that the previously mentioned husband and another woman created a fourth firm. She used her employment with the first of the four firms to create a paper trail of fictitious jobs performed by the fourth firm as a subcontractor to the first firm. She then created fictitious invoices on behalf of the fourth firm for the purported work and submitted the fictitious invoices to a funding company. That company in turn purchased the fictitious accounts receivable through a factoring agreement and wired approximately \$2,672,700 to a bank account controlled by the defendants.

This case is being worked as a joint investigation with DCIS, U.S. Department of Agriculture OIG, U.S. Army Criminal Investigation Command, DOE OIG, U.S. Air Force Office of Special Investigations (AFOSI), and VA OIG.

West Virginia Men to Pay \$500,000 for Procurement Fraud

Two men were each sentenced to 3 years of probation and a \$250,000 money judgment. Both had previously pled guilty to conspiracy to commit wire fraud. Through an 8(a)-certified West Virginia

general contracting firm and numerous affiliated entities, they received over \$140 million of sole-sourced and set-aside Federal Government contracts. The two men, along with their accomplices, defrauded SBA by not disclosing the existence of the undisclosed affiliates.

In addition, a former co-owner of the firm pled guilty to producing false writings. She defrauded SBA by submitting false information on 8(a) application and annual review documents. The investigation continues in conjunction with the DCIS, FBI, VA OIG, and the U.S. Department of Labor OIG.

Georgia Firm and Individuals to Pay \$2 Million for Procurement Fraud

A Georgia-based 8(a) communications and engineering firm agreed to pay \$1.5 million to settle civil claims relating to a fraudulent scheme in which the firm's owner and a retired U.S. Army colonel conspired with others to use false claims and statements to gain admission to, and remain in, the 8(a) program in order to be awarded over \$20 million in Department of Defense set-aside contracts from 2010 to 2016. The owner also agreed to pay \$500,000 individually to settle civil claims after having pled guilty in Federal court for conspiracy to commit offenses against the United States. In addition, U.S. Army's Procurement Fraud Division formally suspended him from future contracting with any U.S. Government executive branch agency.

A second individual pled guilty to conspiracy to commit offenses against the United States. The U.S. Army's Procurement Fraud Division suspended him and his research business from future contracting with any U.S. Government executive branch agency.

Likewise, the U.S. Army's Procurement Fraud Division also formally suspended a second U.S. Army colonel, his wife, and her business from future contracting with any U.S. Government executive branch agency.

The investigation showed that, beginning in 2008 and lasting almost a decade, the second colonel conspired with his wife and others to solicit and to accept bribes in exchange for rigging the award of over \$20 million in U.S. Army and private company contracts to the 8(a) communications and engineering firm.

Before the 8(a) firm's owner retired from active duty, he established the firm with the plan to obtain 8(a) status and to have the second colonel steer contracts to it in exchange for bribes. The second colonel provided the owner and another individual with internal, confidential, and proprietary U.S. Army contract information, and signed sole source justifications to ensure the future 8(a) firm was awarded U.S. Army contracts and remained the prime contractor. In addition, the second colonel and his wife used a shell company to funnel and conceal the bribe payments from the 8(a) firm owner. The second individual listed above fraudulently arranged for employees of other government contracting firms to perform work awarded to the 8(a) firm, since it had no employees other than the owner.

Beginning in early 2009, the owner of the future 8(a) firm applied for 8(a) status. He and another individual prepared fraudulent documents for SBA as part of the firm's 8(a) application. Specifically,

the firm's fraudulently obtained contracts, along with false invoices for work done by non-existent employees, were submitted to SBA as proof of the past business performance. The firm obtained 8(a) status in July 2010 and began receiving contracts as a result of the conspiracy.

The conspiracy continued until an ongoing investigation by law enforcement agents became overt in late 2015. Upon realizing this, the defendants conspired to make false statements to government agents and to provide fraudulent invoices claiming services on behalf of the 8(a) firm as a subcontractor to the woman's business. Finally, the second colonel knowingly made false statements when he represented that he had not received any income from prohibited sources such as the 8(a) firm and its owner. This is an ongoing joint investigation with DCIS and the U.S. Army Criminal Investigation Command.

Maryland Man Sentenced to Prison and Ordered to Pay over \$231,000 in Restitution

The former director of demolition for a Maryland construction firm was ordered to pay \$231,404 in restitution after having been sentenced to 18 months of imprisonment and 36 months of supervised release. He previously had pled guilty to making false statements. His guilty plea was in connection with a scheme to defraud the Government under the 8(a) program.

The investigation disclosed that a certified 8(a) small business was awarded a Department of the Air Force contract at Joint Base Andrews (JBA) in Maryland. The 8(a) small business entered into a pass-through arrangement with the construction firm whereby that firm performed the majority of the contract work. In return, the construction firm paid the 8(a) business a fee for passing the contract to the construction firm. The former director prepared the construction firm's false invoices that were submitted to the 8(a) business for the JBA contract. In addition, he prepared the 8(a) business' false invoices that were submitted to the Air Force for the same contract. The investigation was conducted jointly with the AFOSI, DCIS, U.S. Army Criminal Investigation Command, and GSA OIG.

Utah Firms to Pay \$1.65 Million in Settlement Agreements

A large Utah construction corporation executed a civil settlement agreement with the U.S. Attorney's Office (USAO) and the Department of Justice regarding allegations that the corporation violated the False Claims Act. The \$1.5 million global settlement includes \$1,062,900 to resolve allegations about the corporation's exploitation of the HUBZone and 8(a) programs. The settlement also includes \$437,100 to resolve allegations for violations of program regulations within Idaho.

Another civil settlement agreement was executed between a second Utah construction firm and the USAO, again regarding alleged violations of the False Claims Act. The \$150,000 settlement resolves allegations regarding the second firm's collaboration with the large corporation for exploiting the above two programs.

In 2011, a qui tam action (i.e., an action brought by a private party on the government's behalf) alleged violations of the False Claims Act. The investigation revealed that the large corporation violated HUBZone and 8(a) requirements pertaining to work performance percentages and to

affiliation with small businesses through Federal contracts awarded under the two programs from July 2009 to June 2013. The allegations identify the corporation's implementation of leasing agreements with the second firm, under which the corporation provided personnel to various small businesses to substantially perform work on set-aside U.S. Army contracts. These actions failed to comply with HUBZone or 8(a) regulatory requirements.

Allegations also identified the large corporation's implementation of leasing agreements with a third construction firm, one that is 8(a) and HUBZone certified. The large corporation again provided personnel under the agreements to substantially perform set-aside National Park Service and Department of Labor contracts; such actions failed to comply with SBA requirements. This is a joint investigation with the U.S. Army Criminal Investigation Command.

Utah Business Owner Pleads Guilty and Will Forfeit \$640,000

The owner of a Utah business pled guilty in Federal court to wire fraud and to one count of money laundering. He also agreed to forfeit \$640,000 in connection with the offenses.

The investigation disclosed that the owner formed the company in 2009 and identified his father-in-law, a service-disabled veteran, as the 51 percent owner and president. From 2009 through 2015, the owner certified the business with VA and the System for Award Management as an SDVOSB. However, the owner's father-in-law had a significantly diminished mental capacity, thus rendering him incapable of controlling the managerial and day-to-day operations of the business. During this period, the business was operated by the owner and received SDVOSB set-aside contracts totaling over \$16 million. As such, the owner falsely represented the business as an SDVOSB, and the business was awarded set-aside contracts to which it was not entitled.

This is a joint investigation with the DCIS, VA OIG, GSA OIG, IRS Criminal Investigation, U.S. Army Criminal Investigation Command, NCIS, and FBI.

California Firm Agrees to Pay Over \$11.4 Million in Restitution

A California technology firm entered into a settlement agreement with the United States, acting through the U.S. Department of Justice and on behalf of U.S. Departments of the Navy, the Army, and the Air Force concerning SBA Small Business Innovation Research (SBIR) contracts. As part of the agreement, the firm agreed to pay the United States \$11,413,438 in restitution.

According to the agreement, the United States contends that the firm was ineligible for SBIR awards because it was a majority-owned subsidiary of a global broadband services and technology company. The United States also contends that, from January 2008 through January 2015, the California firm (1) falsely certified its eligibility to receive SBIR contract awards, and (2) submitted claims for payment that the United States contends were false. The agreement is neither an admission of liability by the firm nor a concession by the United States that its claims are not well founded.

Originally the firm submitted a letter in 2015 to the U.S. Government disclosing the discovery of an “inadvertent error” made in determining the firm’s ownership and control for obtaining SBIR contracts. The letter stated the firm had received several SBIR contracts when it may not have been eligible. It had been awarded 38 contracts between September 2008 and October 2014 totaling approximately \$15,822,933. Under the SBIR Program, the firm was required to self-certify representations made to the U.S. Government in order to compete for and to win SBIR contracts. This case was worked jointly with the NCIS, DCIS, AFOSI, and the U.S. Army Criminal Investigation Command.

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 Accountants' Report on SBA's Compliance With the DATA Act

OIG contracted with the independent certified public accounting firm KPMG LLP (KPMG) to perform an attestation engagement as required by the Digital Accountability and Transparency Act of 2014 (DATA Act). The objectives of this engagement were to assess (1) the completeness, timeliness, accuracy, and quality of SBA's FY 2017, second quarter financial and award data submitted for publication on USASpending.gov, and (2) SBA's implementation and use of the Government-wide financial data standards established by the Office of Management and Budget and the U.S. Department of the Treasury. KPMG conducted the engagement in accordance with attestation standards established by the American Institute of Certified Public Accountants, the standards applicable to attestation engagements contained in the U.S. Government Accountability Office's Government Auditing Standards, and guidance issued in the U.S. Department of the Treasury Office of Inspector General's publication, *Inspectors General Guide to Compliance Under the DATA Act* (the Guide).

The independent accountants' report presents a modified opinion on SBA's FY 2017, second quarter data submission required under the DATA Act. Specifically, KPMG reported that

- the data submission was presented in accordance with the characteristics defined in the Guide, in all material respects, except for accuracy, and
- there is a material weakness related to SBA's controls over the accuracy of data reported on USASpending.gov.

Details regarding KPMG's conclusions are included in Exhibit I to this report. The auditors did not report any instances or matters regarding noncompliance. (Access Report 18-02 at https://www.sba.gov/sites/default/files/oig/SBA_OIG_Report_18-02a.pdf.)

Independent Auditor's Report on SBA's FY 2017 Financial Statements

We contracted with the independent certified public accounting firm KPMG LLP (KPMG) to audit the SBA's consolidated financial statements for FY 2017, ending September 30, 2017. This audit is an annual requirement of the Chief Financial Officers Act of 1990, and was conducted in accordance with generally accepted government auditing standards; the Office of Management and Budget Bulletin No. 17-03, *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 presents an unmodified opinion on SBA's consolidated financial statements for FY 2017. Specifically, KPMG reported that

- the financial statements were fairly presented in all material aspects in conformity with U.S. generally accepted accounting principles;
- there were no material weaknesses in internal control;
- there is a significant deficiency related to monitoring controls over the Secondary Market Guaranty Program;
- there is also a significant deficiency related to SBA's information technology security controls, which has been identified in the past; and
- there is one instance of noncompliance with laws and regulation related to the Debt Collection Improvement Act of 1996.

Details regarding KPMG's conclusions are included in the "Compliance and Other Matters" section and Exhibit I of this report. (Access Report 18-03 at https://www.sba.gov/sites/default/files/oig/Independent_Auditors_Report_on_SBAs_FY_2017_Financial_Statements_508.pdf.)

Independent Auditors' Report on SBA's FY 2017 Special-Purpose Financial Statements

We contracted with the independent certified public accounting firm KPMG LLP (KPMG) to audit SBA's consolidated financial statements for FY 2017, ending September 30, 2017. The independent auditor's report presents an unmodified opinion on SBA's special-purpose financial statements for FY 2017. Specifically, KPMG reported that the statements present SBA's financial position for FY 2017 fairly in all material respects. Also, the results of operations and the changes in net position for the period are in accordance with U.S. generally accepted accounting principles, and the presentation is in conformance with the requirements of the Office of Management and Budget Circular No. A-136, Financial Reporting Requirements, and the U.S. Department of the Treasury's Treasury Financial Manual, Part 2, Chapter 4700.

As requested, the following documents also were provided:

1. GTAS Reclassified Financial Statements
2. GF005G GTAS Closing Package Lines Loaded Report (Federal Trading Partner Data)
3. Agency Financial Report to Closing Package Reconciliation Template
4. GF006G FR Notes Report
5. GF007F Other Data Report
6. Closing Package Additional Note
7. Management Representation Letter on the Closing Package (no uncorrected misstatements)
8. Management Representation Letter on the Audited Financial Statements (no uncorrected misstatements)

This report does not include any recommendations. (Access Report 18-04 at https://www.sba.gov/sites/default/files/oig/SBA_OIG_Report_18-04.pdf.)

SBA's FY 2016 and FY 2017 Cash Contributions and Gifts

The Consolidated Appropriations Acts of 2016 and 2017 (the Acts) 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. The Administrator may provide assistance for the benefit of small business through Agency-sponsored activities, through cosponsored activities with any eligible entity, or through such other activities that the Administrator determines to be appropriate, including recognition events.

Our evaluation found that SBA complied with the Acts when holding cash by depositing \$105,236.99 to the Business Assistance Trust Fund and making it available to program offices for expenditure. However, SBA could improve its controls over the processes for soliciting and accepting cash contributions, and for utilizing gift funds. Specifically, we noted exceptions regarding the vetting of cosponsors and performing the conflict of interest determinations, complying with SBA and Federal guidance when utilizing gift funds, and tracking gift funds that were allotted to the program offices. The report contains three recommendations that the Agency agreed to implement. (Access Report 18-05 at https://www.sba.gov/sites/default/files/oig/SBA_OIG_Report_18-05.pdf.)

Review of SBA's Implementation of the Federal Information Technology Reform Act

Report 18-06 summarizes the results of our review of the Federal Information Technology Acquisition Reform Act (FITARA).

Our objective was to assess the Agency's progress in implementing the objectives of FITARA as outlined in Office of Management and Budget Memorandum M-15-14, Management and Oversight of Federal Information Technology. The scope of our analysis included assessing the Agency's progress in implementing critical components of FITARA from October 2015 to June 2017. SBA identified implementation of FITARA as integral to meeting its strategic goal of implementing and maintaining modern, secure, and reliable information technology (IT) systems and services.

We found that although SBA has made progress in implementing FITARA, it needs to consistently establish performance baselines for its IT investments and update system development guidance to reflect current project implementation methodologies. Additionally, it needs to fully deploy a strategy to implement enterprise architecture and to implement an IT workforce planning process. We provided six recommendations to improve implementation of FITARA. (Access Report 18-06 at https://www.sba.gov/sites/default/files/oig/SBA_OIG_Report_18-06.pdf.)

KPMG Management Letters Communicating Matters Relative to SBA's FY 2017 Financial Statement Audit and DATA Act Attestation Engagement

We contracted with the independent certified public accounting firm KPMG LLP (KPMG) to audit SBA's consolidated financial statements for FY 2017, ending September 30, 2017, and to perform an attestation engagement regarding SBA's FY 2017 second quarter submission, in accordance with the Digital Accountability and Transparency Act of 2014 (DATA Act).

The management letters represent matters that were identified during the respective engagements. Specifically, KPMG reported that

- there were inadequate reviews of time and attendance reports for the financial statement audit (see Exhibit I), and
- improvement was needed in information technology general and application controls related to the DATA Act (see Exhibit II).

In the management letters, KPMG addressed recommendations to the Chief Human Capital Officer and to the Chief Information Officer in coordination with SBA program offices. We provided a draft of KPMG's findings to each of these officials or their designees, who fully or substantially concurred with the findings relative to their respective areas. The officials or designees agreed to implement the recommendations, or they already have taken action to address the underlying conditions. (Access Report 18-08 at https://www.sba.gov/sites/default/files/oig/SBA_OIG_Report_18-08.pdf.)

Audit of the Accuracy of the FY 2015 Disaster Loan Program Improper Payments Rate

Report 18-12 presents the results of our audit of SBA's FY 2015 improper payments rate for the Disaster Loan Program. The Improper Payments Elimination and Recovery Act of 2010 and related legislation require agencies to annually report statistically valid estimates of their improper payments, and Inspectors General to annually determine agency compliance with key criteria in the Act.

We found that SBA did not detect all improper payments when conducting improper payment reviews to estimate its FY 2015 rate for the Disaster Loan Program. Consequently, they understated the FY 2015 improper payments rate for the Disaster Loan Program. SBA reported improper payments of \$24.6 million, or 8.13 percent, of the \$302.3 million in disaster loans disbursed during the year. We determined the improper payment rate to be at least 9.89 percent, or \$29.9 million. Our audit of a statistical sample of 31 loans identified 10 improper payments totaling \$1,698,700, while SBA's review of the same loans resulted in 4 identified improper payments, totaling \$650,200.

We found that SBA's review did not detect all improper payments because the review guidance used by Quality Control (QC) staff excluded relevant laws and regulations, the QC staff did not always follow the standard operating procedure, management overturned identified improper payments without clear justification, and QC staff did not consider relevant documents in the loan file if they were dated after loan disbursement. We also determined that SBA did not include all detected

improper payments in its rate calculation. Consequently, SBA did not accurately report and assess the risk of improper payments in the program and could not establish appropriate reduction targets or properly implement corrective actions to reduce improper payments and enhance program integrity.

We provided four recommendations to improve SBA's accuracy in reporting the estimated improper payments rate for the Disaster Loan Program. (Access Report 18-12 at <https://www.sba.gov/sites/default/files/oig/SBA-OIG-Report-18-12.pdf>.)

Weaknesses Identified During the FY 2017 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 LLP (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 2017. We also assessed the Agency's progress in implementing open recommendations and compared our current year assessment with our FY 2016 FISMA evaluation. In addition to the 17 open FISMA recommendations noted in Appendix II, OIG made 11 new recommendations to address FISMA-related vulnerabilities. SBA fully agreed with all 11 recommendations. (Access Report 18-14 at <https://www.sba.gov/sites/default/files/oig/SBA-OIG-Report-18-14.pdf>.)

Improvement Needed in the Accuracy of SBA Data Reported on USASpending.gov

This advisory memorandum serves to elevate issues that KPMG LLP (KPMG) identified during their attestation examination related to the timeliness, completeness, and accuracy of SBA's FY 2017 second quarter submission under the Digital Accountability and Transparency Act of 2014 (DATA Act). In its report, KPMG reported that there was a material weakness related to SBA's controls over the accuracy of data reported on USASpending.gov. To facilitate control improvements, as well as ensure the exceptions (or errors) identified in KPMG's report are remediated, OIG is issuing this advisory memorandum. To remediate identified control issues, we initiated 14 recommendations that SBA management agreed to address. (Access Report 18-15 at <https://www.sba.gov/sites/default/files/oig/SBA-OIG-Report-18-15.pdf>.)

SBA Employee Resigns While Under Investigation

An SBA correspondence analyst resigned from his position while under investigation. He was investigated for possession of illegal recordings made on Federal property. The individual had previously been suspended for 30 days without pay for refusing to cooperate with an OIG investigation.

Investigation Results in SBA Employee's Removal

A construction analyst for SBA's Office of Disaster Assistance was removed from his position for providing false information on the U.S. Office of Personnel Management's (OPM's) "Declaration for Federal Employment" personnel security form at the time of hiring.

An OIG investigation determined that the U.S. Border Patrol had arrested him on drug-related charges in August 2017, and he was subsequently turned over to the New York State Police. In September 2017, he electronically signed the OPM form indicating that he was not currently under any charges for any violation of law. He also physically signed the OPM form in October 2017. The investigation confirmed that the charges were still open and pending at the time of these declarations and that they should have been disclosed to SBA for consideration in his hiring.

Other Significant OIG Activities

OIG Background Investigations Ensure Integrity

During this reporting period, OIG initiated 13 background investigations and issued 5 security clearances for OIG employees and contractors. Moreover, OIG adjudicated 21 background investigative reports. Finally, OIG processed 2,015 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, suggested administrative record (evidence supporting the case), and a draft notice of suspension or proposed debarment in certain instances. Most OIG administrative referrals involve SBA’s loan and contract programs. OIG ensures 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 68 of these present responsibility referrals to SBA and had 12 actions taken based upon referrals to other agencies. (See the Statistical Highlights section of this report for additional suspension and debarment results.) A representative sample of matters referred to suspension and debarment officials follows:

Suspension for Redirecting Loan Funds to a Cannabis Shop. The SBA suspended a business owner from all procurement and nonprocurement transactions with the Federal Government following an OIG present responsibility referral. SBA OIG referred the business owner and several companies to the Suspending Official based on state criminal charges against that owner for Theft in the First Degree. The state charges alleged the owner used proceeds from an SBA guaranteed loan in connection with a cannabis shop without disclosing this intended use to the originating bank. Businesses engaged in illegal activity are ineligible to receive an SBA guaranteed loan. SBA loans are, therefore, not available to fund cannabis businesses.

Potential Misrepresentation of Excessive Withdrawals. SBA OIG audit work uncovered several potential misrepresentations in connection with an 8(a) Business Development participant’s response to a proposed early graduation from the program. These misrepresentations were material and could likely have influenced the Agency’s decision regarding the permissible withdrawals for an 8(a) Business Development participant. Accordingly, the OIG made a present responsibility referral in February 2018. Agency action on this referral is pending.

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 and deter waste, fraud, or abuse. During the reporting period, OIG reviewed 56 proposed revisions of these program directives and submitted comments designed to improve 20 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 an 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 of 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 1,352 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 2015, the OIG whistleblower ombudsman met the requirements of the Office of Special Counsel's 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 certification requirements, the whistleblower ombudsman provided comprehensive whistleblower

information packets to all field and headquarters management officials and advised all employees on protections against whistleblower retaliation and other prohibited personnel practices.

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

Statistical Highlights

Summary of OIG Dollar Accomplishments

Dollar Accomplishments As a Result of Investigations and Related Activities	
Potential Investigative Recoveries & Fines	\$41,068,641
Asset Forfeitures Attributed to OIG Investigations	\$14,776,770
Loans/Contracts Not Approved or Canceled as a Result of Investigations	\$727,039
Investigations Subtotal	\$56,572,450
Dollar Accomplishments As a Result of Audit Activities	
Disallowed Costs Agreed to by Management	\$142,786,806
Recommendations that Funds Be Put to Better Use Agreed to by Management	0
Audit Subtotal	\$142,786,806
Total OIG Dollar Accomplishments	\$199,359,256

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

Reports Issued	15
Recommendations Issued	76
Dollar Value of Costs Questioned	\$4,376,268
Dollar Value of Recommendations that Funds be Put to Better Use	\$0
Recommendations for which Management Decisions Were Made	89
Recommendations Without a Management Decision	1
Collections as a Result of Questioned Costs	\$2,746,788

Indictments, Convictions, and Case Actions

Indictments from OIG Cases	21
Convictions from OIG Cases	18
Cases Opened	36
Cases Closed	34

SBA Personnel Actions Taken as a Result of Investigation

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

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

Present Responsibility Referrals to the Agency	68
Pending at the Agency as of March 31, 2018	30
Suspensions Issued by the Agency	19
Proposed Debarments Issued by the Agency	19
Final Debarments Issued by the Agency	16
Proposed Debarments Declined by the Agency	0*
Administrative Agreements Entered by the Agency in Lieu of Debarment	1
Present Responsibility Actions by Other Agencies	12

*OIG does not count matters where the SBA has ceded lead agency as declinations.

Agency Legislative and Regulatory Proposals Reviewed

Legislation, Regulations, Standard Operating Procedures, and Other Issuances Reviewed	56
Comments Provided by OIG to Improve Legislation, Regulations, Standard Operating Procedures, and Other Issuances	20

Reports Issued

Disaster Assistance Programs

Title	Report Number	Issue Date	Questioned Costs	Funds for Better Use
Audit of RISE Act Eligibility Controls	18-09	1/19/2018	\$2,129,689	\$0
Inspection of SBA's Initial Disaster Assistance Response to Hurricane Harvey	18-10	1/19/2018	\$0	\$0
Audit of the Accuracy of the FY 2015 Disaster Loan Program Improper Payments Rate	18-12	2/13/2018	\$0	\$0
Program Subtotal	3	—	\$2,129,689	\$0

Agency Management

Title	Report Number	Issue Date	Questioned Costs	Funds for Better Use
Report on the Most Serious Management and Performance Challenges Facing the Small Business Administration in Fiscal Year 2018	18-01	10/12/2017	\$0	\$0
Independent Accountants' Report on SBA's Compliance with the DATA Act	18-02	11/8/2017	\$0	\$0
Independent Auditor's Report on the SBA's FY 2017 Financial Statements	18-03	11/14/2017	\$0	\$0
Independent Auditors' Report on SBA's FY 2017 Special-Purpose Financial Statements	18-04	11/15/2017	\$0	\$0
SBA's FY 2016 and 2017 Cash Contributions and Gifts	18-05	11/20/2017	\$0	\$0
Review of SBA's Implementation of the Federal Information Technology Acquisition Reform Act (FITARA)	18-06	11/28/2017	\$0	\$0
KPMG Management Letters Communicating Matters Relative to the U.S. Small Business Administration's (SBA's) FY 2017 Financial Statements and DATA Act Attestation Engagement	18-08	12/18/2017	\$0	\$0
Audit of SBA's State Trade Expansion Program.	18-11	1/29/2018	\$0	\$0
Weaknesses Identified During the FY 2017 Federal Information Security Modernization Act (FISMA) Review	18-14	3/20/2018	\$0	\$0
Improvement Needed in the Accuracy of SBA Data Reported on USASpending.gov	18-15	3/20/2018	\$0	\$0
Program Subtotal	10	—	\$0	\$0

Credit/Capital Programs

Title	Report Number	Issue Date	Questioned Costs	Funds for Better Use
Accuracy of the FY 2015 7(a) Loan Guaranty Purchase Improper Payments Rate	18-07	12/11/2017	\$2,246,579	\$0
Evaluation of SBA 7(a) Loans Made to Poultry Farmers	18-13	3/6/2018	\$0	\$0
Program Subtotal	2	—	\$2,246,579	\$0

Reports With Questioned Costs

	Reports	Recommendations*	Questioned Costs**	Unsupported Costs***
A. No management decision made by October 1, 2017	4	10	\$138,410,538	\$138,116,913
B. Issued during this reporting period	2	8	\$4,376,268	\$2,662,158
Subtotal (Universe from which management decisions could be made in this reporting period)	6	18	\$142,786,806	\$140,779,071
Management decisions made during this reporting period	6	18	\$142,786,806	\$140,779,071
(i) Disallowed costs	6	18	\$142,786,806	\$140,779,071
(ii) Costs not disallowed	—	—	—	—
D. No management decision made by March 31, 2018	0	0	—	—

* Reports may have more than one recommendation.

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

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

Reports With Recommendations That Funds Be Put to Better Use

		Reports	Recommendations	Recommended Funds For Better Use
A.	No management decision made by October 1, 2017	—	—	—
B.	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, 2018	—	—	—

Reports From Prior Periods With Open Recommendations as of March 31, 2018

Report Number	Title	Date Issued	Number of Open Recommendations	Aggregate Potential Cost Savings
12-04	Small Business Administration's Rationale for Excluding Certain Types of Contracts from the Annual Small Business Procurement Calculations Needs to be Documented	12/6/2011	4	—
13-03	Benefits of Mentor Protégé Joint Ventures are Unknown: Robust Oversight is Needed to Avoid Abuse and Assure Success	10/23/2012	3	—
14-12	Weaknesses Identified During the FY 2013 Federal Information Security Management Act Review	4/30/2014	1	—
15-07	Weaknesses Identified During the FY 2014 Federal Information Security Management Act Review	3/13/2015	1	—
15-16	SBA Needs to Improve Its Oversight of Loan Agents	9/25/2015	4	—
16-02	Independent Auditors' Report on the SBA's FY 2015 Financial Statements	11/16/2015	1	—
16-10	Weaknesses Identified During the FY 2015 Federal Information Security Management Act Review	3/10/2016	1	—
16-13	SBA's 8(a) Business Development Program Eligibility	4/7/2016	1	—
17-03	Independent Auditors' Report on the SBA's FY 2016 Financial Statements	11/14/2017	1	—
17-09	Audit of New York Small Business Center's Phase 2 Technical Assistance Grant	3/31/2017	2	\$54,827
17-10	The SCORE Association's Disaster Technical Assistance Grant	3/31/2017	8	\$238,798
17-11	Review of SBA's State Trade and Export Promotion Grant Program	5/4/2017	1	—
17-14	Weaknesses Identified During the FY 2016 Federal Information Security Modernization Act Review	6/15/2017	4	—
17-15	Reassessment of Eligibility Requirements for 30 Firms in SBA's 8(a) Business Development Program	7/17/2017	3	—
17-16	Review of SBA's Pay Setting Practices for Senior Executive Service Salary Increases	8/15/2017	4	\$19,277
17-18	The OIG High Risk 7(a) Loan Review Program	9/28/2017	1	\$917,107
17-19	Audit of SBA's Microloan Program	9/28/2017	4	\$137,199,806
	Total		44	\$138,429,815

Significant Recommendations From Prior Reporting Periods Without Final Action as of March 31, 2018

Report Number	Date Issued	Recommendation	Date of Management Decision	Final Action Target Date
12-04	12/6/2011	Revise the Goaling Guidelines for the Small Business Preference Programs to include contracts awarded and/or performed overseas in the small business goaling baseline beginning with FY 2011.	9/23/2015	11/30/2015
13-03	10/23/2012	Develop specific, measurements (outputs and outcomes) to evaluate benefits of the joint venture agreements to protégé.	1/24/2013	9/30/2013
15-16	9/25/2015	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.	Overdue	Target Date Not Established
15-16	9/25/2015	Implement a process using permissible information to uniquely identify loan agents involved with SBA lending programs for tracking purposes.	7/27/2017	6/7/2018
16-02	11/16/2015	Improve SBA's administration of logical system access by taking the following actions: implement an effective off-boarding process, and periodically verify that controls to remove logical access for separated employees are implemented and operating as designed; establish a process for the identification and removal of separated contractors to help ensure that access is timely removed upon contractor separation; and timely remove access to general support systems and major applications (including development and test environments) when employees and contractors are terminated.	2/24/2016	3/31/2018
16-13	4/7/2016	Update policy to require the AA/BD and OCE's director to clearly document their justification for approving or denying applicants into the 8(a) Program, particularly when those decisions differed from lower-level recommendations.	4/7/2016	10/31/2016
17-03	11/14/2016	Address the existing configuration and patch management vulnerabilities noted during our assessment to be in compliance with SBA policies. In addition, implement procedures to ensure the consistent implementation and monitoring of SBA approved security configuration baselines across SBA's workstations, servers, databases, network devices, and other security relevant appliances.	3/31/2017	9/30/2018

Report Number	Date Issued	Recommendation	Date of Management Decision	Final Action Target Date
17-09	3/31/2017	Recover \$51,985 from NYSBDC for unallocable personnel costs directly charged to the Hurricane Sandy technical assistance grant.	3/13/2018	9/30/2018
17-10	3/31/2017	Develop and implement policies and procedures to ensure: <ul style="list-style-type: none"> a. SCORE provides quarterly financial and performance reports as dictated in the NoA. b. Future disaster grants awarded to SCORE are issued separate from SCORE's core award to ensure the grant award is reported on separately by SCORE and monitored separately by SBA. 	4/5/2017	9/1/2017
17-10	3/31/2017	Develop and implement policies and procedures to ensure: <ul style="list-style-type: none"> a. The reallocation of funds between budget cost categories is assessed for the percentage of increases and decreases on a quarterly basis. b. The SCORE volunteer program uses current standards for internal control in the Federal Government as a guide. c. SBA personnel conduct grant closeout procedures for SCORE's disaster grants. d. SCORE submits copies of proposed contracts to SBA for approval before executing the contracts. 	4/5/2017	9/1/2017
17-11	5/4/2017	We recommend that the Chief Financial Officer, the Deputy Associate Administrator for the Office of International Trade, and the Chief Operating Officer collaboratively: Implement corrective actions to ensure consistency in financial reporting within SBA.	5/4/2017	8/30/2018
17-14	6/15/2017	Establish detailed policies and procedures regarding data exfiltration and implement a robust data exfiltration program across the agency.	6/13/2017	6/1/2018
17-14	6/15/2017	Implement data rights management capabilities in order to secure sensitive data.	6/13/2017	12/31/2018
17-14	6/15/2017	Where feasible, implement an automated mechanisms tool and file integrity checking that are configured for aggregation/analysis of log data and to detect changes to significant files, respectively. Additionally, update the incident response plan to include procedures for using such automated capabilities.	6/13/2017	6/30/2018

Report Number	Date Issued	Recommendation	Date of Management Decision	Final Action Target Date
17-15	7/17/2017	We recommend that the Associate Administrator for the Office of Government Contracting and Business Development: Conduct continuing eligibility reviews for the 10 firms we identified with unresolved eligibility concerns.	7/18/2017	6/30/2018
17-16	8/15/2017	Update SOP 39 20 2A, Senior Executive Service, to include policies and procedures to ensure compliance with Federal rules and regulations governing performance management systems, to include specific guidance on MRP increases and 12-month rule violations.	8/15/2017	12/30/2017
17-18	9/28/2017	Require Wells Fargo to bring the loan into compliance, and, if not possible, seek recovery of \$917,107, plus interest, on the guaranty paid by the SBA for the loan.	12/19/2017	9/21/2018
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	9/20/2019
17-19	9/28/2017	Develop and implement a site visit plan to comprehensively monitor microloan portfolio performance and ensure program results can be evaluated program-wide.	1/4/2018	9/30/2018
17-19	9/28/2017	Update SOP 52 00A to clarify requirements regarding evidence for use of proceeds and credit elsewhere.	1/4/2018	9/30/2018
17-19	9/28/2017	Update the microloan reporting system manual to reflect current technology capabilities.	1/4/2018	9/30/2018

Significant Recommendations From This Reporting Period

Report Number	Title	Date Issued	Recommendation
18-02	Independent Accountants' Report on SBA's Compliance with DATA Act Reporting	11/8/2017	KPMG recommends that the Senior Accountable Official in coordination with the respective SBA grant and officials, design and implement control activities over the input of financial and award spending data into relevant source systems.
18-02	Independent Accountants' Report on SBA's Compliance with DATA Act Reporting	11/8/2017	KPMG recommends that the Senior Accountable Official in coordination with the respective SBA grant and officials, provide training and detailed guidance to responsible individuals who enter information into source systems that feed the submission. This guidance should include the definition of the standardized data elements and underlying categories, to ensure the correct type of data value is selected when award information is input into the systems.
18-03	Independent Auditor's Report on the SBA's FY 2017 Financial Statements	11/14/2017	We recommend that the Associate Administrator for Capital Access in consultation with the Chief Financial Officer, enhance SBA's complementary controls regarding the Secondary Market Guaranty program and relevant processes at the FTA. This process should be refined to include a more thorough review and analysis of the FTA's systems and data inputs used for the liability for loan guaranty reestimate.
18-03	Independent Auditor's Report on the SBA's FY 2017 Financial Statements	11/14/2017	We recommend that the Associate Administrator of the Office of Capital Access work with the loan servicing center directors and assess processes to timely enter charge-offs within a reasonable timeline, to ensure compliance with the DCIA.
18-03	Independent Auditor's Report on the SBA's FY 2017 Financial Statements	11/14/2017	We recommend that the Associate Administrator for Capital Access monitor and perform procedures over the service organization's attestation report regarding user control considerations. This assessment should be performed annually.
18-03	Independent Auditor's Report on the SBA's FY 2017 Financial Statements	11/14/2017	We recommend that the Chief Information Officer coordinate with SBA program offices to continue to implement and monitor procedures to ensure that access is appropriately granted to employees and contractors, consistent with the conditions on their access forms after all approvals have been obtained.
18-03	Independent Auditor's Report on the SBA's FY 2017 Financial Statements	11/14/2017	We recommend that the Chief Information Officer coordinate with SBA program offices to continue to implement access recertification procedures to ensure that user access, including user accounts and associated roles, is reviewed on a periodic basis consistent with the nature and risk of the system, and any necessary account modifications are performed when identified.
18-03	Independent Auditor's Report on the SBA's FY 2017 Financial Statements	11/14/2017	We recommend that the Chief Information Officer coordinate with SBA program offices to continue to enforce the concept of least privilege for privileged accounts or implement mitigating controls to ensure that activities performed using privileged accounts are properly monitored.

Report Number	Title	Date Issued	Recommendation
18-03	Independent Auditor's Report on the SBA's FY 2017 Financial Statements	11/14/2017	We recommend that the Chief Information Officer coordinate with SBA program offices to continue to improve SBA's administration of logical system access by taking the following actions: (1) implement an effective off-boarding process, and periodically verify that controls to remove logical access for separated employees are implemented and operating as designed; (2) establish a process for the identification and removal of separated contractors to help ensure that logical access is timely removed upon contractor separation, and (3) timely remove access to general support systems and major applications (including development and test environments) when employees and contractors are terminated.
18-03	Independent Auditor's Report on the SBA's FY 2017 Financial Statements	11/14/2017	We recommend that the Chief Information Officer coordinate with SBA program offices to continue to improve SBA's information system logging and auditing program, by taking the following actions: (1) review and rationalize current audit and logging activities and capabilities to determine their effectiveness in addressing risks to systems and data; (2) implement and enforce consistent and effective creation of audit records, capturing relevant auditable events, auditing (i.e., manual or automated review of audit records) for specified events, and automated alerting on specified events across SBA's infrastructure using a risk-based approach, and (3) retain sufficient evidence of the audit log review.
18-03	Independent Auditor's Report on the SBA's FY 2017 Financial Statements	11/14/2017	We recommend that the Chief Information Officer coordinate with SBA program offices to continue to enhance application change management controls to ensure approval documentation is maintained in accordance with SBA policy.
18-03	Independent Auditor's Report on the SBA's FY 2017 Financial Statements	11/14/2017	We recommend that the Associate Administrator of the Office of Capital Access perform a comprehensive root cause analysis of system protocols to identify, quantify, and remediate all defective, system coding problems that may cause untimely referral of loans in accordance with the DCIA.
18-06	Review of SBA's Implementation of the Federal Information Technology Acquisition Reform Act (FITARA)	11/28/2017	We recommend that the CIO utilize updated System Development Methodology policies as required in the Federal IT Acquisition Reform Act Common Baseline. Such policies and procedures should reflect current IT development strategies, such as cloud solutions and agile.
18-06	Review of SBA's Implementation of the Federal Information Technology Acquisition Reform Act (FITARA)	11/28/2017	We recommend that the CIO ensure that the Architecture Review Board supports SBA's IT acquisitions programs, as outlined by the board's charter.

Report Number	Title	Date Issued	Recommendation
18-06	Review of SBA's Implementation of the Federal Information Technology Acquisition Reform Act (FITARA)	11/28/2017	We recommend that the CIO ensure Architecture Review Board's assessment guides and related criteria are used for all major IT investments.
18-06	Review of SBA's Implementation of the Federal Information Technology Acquisition Reform Act (FITARA)	11/28/2017	We recommend that the CIO develop IT competency requirements for staff and leadership positions, as well as design workforce planning protocols that comply with the Federal IT Acquisition Reform Act Common Baseline.
18-07	Accuracy of the FY 2015 7(a) Loan Guaranty Purchase Improper Payments Rate	12/11/2017	Conduct an assessment of the 7(a) loan guaranty purchase improper payments review process to improve improper payment identification. Based on the results of the assessment, implement additional controls to ensure improper payment identification and accurate reporting of the rate.
18-07	Accuracy of the FY 2015 7(a) Loan Guaranty Purchase Improper Payments Rate	12/11/2017	Revise internal center guidance to ensure that critical lender calculations are verified and/or recalculated.
18-07	Accuracy of the FY 2015 7(a) Loan Guaranty Purchase Improper Payments Rate	12/11/2017	Revise internal center guidance to ensure the guides are consistent with the appropriate SOPs.
18-07	Accuracy of the FY 2015 7(a) Loan Guaranty Purchase Improper Payments Rate	12/11/2017	Require Compass Bank to bring the loan into compliance and, if not possible, seek recovery of \$12,266, plus interest, on the guaranty paid by SBA for the loan.
18-07	Accuracy of the FY 2015 7(a) Loan Guaranty Purchase Improper Payments Rate	12/11/2017	Require Premier Bank to bring the loan into compliance and, if not possible, seek recovery of \$72,123, plus interest, on the guaranty paid by SBA for the loan.
18-07	Accuracy of the FY 2015 7(a) Loan Guaranty Purchase Improper Payments Rate	12/11/2017	Require Coastway Community Bank to bring the loan into compliance and, if not possible, seek recovery of \$124,500, plus interest, on the guaranty paid by SBA for the loan.
18-07	Accuracy of the FY 2015 7(a) Loan Guaranty Purchase Improper Payments Rate	12/11/2017	Require Home Loan Investment Bank F.S.B. to bring the loan into compliance and, if not possible, seek recovery of \$69,730, plus interest, on the guaranty paid by SBA for the loan.

Report Number	Title	Date Issued	Recommendation
18-07	Accuracy of the FY 2015 7(a) Loan Guaranty Purchase Improper Payments Rate	12/11/2017	Require Newtek Small Business Finance Inc. to bring the loan into compliance and, if not possible, seek recovery of \$64,747, plus interest, on the guaranty paid by SBA for the loan.
18-09	Audit of RISE Act Eligibility Controls	1/19/2018	Implement controls, such as refresher training to loan officers and loss verifiers, to ensure thorough examination of loan documentation to detect fraud and to prevent loans to ineligible borrowers or for ineligible purposes, such as business expansion.
18-11	Audit of SBA's State Trade Expansion Program.	1/19/2018	Establish performance measurements using the recipients' reported data, such as eligible small business concerns new to the State Trade Expansion Program, and include them in the annual report as a verifiable measure of program success.
18-11	Audit of SBA's State Trade Expansion Program	1/19/2018	Develop policies and implement a process to ensure recipients report accurate and complete information for participating eligible small business concerns that reconciles to the quarterly performance reports.
18-11	Audit of SBA's State Trade Expansion Program.	1/19/2018	Clearly define essential measurement criteria, specifically sales, new-to-export, and market expansion, to ensure reporting consistency among the State Trade Expansion Program recipients and include these definitions in the program announcement.
18-11	Audit of SBA's State Trade Expansion Program	1/19/2018	Establish and implement a risk-based approach to monitor recipients that are not meeting their quarterly milestone goals.
18-12	Audit of the Accuracy of the FY 2015 Improper Payments Rate for the Disaster Loan Program	2/13/2018	Ensure that future improper payment rate estimates are correctly computed using all improper payments identified in sampling.
18-13	Evaluation of SBA 7(a) Loans Made to Poultry Farmers	3/6/2018	Review the loans cited in the evaluation sample to determine whether SBA loan specialists and lenders made a proper size determination given the apparent affiliation based upon comprehensive contractual, oversight, and market control, and take the appropriate corrective action(s).
18-13	Evaluation of SBA 7(a) Loans Made to Poultry Farmers	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.

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

Tests performed by our external auditor, KPMG under section 804(a) disclosed no instances in which SBA’s financial management systems did not substantially comply with (1) Federal financial management systems requirements, (2) applicable Federal accounting standards, and (3) the United States Government Standard General Ledger at the transaction level.

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	33
Preliminary Case Closing Memorandum	13
Total	46

Persons Referred for Prosecution

Referred To	Number of Persons
Department of Justice	15
State Attorney	2
Local Attorney	1
Total	18*

*Number includes persons and entities referred for prosecution.

Whistleblower Retaliation Cases

There were no OIG investigations of reprisal against a whistleblower closed 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

SBA SES Allegedly Failed to Disclose a State Conviction on Their Initial SBA Job Application

The OIG received an anonymous complaint through its Hotline. The anonymous complaint alleged that the SES failed to disclose a 1982 state conviction for dumping hazardous waste on their initial SBA job application. The OIG investigation focused on whether the alleged 1982 conviction actually occurred; if that conviction was or should have been reported to SBA on any SBA application or security document; and if any extenuating circumstances exist that would preclude disclosure of that conviction. It was determined that the SES was charged criminally in 1982 with the dumping of a hazardous substance. It was further determined that the SES did not disclose the matter to SBA on the required security forms in 1991 at the time they were hired by SBA. Very little documentation of the incident survives but the incident appeared to have been resolved via “Probation before Judgement” (PBJ). A PBJ allows a subject charged with certain minor crimes to complete elements of court assigned probation prior to any judicial judgement in the case. Upon completion of the probation, the charges are set aside and no further action is taken. State procedures involving PBJ state that “discharge of a defendant under this section shall be without judgment of conviction and is not a conviction for the purpose of any disqualification or disability imposed by law because of conviction of a crime.” Successful completion of the PBJ can lead to total expungement of the charges upon successful petition of the court. The SES stated in an interview with OIG agents that they did not believe the incident was reportable on the security form at the time they completed it as the record of the matter was expunged. Available records appeared to support the SES’s contention that the terms of the PBJ were met and the record expunged although no direct evidence of expungement was identified. Based on the above facts, OIG closed the matter with no action. The incident was referred to SBA management and to the SBA Security Officer for their determination as to the relevance of this information to the status of the SES’s employment and security clearance. SBA management reviewed the OIG report and determined that no further action was necessary.

Legal Actions Summary

State	Program	Jointly With	Alleged Violation(s) Prosecuted	Legal Action
AL	GC	Army/CID, DCIS	Individual submitted false claims and statements on U.S. Army contracts and misrepresented their firm's principal office location to obtain Historically Underutilized Business Zone (HUBZone) status.	Individual found guilty and was sentenced to 48 months of incarceration and ordered to forfeit \$4,440,264.
CA	BL	FBI	Individual engaged in a Ponzi scheme using proceeds from SBA guaranteed loans to pay investors.	Individual pled guilty and was sentenced to 33 months of imprisonment, 3 years of supervised release, and ordered to pay \$5,724,667 in restitution.
CA	GC	Army/CID, Air Force/OSI, NCIS, DCIS	Company fraudulently obtained Small Business Investment Company contracts when it was not eligible to do so.	Company agreed to pay \$11,413,438 in restitution.
CA	GC	GSA/OIG, FBI, Army/CID	Individuals recruited SBA 8(a) firms to perform work on 8(a) sole source contracts at a U.S. Army facility; however, the 8(a) contractors did not perform the actual work. The owner of the company also steered 8(a) subcontracts to companies with familial ties.	Two individuals indicted.
DC	GC	FBI, NCIS, DCIS, GSA/OIG	A company was providing bribes and gratuities to government officials in exchange for government contracts. Company also colluded with small businesses in order to obtain government contracts set aside under various SBA programs.	One company agreed to pay \$140,000 to settle claims and another company agreed to pay \$400,000.
FL	GC	Army/CID, DOL/OIG, NASA/OIG	Individual, who is the president of a company with SBA 8(a) program status, did not disclose aliases they used on government forms to access a government facility and to obtain a government credential. Under those aliases, the individual had an extensive criminal and civil court history.	Individual pled guilty and was sentenced to 36 months of probation, 100 hours of community service, and fined \$2,500.
GA	GC	DCIS	A group of individuals conspired to make and use false claims and statements to gain admission to, and remain in, the 8(a) Business Development Program for the purpose of steering set-aside contracts to one of the individual's company.	One of the individuals was indicted, pled guilty, and agreed to pay \$500,000 to settle civil claims. This individual's company also agreed to pay \$1.5 million to settle civil claims. Another individual pled guilty; and two other individuals were indicted.

State	Program	Jointly With	Alleged Violation(s) Prosecuted	Legal Action
GA	GC	Army/CID, NCIS, DCIS	Individuals engaged in a scheme to use a small business to improperly bid on and receive set-aside contracts for which it was not eligible.	One individual was indicted and their company ordered to pay \$25,000 to settle false claims. Two individuals were ordered to pay \$75,000; one individual was ordered to pay \$10,000; one individual was ordered to pay \$15,000; and one company was ordered to pay \$15,000 to settle false claims.
KS	GC	DCIS, GSA/OIG	An individual fraudulently claimed Service-Disabled Veteran Owned Small Business (SDVOSB) status to obtain a Federal Government contract to which the company would not otherwise be entitled.	Individual arrested and indicted.
LA	DL	DHS/OIG	An individual obtained an SBA loan by using another individual's identity.	Individual pled guilty.
MN	BL	FBI	An individual provided material false statements on their SBA line of credit loan application and misused proceeds of the loan.	Individual pled guilty and was sentenced to 36 months of probation and ordered to pay restitution in the amount of \$1,347,574.
MO	BL	—	An individual provided misrepresentations concerning the financial condition, profitability, and pending litigation of their company when it was sold to a buyer who used proceeds from an SBA loan to purchase the company.	Individual arrested and indicted.
MO	BL	FBI, FDIC/OIG	Individual created straw companies in order to apply for an SBA loan. The scheme also included the preparation of false business records, including bogus manufacturing licenses, invoices and sales contracts, and false profit and loss statements which supported the loan application. Individual also diverted loan proceeds for their own personal benefit and the personal benefit of others.	Individual pled guilty and sentenced to 30 months imprisonment, 5 years of supervised release, and ordered to pay restitution in the amount of \$1,675,495.
NJ	BL	FBI, SIGTARP	Individual made false statements when they obtained an SBA guaranteed loan and used proceeds of the loans to pay gambling debt and a Federal tax bill.	Individual pled guilty and was sentenced to 6 months in prison and 48 months of supervised release; and was ordered to pay restitution in the amount of \$2,657,687 and forfeiture in the amount of \$1,696,506.
NJ	DL	DHS/OIG, HUD/OIG, NJ DCA	An individual falsified the location of their primary residence in order to obtain government assistance in the aftermath of Superstorm Sandy.	Individual indicted.

State	Program	Jointly With	Alleged Violation(s) Prosecuted	Legal Action
NJ	DL	DHS/OIG, HUD/OIG, HHS/OIG, NJ DCA	An 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	DHS/OIG, HUD/OIG, HHS/OIG, NJ DCA	An 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	DHS/OIG, HUD/OIG, HHS/OIG, NJ DCA	An individual falsified the location of their primary residence in order to obtain government assistance in the aftermath of Superstorm Sandy.	Individual indicted.
NJ	DL	DHS/OIG, HUD/OIG, NJ DCA	An individual falsified the location of their primary residence in order to obtain government assistance in the aftermath of Superstorm Sandy.	Individual entered a Pretrial Intervention and agreed to pay \$27,743 in restitution.
NJ	DL	DHS/OIG, HUD/OIG, NJ DCA, HHS/OIG	An individual falsified the location of their primary residence in order to obtain government assistance in the aftermath of Superstorm Sandy.	Individual sentenced to 12 months of non-custodial probation and ordered to pay \$190,213 in restitution.
NJ	DL	DHS/OIG, HUD/OIG, NJ DCA, HHS/OIG	An individual falsified the location of their primary residence in order to obtain government assistance in the aftermath of Superstorm Sandy.	Individual entered a Pre-Trial Intervention and was ordered to pay \$41,302 in restitution.
NJ	DL	DHS/OIG, HUD/OIG, NJ DCA, HHS/OIG	An individual falsified the location of their primary residence in order to obtain government assistance in the aftermath of Superstorm Sandy.	Individual pled guilty and was sentenced to 18 months of probation contingent upon payment of restitution in the amount of \$137,826.
NY	BL	IRS/CI, SIGTARP	An individual falsely minimized their ownership interests in numerous businesses allowing them and their partners to obtain SBA and other loans that they would have otherwise not been qualified to receive.	Individual pled guilty and was sentenced to 36 months of supervised release; and ordered to pay \$8,000,000 in forfeiture, \$11,265,098 in restitution and a \$1,000,000 fine.
NY	DL	—	Individual made false statements in order to obtain a loan for their business in the aftermath of Superstorm Sandy.	Individual pled guilty and was sentenced to 6 months home confinement and 3 years supervised release; and ordered to pay restitution in the amount of \$265,195.
NY	DL	DHS/OIG, HUD/OIG	Individuals falsified the location of their primary residence in order to obtain government assistance in the aftermath of Superstorm Sandy.	Two individuals arrested.
OH	GC	—	A company falsely represented the products it was capable of producing and manufacturing. These false representations led to the company receiving Department of Defense contracts, to include SBA set-aside contracts.	Individual indicted.

State	Program	Jointly With	Alleged Violation(s) Prosecuted	Legal Action
SC	GC	Army/CID, IRS/CI, DCIS, USDA/OIG, VA/OIG, DOE/OIG	Individuals conspired to defraud the government by making material false statements on their 8(a) Annual Updates which failed to disclose the actual control by non-disadvantaged individuals; submitting false applications to obtain Economically Disadvantaged Woman-Owned Small Business status and 8(a) certification; and submitting fictitious invoices for purported work.	Six individuals pled guilty. Four individuals sentenced to 36 months of probation; one individual sentenced to 60 months of probation; and one individual sentenced to 24 months of incarceration and 36 months of probation. All individuals were ordered to pay a \$100 special assessment fee. Company pled guilty and was sentenced to 60 months of probation and ordered to pay a \$500,000 fine.
TX	BL	DHS, USSS, DHS/OIG, TIGTA	Individuals who were recipients of SBA guaranteed loans, posed as government officials from the U.S. Citizenship and Immigration Services, IRS, and U.S. Attorney's Office to defraud Indian nationals through a "tele-fraud scam." These individuals contacted the Indian nationals telling them they had an overdue tax bill or outstanding order of deportation and would be arrested or deported if payment wasn't received.	One individual pled guilty. Another was sentenced to 24 months incarceration and 36 months of supervised release.
TX	DL	DHS/OIG	An individual used a stolen identity to try and obtain government assistance in the aftermath of Hurricane Irma.	Individual arrested and indicted.
UT	GC	Army/CID, IRS/CI, NCIS, DCIS, DOI/OIG, GSA/OIG, VA/OIG	Individual falsely represented company as an SDVOSB and was awarded set-aside contracts to which it was not entitled.	Individual pled guilty and agreed to forfeit \$640,000.
UT	GC	Army/CID, Air Force/OSI, DOJ	Company used front companies that qualified within the 8(a) and HUBZone programs in order to obtain special set-aside contracts.	One company settled for \$150,000 and another settled for \$1,062,900.
WA	BL	—	Individual made false statements to obtain SBA loan.	Information filed against individual.
WV	GC	FBI, IRS/CI, DCIS, DOL/OIG, VA/OIG	Individuals conspired to defraud the government by making material false statements on their initial 8(a) Small Disadvantaged Business Application and numerous annual updates.	One individual pled guilty. Two individuals pled guilty and were sentenced to 36 months of probation and individually ordered to pay \$250,000.

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 Criminal Investigative Service (DCIS)
Department of Energy Office of Inspector General (DOE/OIG)
Department of Health and Human Services Office of Inspector General (HHS/OIG)
Department of Homeland Security (DHS)
Department of Homeland Security Office of Inspector General (DHS/OIG)
Department of Housing and Urban Development Office of Inspector General (HUD/OIG)
Department of Interior Office of Inspector General (DOI/OIG)
Department of Justice (DOJ)
Department of Labor Office of Inspector General (DOL/OIG)
Department of Veterans Affairs Office of Inspector General (VA/OIG)
Federal Bureau of Investigation (FBI)
Federal Deposit Insurance Corporation Office of Inspector General (FDIC/OIG)
Federal Housing Finance Agency Office of Inspector General (FHFA/OIG)
General Services Administration Office of Inspector General (GSA/OIG)
Internal Revenue Service – Criminal Investigation (IRS/CI)
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)
Treasury Inspector General for Tax Administration (TIGTA)
United States Air Force Office of Special Investigations (Air Force/OSI)
United States Army/Criminal Investigation Division (Army/CID)
United States Naval Criminal Investigative Service (NCIS)
United States Secret Service (USSS)

Cosponsored and Other Activities

SBA's authorization to cosponsor events requires the 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.

Name/Subject of Event	Name of Cosponsor(s)	Event Location	Date Fully Executed
Strategic Connection Matchmaking & Mini-Export	Nevada DO - Women's Business Enterprise Council - West	Las Vegas, NV	3/30/2018
New Hampshire Small Business Week Awards Program	New Hampshire DO - New Hampshire Bankers Association	Bedford, NH	3/29/2018
Small Business Education	HQ/Office of Entrepreneurial Development - Tech Coalition	Nationwide	3/27/2018
Emerging Leaders 2018	Wichita DO - Cargill Meat Solutions, Clark Investment Group, Intrust Bank, Rose Hill Bank, SCORE Wichita Chapter 0143, Simmons National Bank, Swindoll, Janzen, Hawk & Loyd, LLC, Textron Aviation, Westar Energy, Wichita Public Schools USD 259, Wichita Regional Chamber of Commerce, Wichita State University Kansas Procurement Technical Assistance Center, Wichita State University Kansas Small Business Development Center, Wichita State University Ventures	Wichita, KS	3/26/2018
Emerging Leaders 2018	Mississippi DO - Greater Jackson Chamber Partnership/Jackson Chamber of Commerce	Jackson, MS	3/26/2018
Oregon Small Business Week Award Event 2018	Portland DO - Banner Bank, Beneficial State Bank, Columbia State Bank, Key Bank, SCORE Portland Chapter 11, U.S. Bank, Umpqua Bank, Union Bank, Wells Fargo	Portland, OR	3/26/2018
Woostapreneurs Forum - New Americans Business Expo	Massachusetts DO - Worcester Area Chamber of Commerce	Worcester, MA	3/16/2018
Emerging Leaders 2018	Syracuse DO - Blackstone Launchpad at Syracuse University, CenterState Corporation for Economic Opportunity, Central New York Technology Development Organization, Inc., City of Syracuse Office of Neighborhood and Business Development, Manufacturers Association of Central New York, Onondaga County Office of Economic Development, SCORE Syracuse Chapter, State University of New York College of Environmental Science and Forestry, State University of New York Onondaga Small Business Development Center, The Downtown Committee of Syracuse, Inc., The Falcone Center for Entrepreneurship at Syracuse University, The Tech Garden, WISE Women's Business Center	Syracuse, NY	3/14/2018
Small Business Week Awards Ceremony	West Virginia DO - Community Trust Bank, Inc., Fifth Third Bank, First Microloan of West Virginia, Huntington National Bank, Impakt Marketing, MVB Bank, SCORE, West Virginia Small Business Development Center	Fairmont, WV	3/8/2018
Emerging Leaders 2018	North Dakota DO - Eide Bailly, LLP, North Dakota State University College of Business	Fargo, ND	3/8/2018
Small Business Week Awards Luncheon	Baltimore DO - Maryland Small Business Week Awards Program, Inc.	Woodlawn, MD	3/8/2018

Name/Subject of Event	Name of Cosponsor(s)	Event Location	Date Fully Executed
Small Business Week	New Mexico DO - Albuquerque Hispano Chamber of Commerce, New Mexico Small Business Development Center Network	Albuquerque, NM	3/8/2018
Emerging Leaders 2018	Indiana DO - Central Indiana Women's Business Center, Indiana Small Business Development Center, SCORE, Byline Bank, Salin Bank	Indianapolis, IN	3/8/2018
Emerging Leaders 2018	Puerto Rico & Virgin Island DO - Banco Popular de Puerto Rico, PathStone Enterprise Center, Polytechnic University of Puerto Rico, Puerto Rico Chamber of Commerce, Puerto Rico Small Business & Technology Development Center, Women's Business Institute	San Juan, PR	3/8/2018
Emerging Leaders 2018	Arizona DO - American Indian Chamber of Commerce of Arizona, American Indian Chamber Education Fund Procurement Technical Assistance Center	Phoenix, AZ	3/8/2018
Emerging Leaders 2018	Vermont DO - Vermont Technical College, Vermont Small Business Development Center, Vermont Agency of Commerce and Community Development, Vermont Economic Development Authority, Vermont Chamber of Commerce, Vermont Manufacturing Extension Center, Vermont Business Magazine, Davis and Hodgdon Associates CPAs, PLC, TD Bank, N.A., KeyBank, N.A., Community National Bank, Vermont Businesses for Social Responsibility	Williston, VT	3/8/2018
Emerging Leaders 2018	Utah DO - Sandy Area Chamber of Commerce, Weber State University	Ogden, UT	3/8/2018
Business Valuation and Equipment Appraisal Webinars	West Virginia DO-Portside SBA Valuation	Online	3/8/2018
Emerging Leaders 2018	Dallas/Fort Worth DO - North Texas Small Business Development Center, Dallas Black Chamber of Commerce, Greater Dallas Asian American Chamber of Commerce, Dallas/Fort Worth Minority Supplier Development Council, Greater Dallas Hispanic Chamber of Commerce, City of Dallas, Tri-County Regional Hispanic Chamber of Commerce, US Pan Asian American Chamber of Commerce-SW, North Texas Association of Government Guaranteed Lenders, SCORE Dallas/Fort Worth	Dallas, TX	3/8/2018
2018 Nevada Small Business Awards Luncheon	Nevada DO - Southern Nevada Public Television	Las Vegas, NV	3/5/2018
Emerging Leaders 2018	St. Louis DO - Small Business & Technology Development Center, SCORE Chapter 21, Veterans Business Resource Center, Procurement Technical Assistance Center, Midwest Regional Bank, Enterprise Bank & Trust, Fortune Bank, First Bank, American Bank of Missouri, Capital Consulting Services, LC, The HIVE 44	St. Louis, MO	3/5/2018
Emerging Leaders 2018	Syracuse DO - Arsenal Business & Technology Partnership, Albany, NY Capital Region Chamber of Commerce, New York Business Development Corporation, New York State Small Business Development Center Albany, SCORE Northeast NY Chapter		3/5/2018
Small Business Conference	San Francisco DO - San Francisco Chamber of Commerce, Bank of America	San Francisco, CA	3/5/2018

Name/Subject of Event	Name of Cosponsor(s)	Event Location	Date Fully Executed
Boots to Business - Reboot	Springfield BO - Springfield Technical Community College	Springfield, MA	2/28/2018
2018 Salute to Small Business	South Carolina DO - SC Chamber of Commerce, University of South Carolina Small Business Development Center, SCORE, SC Research Authority, SC Department of Commerce	Columbia, SC	2/26/2018
Black History Month Celebration	Massachusetts DO - Greater Boston Blacks in Government Chapter, Santander Bank, Berkshire Bank, Eastern Bank	Boston, MA	2/23/2018
Export Trade Assistance Program	Orange County/Inland Empire DO - Riverside Community College District Inland Empire Center for International Trade Development, Riverside County Economic Development Agency Office of Foreign Trade	Riverside, CA	2/13/2018
Women's History Month Celebration – "Owning and Operating a Daycare Center" Forum, Small Business Week Celebration – "Resources, Assistance, and Opportunities for Small Business"	New York DO - Medgar Evers College Entrepreneurship Experiential Learning Lab	Brooklyn, NY	2/13/2018
Small Business Excellence Awards Recognition	New York DO - New York Business Development Corporation	Syracuse, Albany, NY	2/2/2018
Business Development Academy	Tennessee DO - Growth Enterprise Nashville, Inc. dba Nashville Business Incubation Center; The University of Tennessee-PTAC	Nashville, TN	1/30/2018
Contracting, Financing, and Business Matchmaking Events	Hawaii DO - Honolulu Minority Business Development Center aka Honolulu Minority Business Center UHM Shidler College of Business, State of Hawaii Department of Transportation Office of Civil Rights Disadvantaged Business Enterprise	Hawaii Statewide	1/19/2018
National Small Business Week	HQ/Office of Communications and Public Liaison - SCORE Association	Nationwide,10 SBA Regional Events TBA	1/19/2018
Greater East Aurora Small Business Matchmaker	Buffalo DO - Greater East Aurora Chamber of Commerce	East Aurora, NY	1/12/2018
8(a) Inner Firm Stage Program	South Florida DO - Miami Minority Business Development Agency Business Center	Miami, FL	1/9/2018
Small Business Finance Boot Camp	Buffalo DO - SCORE Rochester Chapter 23, College at Brockport Small Business Development Center, Victor Local Development Corporation, Victor Chamber of Commerce, Ontario County Office of Economic Development	Victor, NY	12/16/2017
Webinars on SBA Lending Credit Reports & Scores Explained Webinar Series	West Virginia DO - Reliant Business Valuation, LLC	World Wide Web	12/15/2017
Basically Business Webinar Series	West Virginia DO - Consumer Credit Counseling Service, Charleston SCORE	World Wide Web	11/24/2017
Lending Webinars	West Virginia DO - Charleston SCORE, Jens Kiel dba Made in Germany Marketing	World Wide Web	11/24/2017
Small Business Workshops	West Virginia DO-Tennessee DO-Capital Growth Solution, LLC	World Wide Web	11/24/2017
	Nebraska DO - Little Priest Tribal College	Winnebago, NE	11/20/2017

Name/Subject of Event	Name of Cosponsor(s)	Event Location	Date Fully Executed
Small Business Workshops	HQ/Office of Surety Guarantees - National Association of Surety Bond Producers	Washington, DC, Nevada, North Carolina, Wisconsin	11/20/2017
New York District Office Annual Lender Awards 2018	New York DO - New York Business Development Corporation	Jamaica, NY	11/8/2017
Boots to Business Reboot	Massachusetts DO - Santander Bank NA, Berkshire Bank	Worcester, MA	11/6/2017
Webinars on SBA Lending	West Virginia DO - Starfield and Smith P.C.	World Wide Web	10/27/2017
8(a) Inner Firm Stage Program	South Florida DO - Miami MBDA Business Center	Miami, FL	10/27/2017
Charleston Small Business Roundtable	West Virginia DO - Charleston SCORE, West Virginia State University Extension Service Economic Development Center	Charleston, WV	10/27/2017
E-Commerce for Small Business	Seattle RO - Amazon Services LLC	Anchorage AK, Seattle WA, Portland OR, Boise ID, Spokane, WA	10/26/2017
Government Procurement Training Series FY 2018	North Dakota DO - North Dakota Small Business Development Center, Procurement Technical Assistance, University of North Dakota	World Wide Web, Bismarck, Dickinson, Fargo, Grand Forks, Minot, Willston, ND	10/26/2017
Getting to Global	HQ/Office of International Trade - Foundation for American Science and Technology	Nationwide	10/18/2017
NH Small Business Matchmaker	New Hampshire DO - New Hampshire Small Business Development Center, New Hampshire Government Contracting Assistance Center	Manchester, NH	10/16/2017
Small Business Finance Fair	New Hampshire DO - New Hampshire Department of Business and Economic Affairs	Portsmouth, NH	10/16/2017
New Year, New Business Workshop Series	Nebraska DO - Omaha Public Library	Omaha, NE	10/4/2017

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 Smithsonian Institution OIG for the period ending March 31, 2015. In December 2015, SBA OIG received a peer review rating of "pass." By September 30, 2016, our office had implemented all recommendations.

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's (FDIC) OIG reviewed our Investigations Division. The FDIC OIG issued its final report December 19, 2017. The FDIC found the system of internal safeguards and management procedures for the investigative function of the OIG Compliant with the quality standards established by the CIGIE and the applicable Attorney General Guidelines (OIGs can be assessed as either Compliant or Non-compliant). No recommendations were offered.

Peer Reviews Conducted

OIG did not conduct any peer reviews this period.

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 problems, abuses, and deficiencies	Significant Recommendations From This Reporting Period
5(a)(3)	Prior significant recommendations on which corrective action has not been completed	Significant Recommendations from Prior Reporting Periods Without Final Action as of March 31, 2018
5(a)(4)	Matters referred to prosecutive authorities	Legal Actions Summary
5(a)(5)	Instances in which requested information was refused	N/A
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 tables	Statistical Highlights
5(a)(9)	Audit, inspection, and evaluation reports with recommendations that funds be put to better use	Reports With Recommendations That Funds Be Put to Better Use
5(a)(10)	Audit, inspection, and evaluation reports without management decision, without comment within 60 days, or with unimplemented recommendations	Reports From Prior Periods With Overdue Management Decisions; Reports From Prior Periods With Open Recommendations as of March 31, 2018
5(a)(11)	Revised management decisions	Significant Revised Management Decisions
5(a)(12)	Management decisions with which the Inspector General disagrees	Significant Management Decisions With Which OIG Disagrees
5(a)(13)	Information described under section 05(b) of the Federal Financial Management Improvement Act of 1996	Federal Financial Management Improvement Act
5(a)(14)–(16)	Peer review results	External Peer Reviews
5(a)(17),(18)	Investigative statistical tables and supporting metrics	Investigations Reporting Statistics
5(a)(19)	Investigations involving a senior Government employee where allegations of misconduct were substantiated	Investigations Involving a Senior Government Employee Where Misconduct Was Substantiated
5(a)(20)	Whistleblower retaliation	Whistleblower Retaliation Cases
5(a)(21)	Attempts to interfere with the independence of the OIG	Instances of Interference
5(a)(22)	Each closed inspection, evaluation, and audit not disclosed to the public; each closed investigation involving a senior Government employee not disclosed to the public	Investigations Involving a Senior Government Employee That Is Closed and 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.