

# U.S. Small Business Administration Office of Inspector General

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## Semiannual Report to Congress Spring 2012



October 1, 2011 – March 31, 2012





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

I am pleased to present the U.S. Small Business Administration (SBA) Office of Inspector General's (OIG) *Spring 2012 Semiannual Report to Congress*, which provides a summary of the OIG's activities from October 1, 2011 to March 31, 2012. As our statistics indicate, the OIG's efforts to eliminate fraud, waste, and abuse in SBA programs during this period continues to significantly benefit taxpayers.

During this reporting period, the OIG issued 12 reports containing 95 recommendations for improving SBA operations and reducing fraud and unnecessary losses in the Agency's programs. In addition, OIG investigations resulted in 26 indictments and 32 convictions. Overall, the OIG achieved monetary recoveries and savings of \$34,279,527 from recommendations that funds be put to better use agreed to by management, disallowed costs agreed to by management, court ordered and other investigative recoveries and fines, and loans or contracts not made as a result of investigations and name checks.

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

- Four Virginia men, including two longtime employees of the U.S. Army Corps of Engineers, were arrested on October 4, 2011, on charges stemming from an indictment that accuses them of taking part in a conspiracy involving more than \$20 million in bribes and kickback payments and the planned steering of a \$780 million government contract to a favored contractor. To date, several of those arrested have entered guilty pleas. Additionally, the Government has seized for forfeiture or recovery approximately \$7.2 million in cash, real estate, luxury cars, and fine jewelry. Money judgments in favor of the U.S. totaling \$1.396 million also are pending court order.
- In November 2011, a federal grand jury indicted an investment firm and its owners. They were charged with a scheme to fraudulently obtain business loans guaranteed by the SBA, with resulting losses alleged to be over \$37 million. On February 28, 2012, one of the conspirators pled guilty to conspiracy to commit bank fraud, in connection with the scheme, with resulting losses of at least \$1.3 million.
- On March 15, 2012, we reported the results of our review of SBA's compliance with the Improper Payments Elimination and Recovery Act. Immediate agency management attention was recommended in four of the six program areas to improve the accuracy and completeness of reporting, the sufficiency of improper payments recapturing activities, and the quality of corrective action plans. The four programs identified were 7(a) approvals, 7(a) purchases, the 504 program, and disbursements and contracting.

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

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

Peggy E. Gustafson  
Inspector General

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## Overview of the SBA and the OIG

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### **The Small Business Administration**

The mission of the Small Business Administration (SBA or the Agency) under the Small Business Act, as amended, is to maintain and strengthen the Nation's economy by enabling the establishment and vitality of small businesses and assisting in the economic recovery of communities after disasters. The Agency's 2011-2016 strategic plan has three overarching goals:

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

The SBA is organized around four key functional areas: financial assistance (e.g., loan programs), contracting assistance, technical assistance (e.g., entrepreneurial development), and disaster assistance. The Agency also represents small businesses through an independent advocate and an ombudsman. The SBA's headquarters is located in Washington, D.C. with staff in 10 regional offices, 68 district offices, their corresponding branch offices, and 4 disaster field offices to deliver business products and services. There are also six government contracting area offices. The SBA also maintains a vast network of resource partners in all 50 states, the District of Columbia, Puerto Rico, American Samoa, the U.S. Virgin Islands, and Guam.

### **The Office of Inspector General**

Pursuant to the Inspector General Act of 1978 (the IG Act), as amended, the Office of Inspector General (OIG) provides independent, objective oversight to improve the integrity, accountability, and performance of the SBA and its programs for the benefit of the American people. The OIG seeks to improve SBA programs by identifying key issues facing the Agency, recommending corrective actions, and promoting a high level of integrity. The Office's efforts and accomplishments during the second half of Fiscal Year 2012 focused on the critical risks facing the SBA, including (1) risks due to limited oversight and controls in SBA lending programs; (2) risks affecting SBA's oversight of contracts for small and disadvantaged businesses; and (3) risks associated with the SBA's information security controls and other operations.

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

## Management Challenges

Each year the OIG identifies the most serious management and performance challenges facing the Agency. In accordance with the Reports Consolidation Act of 2000 and Office of Management and Budget (OMB) Circular A-136<sup>1</sup>, the SBA reports this information in its Agency Financial Report (AFR). The Management Challenges represent areas that the OIG considers particularly vulnerable to fraud, waste, abuse, or mismanagement, or which otherwise pose significant risk to the Agency, its operations, or its credibility. Each Management Challenge generally has originated from one or more OIG or Government Accountability Office (GAO) report(s). For each Management Challenge, the OIG provides the Agency with recommended remedial actions together with an assessment of Agency progress on each recommended action during the preceding fiscal year. If progress occurs during the previous fiscal year, the OIG awards a higher color score and the arrow indicator shows upward movement.

On October 21, 2011, the OIG provided the Agency with its [Report on the Most Serious Management and Performance Challenges Facing the SBA in FY 2012](#). The *Management Challenges Report* was included in the SBA's [Agency Financial Report: Fiscal Year 2011](#) issued on November 15, 2011. The following table provides a summary of the FY 2012 report on the Agency's Most Serious Management and Performance Challenges.

**Table 1 Color Score Status at End of FY 2011**

No.	Topic	Status Score Green	Status Score Yellow	Status Score Orange	Status Score Red	Improved <sup>2</sup>	Worsened <sup>3</sup>
1	Small Business Contracting	1		2		1	1
2	IT Security		2	2			1
3	Human Capital		1		1		1
4	Loan Guaranty Purchase		1			1	
5	Lender Oversight		4	2			
6	8(a) BD Program		1	2	1		3
7	Loan Agent Fraud		2				
8	Loan Management and Accounting System			4			
9	Improper Payments	3		3		3	
	<b>TOTAL</b>	<b>4</b>	<b>11</b>	<b>15</b>	<b>2</b>	<b>5</b>	<b>6</b>

**Green**-Implemented **Yellow**-Substantial Progress **Orange**-Limited Progress **Red**-No Progress

<sup>1</sup> OMB Circular A-136, Financial Reporting Requirements.

<sup>2</sup> "Improved" refers to an action item that showed progress this year over last year's score.

<sup>3</sup> "Worsened" refers to a recommended action that regressed from last year's score.

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## Small Business Access to Capital

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The SBA has a financial assistance portfolio of guaranteed and direct loans of nearly \$93 billion. The Agency's largest lending program, the Section 7(a) Loan Guaranty program, is the SBA's principal vehicle for providing small businesses with access to credit that cannot be obtained elsewhere. This program relies on numerous outside parties (e.g., borrowers, loan agents, and lenders) to complete loan transactions, with approximately 80 percent of loans being made by lenders to whom the SBA has delegated loan-making authority. Additionally, the SBA has centralized many loan functions and reduced the number of staff performing these functions, placing more responsibility on, and giving greater independence to, its lenders. The OIG continues to identify weaknesses in the SBA's lender oversight processes.

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

The Microloan Program provides small (\$50,000 or less), short-term loans and technical assistance to small business concerns, as well as non-profit child-care centers through SBA-funded intermediary lenders. These lenders are non-profit, community-based organizations with experience in lending and providing management and technical assistance to businesses.

Through the Small Business Investment Company (SBIC) Program, the SBA licenses and makes funds available to venture capitalists known as SBICs. The SBICs lend or otherwise invest in small businesses using participating securities made up of contributions from SBA and private investors or funds generated through the sale of SBA-guaranteed debentures.

### **More Legal Actions Result from Multi-Year Loan Fraud Investigation**

A major scheme began to unravel after the arrests of 18 individuals by OIG and U.S. Secret Service (USSS) agents in 2007. A lender's former executive vice president and others had conspired to fraudulently qualify loan applicants for SBA-guaranteed loans, mainly for the purchase of gas stations, across several Midwestern states. The scheme involved at least 91 fraudulent loans totaling approximately \$85 million. Thus far, 39 individuals have been indicted or otherwise charged, and 31 have been convicted. Four defendants are international fugitives. To date, court-ordered restitution, civil settlements, SBA recoveries of loan guaranties from the lender, and potential cost savings from the withdrawal of loan guaranties total over \$100.5 million.

During this reporting period, a Michigan-area commercial loan broker was sentenced to 61 months incarceration, three years of supervised release, and nearly \$9 million in restitution to be paid jointly with his co-conspirators after having pled guilty to conspiracy to commit wire fraud. The broker and a colleague previously had been charged for their involvement in a scheme to falsify equity injections and loan disbursements on U.S. Department of Housing and Urban Development (HUD) settlement statements involving 12 SBA-guaranteed loans. The investigation revealed that he recruited "straw buyers" to falsely obtain SBA loans. This is a joint investigation with the USSS.

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## Small Business Access to Capital

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### Criminals Use Various Methods to Defraud Loan Guaranty Programs

Criminals use a wide array of techniques to fraudulently obtain—or induce others to obtain—SBA-guaranteed loans. These techniques include submitting fraudulent documents, making fictitious asset claims, manipulating property values, using loan proceeds contrary to the terms of the loans, and failing to disclose debts or prior criminal records. Consequently, there is a greater chance of financial loss to the Agency and its lenders. Some of the techniques are described below.

- A Chicago-area entrepreneur and former commercial loan officer, pled guilty to financial institution fraud and was sentenced to 23 months of probation and 300 hours of community service. He also was required to submit to a stipulation and consent order with the Federal Deposit Insurance Corporation (FDIC). This effectively prohibited his employment in the banking industry and his participation in the affairs of financial institutions for a minimum of 10 years. The loan officer was previously indicted in connection with multiple attempts to defraud the SBA, a CDC, and four participating banks when he tried to sell his gas station. The investigation found that he directed his colleague and friend, a Chicago-area commercial loan broker, to prepare false corporate financial statements portraying the failing business as profitable in order to make money from its sale. The loan officer provided the falsified financial statements to the CDC and four SBA lenders when applying for SBA-guaranteed loan packages totaling \$6.18 million. Any of these fraudulent loans could have exposed the lender and the SBA to increased loss potential. Because of the investigation, these loans were cancelled prior to disbursement. The OIG conducted this investigation jointly with the FDIC OIG.
- A Maryland investment firm and its two sibling owners were indicted for bank fraud, conspiracy to commit bank fraud, aiding and abetting, and criminal forfeiture. In addition, an associate pled guilty to bank fraud and conspiracy to commit bank fraud, and agreed to forfeit \$1,300,000. The legal actions relate to a scheme to fraudulently obtain SBA-guaranteed business loans that resulted in losses of over \$37 million. The investment firm specialized in securing loans for individuals interested in purchasing or refinancing small businesses in the Mid-Atlantic area. The three individuals allegedly encouraged prospective borrowers to apply for Section 7(a) business loans through their firm. They allegedly submitted SBA loan applications and supporting documentation containing fraudulent personal financial statements to loan originators and underwriters on their clients' behalf, thereby falsely enhancing the creditworthiness of the borrowers and their businesses. This is a joint investigation with the Federal Bureau of Investigation (FBI).
- A former Missouri bank vice president and loan compliance officer pled guilty to making a false statement to the SBA, as well as aiding and abetting. She assisted others in fraudulently securing a \$1.6 million SBA loan by preparing and providing a false affidavit to the Agency. The affidavit stated that the borrowers had never been reported as 30-days past due when, in fact, they had been past due on multiple occasions. The OIG is conducting this investigation jointly with the FBI.
- The owner of an Ohio tire recycling firm was indicted for conspiracy, wire fraud, bank fraud, and making false statements involving loan applications. A second individual was indicted for conspiracy. The indictment alleged that they provided false and fictitious loan application

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## Small Business Access to Capital

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documents, invoices, and additional supporting documents to an Ohio bank and the SBA to secure a \$1,715,600 guaranteed loan for their business. This is a joint investigation with the FBI.

- An Arizona man was indicted for bank fraud, wire fraud, and making false loan and credit applications. The indictment charged that he falsely obtained two mortgage loans and an SBA loan by using his father's identity. To get the loans approved, the man is alleged to have falsely represented that his father owned various properties and businesses; earned an annual salary of \$110,000; and had large amounts of cash. He also allegedly submitted altered bank statements and false rental agreements with the loan applications. The total loss on the SBA loan is over \$2.4 million. The OIG is conducting this investigation jointly with the FBI.

### **Banker Diverts SBA Loan Proceeds to Personal Use**

The former vice president of a Missouri bank was sentenced to 41 months in prison, 5 years of supervised release, and nearly \$452,000 in restitution after previously pleading guilty to bank fraud. He was also barred from holding any position of financial trust without permission from the U.S. Probation Officer. The investigation disclosed that he was responsible for numerous fraudulent loan transactions involving both SBA and non-SBA loans while employed by the bank. The vice president made loans to unsuspecting borrowers and diverted the proceeds to his own personal accounts. He also drew on customers' lines of credit to make payments on his accounts, loans, and personal credit cards. In addition, he issued cashier's checks for his personal benefit without reimbursing the bank, and originated fraudulent letters of credit that the institution had to guarantee. The result was a loss of nearly \$452,000 to the bank. This is a joint investigation with the FDIC OIG and the FBI.

### **Major Prison Sentence Results from False Identities Scheme**

A loan broker was sentenced to 65 months in prison, 36 months of supervised release, and restitution of over \$1.1 million after previously pleading guilty to conspiracy to commit bank fraud, possession of unauthorized access devices, and aggravated identity theft. The investigation revealed that an organized group of Korean nationals obtained credit cards and loans from multiple lending institutions by using false identities, documents, and business names. Many of the loans were SBA-guaranteed. The broker, one of the group's leaders, handled 33 loans totaling approximately \$1.8 million. Loan officers at other banks were also involved in the scheme. Current losses on the loans total approximately \$1.3 million.

In addition, another member of the group pled guilty to making false statements and concealing material facts. This individual obtained a \$100,000 loan from one bank and a \$50,000 SBA-guaranteed loan from a second bank by using another person's identity and another business' name. This is a joint investigation with the Internal Revenue Service (IRS) Criminal Investigation (CI); the Englewood, New Jersey, Police Department; and the Bergen County Prosecutors' Office.

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

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

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## Small Business Access to Capital

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avoid this obligation by falsifying the amount or source of these injections, as shown by the following examples.

- The owner of a Georgia learning academy was sentenced to 30 months in prison, 36 months of supervised release, and restitution of nearly \$1.7 million after pleading guilty to conspiracy to defraud the United States. She orchestrated the straw sale of her business by using a Section 504 loan package worth \$3,175,000 and an unindicted co-conspirator's assistance. The owner caused the co-conspirator to falsely state that the sale would be supported by a \$296,200 equity injection from the borrower when, in fact, no equity would be provided by the borrower. Moreover, she never intended to relinquish possession of the business. The OIG conducted this investigation jointly with the FBI.
- A Texas man pled guilty to making false statements in connection with his submission of a contract to purchase a motel for \$2,350,000. He then conspired with others to create another company as a straw seller in order to artificially inflate the sales price to \$2,950,000. The man submitted fraudulent documents to the SBA lender and paid the straw seller \$400,000 of the required cash injection outside of closing, of which \$308,000 was secretly returned to him prior to closing. This allowed him to apply some of the same funds toward the remaining balance of the cash injection, thereby reducing the out-of-pocket funds he had to pay to purchase the property. At closing, the straw seller received approximately \$196,000 that was identified as seller's proceeds. The \$196,000 was then covertly funneled to a company owned by the subject, who was the buyer in the transaction. This is a joint investigation with the FBI.
- A Texas loan broker was sentenced to 36 months in prison, 36 months supervised release, and restitution of nearly \$8.6 million for her role in a conspiracy to commit bank fraud. She worked directly with 200 borrowers by instructing them on how to prepare their loan paperwork and by obtaining the necessary financial records from them. On 45 loan packages, she represented to various financial institutions that the borrowers had made their required cash injections when they had not. She also instructed the borrowers to write checks to her company in the amounts of their required equity injections. The broker then photocopied and returned the checks to the borrowers and presented the copies at the closings as having been paid. Both she and the borrowers knew the checks would not be cashed, and in most cases, the borrowers did not have the funds in their accounts. For each loan closed, the broker would receive one to three percent of the loan value. Thus far, financial institutions and the SBA have charged off approximately \$8 million, and an additional \$6.762 million is in liquidation. The OIG conducted this investigation jointly with the FBI.

### **High-Dollar Early-Defaulted Loans Require an Increased Scrutiny and Improved Quality Control**

The OIG Audit Division issued a series of reports related to the audit of twenty-five purchased 7(a) Recovery Act loans. In an [advisory memorandum](#), the OIG noted that overall, material deficiencies were identified in 14 of the 25 early-defaulted loans selected for audit. These deficiencies resulted in questioned costs or recoverable guaranty payments totaling approximately \$10.7 million. The audit found that the National Guaranty Purchase Center (NGPC) either made a purchase error or did not identify the deficiencies during its guaranty purchase reviews on six of the nine loans it reviewed, resulting in improper payments totaling approximately \$3.3 million. Due to the high number of deficiencies

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## Small Business Access to Capital

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identified and the resulting improper payments, the OIG recommended that the SBA establish a specialized early-default purchase review unit at the NGPC. The audit also determined that the NGPC's quality control process did not evaluate lender compliance with SBA eligibility and use of loan proceeds requirements. The OIG provided a recommendation to address this gap.

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## Disaster Loan Program

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The Disaster Loan program plays a vital role in the aftermath of disasters by providing long-term, low-interest loans to affected homeowners, renters, businesses of all sizes, and non-profit organizations. The SBA offers home and personal property loans, business physical disaster loans, and economic injury disaster loans. The Disaster Loan program is particularly vulnerable to fraud and unnecessary losses because loan transactions are expedited in order to provide quick relief to disaster victims. During this semiannual period, the OIG's audits of the disaster assistance program focused on loan liquidation activities and staffing and mobilization strategies.

### **Gulf Coast Hurricane Aftermath Continues to Result in Legal Actions**

The 2005 Gulf Coast hurricanes—Katrina, Wilma, and Rita—resulted in a major loss of life and property. As part of a massive aid effort from Federal agencies, SBA approved billions of dollars in disaster assistance loans. Unfortunately, the need to disburse such loans quickly may have created opportunities for dishonest applicants to commit fraud.

Accordingly, the OIG, in conjunction with other law enforcement organizations, formed what is now known as the National Center for Disaster Fraud (NCDF). From FY 2006 through the first half of FY 2012, the OIG, in conjunction with the NCDF, has thus far produced 85 arrests, 95 indictments, and 90 convictions related to wrongdoing in the SBA's Disaster Loan program for these three hurricanes. Moreover, OIG investigations in the disaster area to date have resulted in over \$5.6 million in court-ordered restitution and related recoveries. The OIG has also assisted the SBA in denying almost \$4.5 million in loans to potentially fraudulent borrowers.

For example, during this reporting period, the former pastor of a New Orleans church pled guilty to mail fraud and theft of government funds. He had applied for an SBA disaster loan on behalf of his church, which had sustained severe damage from Hurricane Katrina. The initial loan amount of \$500,000 was for the replacement of equipment and the rebuilding of the church. The pastor later requested a loan increase due to rising construction costs. The SBA approved a \$463,900 loan increase, bringing the total loan amount to \$963,900. The investigation revealed that the pastor used the funds to purchase two luxury vehicles, two pieces of real estate, certificates of deposit, designer clothing, fine jewelry, and other items for his personal use.

### **Elaborate Fraud Schemes Persist after Hurricanes Ike and Gustav**

Hurricanes Ike and Gustav in 2008 were two of the costliest natural disasters in U.S. history. As with other catastrophes, some individuals devised elaborate schemes to illegally profit from the crisis. For example, a Texas assistant medical examiner was indicted for making false statements to obtain property or credit, and was suspended from her professional duties. She allegedly made material false statements in a mortgage loan application, which was approved for \$417,000 to purchase rental property from her husband.

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## Disaster Loan Program

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In addition, her husband, a real estate broker and Houston area bank director, pled guilty to conspiracy and fraud in connection to a major disaster. The couple had been approved for two SBA disaster loans totaling \$999,700 to repair more than 40 rental properties damaged by Hurricane Ike. The husband was involved in a fraudulent invoice scheme with employees, relatives, and contractors in which he submitted inflated and false invoices for repairs to his residence and rental properties. He also claimed that Hurricane Ike had damaged a rental property, although an intentional fire had actually damaged the property. His brother and his property manager, both of whom pled guilty to conspiracy, colluded with him and others to submit fictitious receipts to the SBA totaling over \$750,000. This case resulted from a referral by the SBA Processing and Disbursement Center. The OIG is conducting this investigation jointly with the Department of Homeland Security (DHS) OIG.

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

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The SBA works to maximize opportunities for small, woman, or minority-owned and other disadvantaged businesses to obtain federal contract awards through its government contracting programs. These programs include, among others, the Historically Underutilized Business Zone (HUBZone) Empowerment Contracting Program and the Small Disadvantaged Business (SDB) Certification Program. The SBA also negotiates with other federal agencies to establish procurement goals for contracting with small, disadvantaged, women-owned, service-disabled veteran-owned, and HUBZone businesses. The current government-wide goal is for small businesses to receive 23 percent of the total value of prime contracts awarded each fiscal year.

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

### **Major Bribery Case Involves Over \$2 Billion in Government Contracts**

A multi-agency investigation has thus far identified seven individuals in a scheme allegedly involving more than \$20 million in bribes and kickback payments, the use of a \$1.3 billion Alaska Native Corporation (ANC) sole source contract to pay for the bribes, and the planned steering of a \$780 million government contract to a favored Section 8(a) program participant. Four of the individuals have pled guilty to bribery, conspiracy, and money laundering. These include one government official, one executive of an 8(a) contractor, an employee of the ANC contractor, and the president of an 8(a) contractor. Three more individuals (including one government official) have been charged with various crimes involving conspiracy and money laundering.

One of the officials, a former U.S. Army Corps of Engineers program manager, not only pled guilty but also agreed to the forfeiture of over \$1,150,000 in U.S. currency and other previously seized monies and goods. In addition, a manager at the ANC agreed to forfeit over \$689,000. Likewise, the president of the 8(a) technology firm not only pled guilty but also agreed to the forfeiture of \$246,000 in U.S. currency and real property in Maryland. This is a joint investigation with the FBI, the Internal Revenue Service Criminal Investigations (IRS CI), the U.S. Army Criminal Investigation Division (CID), and the Defense Criminal Investigative Service (DCIS). The investigation is ongoing.

### **Investigation Uncovers More Federal Contract Fraud**

In a matter related to the above bribery case, the executive vice president of an information technology firm pled guilty to conspiracy to commit wire fraud. The investigation revealed that he conspired with the executive vice president of a second technology firm, employees, and representatives of his own firm, and others to defraud the U.S. Government by submitting false information to procure and set prices on federal contracts.

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## Small Business Development, Contracting, Education and Training

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In addition, the executive vice president of the second firm was indicted for conspiracy, making false statements, mail fraud, and wire fraud. According to the investigation, he allegedly conspired with employees and representatives of his company and others to defraud the U.S. Government by submitting false information to the SBA for the purposes of (1) securing a federal contract in which a competitor protested his firm's Service-Disabled Veteran-Owned (SDVO) self-certification and (2) obtaining HUBZone status. He also allegedly misled other federal agencies in an attempt to procure and set prices on federal contracts. This is a joint investigation with the FBI, IRS CI, U.S. Army CID, DCIS, U.S. Department of Labor OIG, General Services Administration (GSA) OIG, and Department of Veterans Affairs (VA) OIG.

### **Firms Seek Contracting Preferences by Falsifying Eligibility**

To gain preferences in obtaining federal contracts, some businesses misrepresent their eligibility for the SDVO Small Business Concern, HUBZone, Section 8(a) Business Development, and ANC programs. Investigations by the OIG and other federal organizations have identified schemes in which companies owned or controlled by non-disadvantaged persons falsely claim to be disadvantaged firms or use actual disadvantaged firms as fronts. The following cases demonstrate the nature of the problem.

- The president of a Georgia business was indicted for wire fraud and major fraud. The indictment alleges that he fraudulently used the status of a legitimate service-disabled veteran to obtain government contracts set aside for SDVO small businesses. He allegedly established his own business as an SDVO small business owned by the veteran, then created a joint venture between the veteran-owned business and his own in order to obtain SDVO small business set-aside contracts. The joint venture received two contracts totaling over \$1 million from the VA before the SDVO small business status of the joint venture was challenged. The SBA ruled that neither the joint venture nor president's business qualified for the program, primarily because of the veteran's lack of participation in the business. Despite this ruling, the president continued to operate his firm as an SDVO small business. He received three additional contracts totaling approximately \$1.7 million after allegedly forging the veteran's signature on contracts, correspondence and checks, and using other means to give the false appearance that the veteran managed this business. This is a joint investigation with the VA OIG, the U.S. Department of Agriculture (USDA) OIG, the U.S. Army CID, and the DHS OIG.
- Two Missouri men pled guilty to criminal conspiracy after an investigation revealed a government contracting fraud scheme and the illegal payment of gratuities to a federal official. In addition, the official pled guilty to acceptance of gratuities to influence decisions in an official capacity. The first man was the owner of a contracting firm, and the second man was a silent partner in the contracting firm and the owner of a construction company. Both admitted to setting up a "figurehead" service-disabled veteran as the purported president and operator of the contracting firm in order to obtain federal contracts. From 2007 until 2010, the contracting firm misrepresented itself as a qualified SDVO small business and obtained approximately \$3.4 million in contracts from the VA. The VA contracts were then funneled to the second man's construction company to perform the work. The contracting firm owner paid gratuities to the

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## Small Business Development, Contracting, Education and Training

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official, who directed set-aside and sole source contracts to the contracting firm. The owner of the construction company agreed to forfeit nearly \$1.6 million and a 2011 Jaguar luxury vehicle as part of his plea agreement. The OIG is conducting this investigation jointly with the GSA OIG and the VA OIG.

- Two Florida men were convicted of conspiracy and wire fraud. The investigation disclosed that the men created a company for obtaining a \$100 million small business set-aside language instruction contract with the Department of Defense (DoD). They used a nominee owner to create the appearance that this company was not affiliated with another business that they controlled. The men submitted false and misleading information about the two companies' relationship after the affiliation was challenged during a size protest submitted to the SBA Office of Government Contracting. This is a joint investigation with the DCIS.
- The president of an Idaho construction company pled guilty to wire fraud on behalf of the firm. The investigation revealed that the company had submitted a HUBZone application falsely stating that its principal place of business was in a HUBZone and that it had two employees who resided in a HUBZone. Moreover, the company was self-certified as an SDVO small business, but was actually controlled by its vice president, who was not a service-disabled veteran. It has received over \$4 million in GSA and Department of the Interior (DOI) contracts.

In a related matter, the president of a second Idaho construction company pled guilty on behalf of the firm to wire fraud in the HUBZone program and to making false statements in the GSA's Surplus Property Program, through which 8(a) companies can obtain goods. The investigation found that the company submitted a HUBZone application falsely stating that its principal place of business was in a HUBZone and that two employees resided in a HUBZone. The firm had obtained over \$1.4 million in contracts. In addition, the firm, as an 8(a) company, obtained approximately \$1.5 million in property for about \$119,000 under the GSA's Surplus Property Program. It immediately sold or transferred that property to a non-8(a) entity. The OIG is continuing this investigation jointly with the IRS CI, VA OIG, GSA OIG, USDA OIG, DOI OIG, DCIS, U.S. Army CID, and Air Force Office of Special Investigations.

### **Couple Sentenced for Major Veterans Affairs Contracting Scheme**

The former associate director of a Department of VA Consolidated Mail Outpatient Pharmacy (CMOP) in Illinois, his wife, and their company were sentenced for conspiring to defraud the VA and the SBA. He was sentenced to 60 months in prison for conspiracy and wire fraud, and his wife was sentenced to 24 months of probation for conspiracy. The couple and their company were also sentenced to pay \$400,000 in restitution jointly and severally.

The associate director and his wife had previously admitted to a scheme to fraudulently allow their company to provide temporary pharmacists to the CMOP. The couple had created their company specifically for that purpose. The firm later sought SBA certification as a woman-owned, minority-

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## Small Business Development, Contracting, Education and Training

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owned small disadvantaged business and 8(a) program participant. The couple agreed to allow another company to fraudulently masquerade as their company and thus qualify for contracts set aside for SBA program participants. The associate director claimed that his company was managed solely by his wife in order to avoid conflict of interest laws governing federal employees. However, he and others secretly agreed that the billing rates charged to the VA for certain pharmacists provided by his company should be increased. Between 2000 and 2007, the couple and other unindicted co-conspirators used the couple's firm to bill the VA for more than \$8 million in services. Participants with the OIG in this joint investigation were the U.S. Department of Justice Antitrust Division, VA OIG, DCIS, and USSS.

### **SBA's Accounting of Fiscal Year 2011 Drug Control Funds and Performance Summary Report**

The Office of National Drug Control Policy (ONDCP) Circular, Drug Control Accounting, requires agencies to annually provide a detailed accounting of all funds expended on National Drug Control Program activities and the results associated with those activities. However, when drug-related obligations are less than \$50 million and a detailed accounting would constitute an unreasonable burden, agencies are permitted to submit an alternative report, as long as it is accompanied by agency and OIG statements that full compliance with the circular would constitute an unreasonable burden. Because SBA's Fiscal Year 2011 drug-related obligations were less than \$50 million, it submitted an alternative report for the year ended September 30, 2011. An OIG [review](#) of the alternative report found nothing to indicate that it was not presented, in all material respects, in conformity with the ONDCP Circular, or that management's assertions were not fairly stated, in all material respects, based on the criteria set forth in the ONDCP Circular.

### **Legislation Requires Approval of SBDC Surveys**

In December 2004, Congress amended section 21(a)(7) of the Small Business Act to restrict the disclosure of information regarding individuals or small businesses that have received assistance from an SBDC, and further restricts the Agency's use of such information. The provision also requires the Agency to issue regulations regarding disclosures of such information for use in conducting financial audits or SBDC client surveys. In 2009, the Agency represented to the OIG that it would issue regulations as required by the statute, and later prepared proposed regulations. However, the Agency has yet to issue these regulations.

In addition, paragraph 21(a)(7)(C)(iii) of the Small Business Act states that, until the issuance of such regulations, any SBDC client survey and the use of such information shall be approved by the Inspector General, who shall include such approval in the OIG's Semiannual Report to Congress. According to a report from the Agency, the SBA did not survey any SBDC clients during the first half of FY 2012.

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## Agency Management

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

### **SBA Employee Manipulated Data for Financial Gain**

A former SBA lender relations officer was sentenced in Illinois to 33 months in prison, three years supervised release, and restitution of \$400,000. He previously pled guilty to wire fraud based on entries he made into SBA databases, which traveled electronically across state lines and affected interstate commerce. The man was partly responsible for resolving issues related to the charge-off of SBA business and disaster loans that were secured by real estate. His duties included determining the properties' current market value, securing the loans, determining if the assets could be recovered from SBA loan debtors, and selling various delinquent loans to private equity investors. He had recommended selling 25 delinquent loans for below their value to his stepbrother and son-in-law without disclosing to the SBA the familial relationships or the true value of each loan. The OIG conducted this investigation jointly with the FBI.

### **IPERA Reporting**

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

The SBA's four major credit programs are subject to improper payments reporting as required by the former Section 57 of OMB Circular A-11. In addition, the SBA identified contracting and disbursements as a risk-susceptible activity under the provisions of IPERA for FY 2011. Prior OIG audits have identified high percentages of disaster and business loans that were made to borrowers who were ineligible, lacked repayment ability, or did not provide the required support for disbursement. Those audits further determined that the improper payments rates reported for these programs were significantly understated. The magnitude of those findings has resulted in the OIG identifying the improper payments area as an SBA Management Challenge.

The OIG issued a [report](#) stating that the SBA was generally compliant in meeting the minimal reporting requirements for IPERA in its FY 2011 Agency Financial Report. However, our qualitative review of the Agency's efforts to prevent and reduce improper payments demonstrated that immediate management attention is needed in four of the six programs or activities to improve the:

- accuracy and completeness of reporting:
- sufficiency of improper payments recapturing activities: and
- quality of corrective action plans.

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## Agency Management

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In the course of conducting this review, the OIG issued an [advisory memorandum](#) to advise the SBA that they had not complied with IPERA and IPIA requirements as they pertain to the SBA's planning, execution, and reporting of the improper payments for its contracting activities during Fiscal Year 2011. This reporting requirement was added with the enactment of the 2010 IPERA, and subsequent implementation guidance from the Office of Management and Budget in April 2011. Specifically, the OIG found that the:

- personnel responsible for developing the test plan and performing the improper payments review did not have training in contracting practices;
- test plan was inadequate to detect improper payments;
- IPERA review did not capture significant payment errors;
- publishing of an 89 percent improper payment rate was incomplete;
- improper payment rate was not reported in accordance with the OMB guidance; and
- SBA management did not develop or publish a corrective action plan and a payment recapture audit plan.

While conducting this review, the OIG also found that the SBA had not complied with IPERA and IPIA requirements as they pertain to SBA's 7(a) and 504 loan programs. Specifically, the OIG found that the:

- test procedures to assess loan approvals in the 7(a) and 504 loan programs were limited and did not result in accurate improper payment rates for the programs;
- corrective action plans for reducing improper payments in the 7(a) and 504 loan approval programs were based on incomplete testing processes;
- reported improper payment rate of 1.73% and \$40.7 million for the 7(a) guaranty purchases program was significantly understated;
- test procedures for the 7(a) guaranty purchases program were incomplete and did not require performing detailed analysis of creditworthiness (including repayment ability) on early defaulted loans; and
- corrective action plan for reducing improper payments in the 7(a) guaranty purchases program was incomplete and based on an understated estimate of improper payments.

Additionally, the OIG also found that the SBA had not complied with IPERA and IPIA requirements as they pertain to SBA's disaster loan program. Specifically, the OIG determined that the:

- reported improper payment rate of 28.4 percent exceeded the target rate of 20 percent;
- reported rate significantly exceeded 10 percent, the level necessary to be in compliance with IPERA requirements;
- corrective action plans for reducing improper payments in the disaster loan program did not address all root causes; and
- SBA did not provide justification for not implementing a payment recapture audit program.

The OIG found that the SBA failed to include a corrective action plan, a payment recapture plan, and an update to the Improper Payment Reduction Outlook Table in the disbursements and contracting reporting segment of its [FY 2011 AFR](#). Furthermore, the OIG found significant internal control weaknesses in the

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## Agency Management

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(1) accuracy and completeness of reported information; and (2) use and deployment of corrective action plans to ensure resources are focused on the appropriate root causes of improper payments.

### **Million Dollar State Trade and Export Promotion Grant Awarded to Ineligible Recipient**

During the OIG's ongoing *Review of the Small Business Administration's (SBA's) State Trade and Export Promotion (STEP) Grant Program*, the OIG issued an [Advisory Memorandum](#) to enable SBA's Office of International Trade (OIT) personnel to take immediate corrective action. The OIG's review determined that the OIT awarded a STEP program grant, valued at \$1,022,781, to the Commonwealth of the Northern Mariana Islands, even though the Commonwealth was not identified in the authorizing statute as eligible to receive the grant. This resulted in eligible grant recipients receiving a lesser portion of the available \$30 million for the FY 2011 STEP grant program. The OIG recommended that the SBA immediately terminate the grant before any grant money was disbursed. Further, the OIG recommended that fund disbursements be withheld, and all previously disbursed funds be recovered. Additionally, the OIG recommended that the SBA redistribute the funds to other qualified STEP grant recipients or return the funds to the U.S. Department of the Treasury, and take precautions to ensure that an ineligible recipient does not receive a STEP grant in subsequent years. The SBA terminated the grant and is in the process of responding to the other OIG recommendations.

### **SBA's Lender Loan Reporting Process has Systemic Issues and Data Control Weaknesses**

The OIG issued a [report](#) regarding the audit of the SBA's controls and oversight over the development, security, and operation of certain information technology systems and processes performed by Colson Services Corporation (Colson). Colson performed certain functions for SBA 7(a) and 504 loan programs including processing certain automated transactions and developing new information technology systems.

The OIG found that the SBA did not (1) adequately address systemic data control weaknesses; (2) provide adequate oversight of the First Mortgage Loan Pooling System development; (3) ensure that Colson's operation of SBA systems met federal security requirements; and (4) adequately enforce collection of secondary market late penalty fees. These weaknesses resulted in an overstatement of unpaid loan balances and loan error volume reaching approximately 44,000 errors. Some SBA systems were also being operated without adequate assurance that they met SBA quality standards, and Federal security requirements. The OIG made 11 recommendations, the most significant being to: (1) correct loan balances contributing to the subsidy overstatement; (2) collect outstanding late penalty fees; (3) ensure that system development projects adhere to SBA quality standards for systems development projects; and (4) ensure that systems are authorized to operate prior to being put into production.

### **Audit of SBA's Fiscal Year 2011 Financial Statements**

The OIG contracted with KPMG LLP, an Independent Public Accountant (IPA), to conduct the annual independent audit of SBA's financial statements and accompanying reports on internal control and compliance with laws and regulations for the fiscal year ending September 30, 2011. The [audit](#) found that SBA's consolidated financial statements presented fairly, in all material respects (1) the financial position

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## Agency Management

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of SBA as of and for the years ending September 30, 2011 and 2010, and (2) SBA's net costs, changes in net position, budgetary resources, and combined statements of budgetary resources for the years then ended. With respect to internal control, the independent auditors continued to report a significant deficiency related to Information Technology security controls. In addition, the IPA's test for compliance with certain laws, regulations, contracts, and grant agreements determined that the Agency did not fully comply with the Debt Collection Improvement Act of 1996 because it did not consistently follow Treasury guidelines for referring delinquent debts for collection. As part of its audit, the IPA issued a [Management Letter](#) addressing internal control and other operational matters that were noted during the audit. Additionally, the IPA conducted a related audit to address inadequate controls over the 504-loan pool transaction entry process. In a separate [Management Letter](#), the IPA determined that the Office of Financial Assistance (OFA) did not have documented controls to ensure that the Fiscal Transfer Agent's (Colson) monthly upload of transaction details for each 504 loan pool into the OFA's Electronic Transaction (E-TRAN) System is correct and reliable.

### **Weaknesses Identified During Federal Information Security Management Act Review**

The Federal Information Security Management Act (FISMA) requires OIGs to perform annual independent evaluations of their agency's information security program and practices to determine their effectiveness. The OIG's FY 2011 review found that significant improvements were needed in critical computer security areas in order for SBA to fully meet the requirements set forth in FISMA and OMB Circular A-130, *Management of Federal Information Resources*. The OIG made a number of recommendations to address the deficiencies identified during the review.

### **SBA Gift Authority**

Section 4(g)(2) of the Small Business Act, as amended, provides that any gift, devise, or bequest of cash accepted by the Administrator under Section 4(g) shall be held in a separate account and shall be subject to semiannual audits by the Inspector General, who shall report his findings to Congress. The SBA did not have any cash gifts to report this period. However, in compliance with the Small Business Act, the OIG conducted an [audit](#) of two cash gifts totaling \$10,000 that were recorded in the Business Assistance Trust Fund (BAT Fund) during April 2011.

The OIG determined that the SBA obtained proper approvals to solicit and accept gifts to use for the payment of travel and per diem costs for the SBA's Start-up America events in 2011. The SBA recorded the cash donations in the BAT Fund and timely made the funds available to the Office of the Administrator (OA) for expenditure. In addition, the Massachusetts District Office used its prior year BAT Funds to pay for a Jobs Act "Listening Tour" event.

The OIG noted, however, that the OA recorded the wrong accounting code in the SBA's Administrative and Accounting System. Consequently, guest speakers and participants' travel moreover, per diem expenses for the Start-Up America events, totaling \$5,680.51, were reimbursed out of the SBA's salaries and expenses appropriation instead of the BAT Fund. While \$5,680.81 of the original \$10,000 gift should have been used to pay these travel expenses, the OIG noted that the OA did not follow-up with Business Forward regarding the disposition of the unused \$4,319.49. The OIG also found that the SBA did not have permanent procedures in place on gift acceptance since 2007, and recommended that the SBA issue such procedures.

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## Agency Management

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### **Cosponsorships and Fee-Based Administration Sponsored Events**

Section 4(h) of the Small Business Act, as amended, requires the OIG to report to Congress on a semi-annual basis regarding the Agency's use of its authority in connection with co-sponsorships and fee-based Administration-sponsored events. The SBA's Office of Strategic Alliances provided information to the OIG related to co-sponsorships, including the names, dates, and locations of the cosponsored events and the names of the cosponsors. This information was not verified by the OIG. As shown in Appendix IX, between October 1, 2011 and March 31, 2012, the Administrator—through her approved designees—fully executed 49 cosponsorship agreements.

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## Other Significant OIG Activities

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### Character Screening Lessens Potential Program Fraud

Participants in SBA programs that encompass business loans, disaster assistance loans, Section 8(a) certifications, surety bond guarantees, SBICs, and CDCs must meet Agency character standards. To help accomplish this, the OIG's Office of Security Operations utilizes name checks and, where appropriate, fingerprint checks to determine criminal background information. During this reporting period, the OIG processed 2,411 external name check requests for these programs.

In addition, based on data from the OIG's on-line connection with the FBI, the OIG refers applicants who appear ineligible because of character issues to program officials for adjudication. As a result of OIG referrals during this reporting period, SBA business loan program managers declined 21 applications totaling over \$10.5 million and disaster loan program officials declined 17 applications totaling over \$1.5 million. Moreover, the Section 8(a) program declined 11 applications for admission.

During this reporting period, the OIG also initiated 146 background investigations and issued 22 security clearances for SBA employees and contractors. Likewise, the OIG also adjudicated 85 background investigative reports and coordinated with SBA's Office of Disaster Assistance to adjudicate 137 derogatory background investigation reports. Finally, the OIG processed 2,072 internal name check requests for SBA activities such as success stories, "Small Business Person of the Year" nominees, and disaster assistance new hires.

### OIG Promotes Debarment and Administrative Enforcement Actions

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

During this reporting period, the OIG sent 19 suspension and debarment referrals to SBA. (The Statistical Highlights section of this Report contains additional suspension and debarment statistics.) Most OIG administrative referrals involve the abuse of SBA's loan and preferential contracting programs. Where appropriate, the OIG recommends that the SBA suspend the subject of an ongoing OIG investigation given program risk presented by the continued participation of those individuals and entities.

Examples of administrative actions based upon referrals during the reporting period include:

- The SBA debarred a loan agent for three years who: (1) counseled prospective borrowers to inflate their working capital request to cover the loan agent's fee; (2) instructed borrowers not to disclose the loan agent's fee where required on an SBA form; and (3) charged borrowers an impermissible contingency fee for working on an SBA loan. An associate of the loan agent was also debarred for involvement in charging impermissible contingency fees and not disclosing loan agent fees to SBA.

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## Other Significant OIG Activities

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- The SBA OIG referred a loan broker and several affiliates for suspension pending resolution of criminal charges. The broker and affiliates were involved in an alleged scheme to secure SBA guaranteed loans with falsified information. The scheme has resulted in losses over \$37 million.
- The OIG referred a contractor who submitted what appear to be falsified documents to SBA for a suspension. The contractor submitted the apparently falsified documents in support of an application for HUBZone certification.
- In response to an OIG referral, the SBA received Department of Justice authorization and filed a Program Fraud Civil Remedies Act complaint against the owner of a company that failed to disclose significant debts when applying for an SBA Express Loan. The SBA is suing the owner and another party for twice the amount of the claim SBA was called upon to pay and other civil penalties, as permitted by the Act.

Additionally, during the reporting period, the OIG continued its work to encourage the SBA to implement a more robust debarment and suspension program, and to implement a program to prevent dishonest loan agents from participating in SBA's business loan programs. Although SBA has made progress with respect to its enforcement policies, the Agency needs to continue strengthening its enforcement programs.

The OIG also provided training to enhance awareness of criminal, civil, and administrative remedies among staff at the NGPC. The NGPC reviews loan files when SBA is called upon to honor its guaranty in the 7(a) Loan Program. Center personnel are uniquely situated to observe and identify suspicious documentation or other activities during their loan reviews.

Finally, the OIG has continued its active participation in the Council of Inspectors General on Integrity and Efficiency (CIGIE) Working Group on Suspensions and Debarments. During the reporting period, the OIG provided assistance to CIGIE in developing a training program designed to provide suspension and debarment instruction to OIG personnel.

### **OIG Reviews of Proposed Agency Regulations and Initiatives Lead to Improved Program Controls to Reduce Fraud, Waste, Abuse and Inefficiencies**

As part of the OIG's proactive efforts to promote accountability and integrity and reduce inefficiencies in SBA programs and operations, the OIG reviews changes that SBA is proposing to make to its program directives such as regulations, internal operating procedures, Agency policy notices, and SBA forms that are completed by the public. Frequently, the OIG identifies material weaknesses in these proposals and works with the Agency to implement recommended revisions to promote controls that are more effective and deter waste, fraud or abuse. During the reporting period, the OIG reviewed 87 proposed revisions of program management or Agency reorganization documents and submitted comments on 48 of these initiatives.

Many of the initiatives that the OIG commented on were issued in response to the various program changes mandated by the Small Business Jobs Act of 2010, or programs that the SBA has recently implemented. For example, in response to OIG comments, the Agency implemented revisions to strengthen controls, and reduce the potential for waste, fraud, abuse, and inefficiencies in the 504 debt refinancing program, the Community Advantage Program, and in SBA's export loan guaranty programs.

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## Other Significant OIG Activities

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The OIG also pointed out concerns with SBA's proposed revisions of various standards to measure small businesses and a proposal to expand mentor-protégé relationships in small business preferential contracting programs. Additionally, the OIG recommended revisions to accomplish controls that are more robust in connection with background checks performed on contractors and information technology security.

### **OIG Conducts Fraud Awareness Briefings**

During this reporting period, the OIG conducted 12 fraud awareness presentations for over 400 attendees, including SBA and other government employees, lending officials, and law enforcement representatives. Topics included types of fraud; fraud indicators and trends; and how to report suspicious activity that may be fraudulent.

### **OIG Hotline**

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

During this reporting period, the hotline received and processed 327 complaints in the following manners:

- 54% through the OIG's online link,
- 33% by email,
- 10% in a letter or writing,
- 3% via telephone, and
- less than 1% in person.

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

- 151 were referred to SBA program offices or other entities;
- 85 were referred to the OIG's Investigations Division;
- 65 were reviewed by the hotline staff;
- 16 were referred to the OIG Counsel or Auditing Division; and
- 39 needed no action.

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## Highlights: 6-Month Productivity Statistics: October 1, 2011-March 31, 2012

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Summary of Office-Wide Dollar Accomplishments	Totals
A. Potential Investigative Recoveries and Fines .....	\$16,257,233*
B. Asset Forfeitures Attributed to OIG Investigations.....	\$2,211,537
C. Loans/Contracts Not Approved or Canceled as Result of Investigations.....	\$32,844
D. Loans Not Made as a Result of Name Checks .....	\$12,041,457
E. Disallowed Costs Agreed to by Management .....	\$3,736,456
F. Recommendations that Funds Be Put to Better Use Agreed to by Management .....	\$0
<b>Total</b> .....	<b>\$34,279,527</b>

### Efficiency and Effectiveness Activities Related to Audits and Other Reports

A. Reports Issued .....	12
B. Recommendations Issued .....	95
C. Dollar Value of Costs Questioned.....	\$1,037,969
D. Dollar Value of Recommendations that Funds Be Put to Better Use .....	\$7,700,000
E. Collections as a Result of Questioned Costs .....	\$4,228,298

### Audit and Report Follow-up Activities

A. Recommendations for which Management Decisions were made During the Reporting Period .....	68
B. Disallowed Costs Agreed to by Management .....	\$3,736,456
C. Dollar Value of Recommendations that Funds Be Put to Better Use Agreed to by Management .....	\$0
D. Recommendations without a Management Decision at End of Reporting Period .....	54

### Legislation/Regulations/Standard Operating Procedures (SOPs)/Other Reviews

A. Legislation, Regulations, Standard Operating Procedures, and Other Issuances Reviewed.....	87
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\* May include actions from earlier reporting periods.

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## Highlights: 6-Month Productivity Statistics: October 1, 2011-March 31, 2012

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### Indictments, Convictions, and Case Activity

A. Indictments from OIG Cases .....	26
B. Convictions from OIG Cases.....	32*
C. Cases Opened .....	34
D. Cases Closed.....	34

### Investigations Recoveries, Forfeitures, and Management Avoidances

A. Potential Recoveries and Fines as a Result of OIG Investigations.....	\$16,257,233*
B. Asset Forfeitures Attributed to OIG Investigations.....	\$2,211,537
C. Loans/Contracts Not Approved or Canceled as Result of Investigations.....	\$32,844
D. Loans Not Approved as a Result of the Name Check Program .....	\$12,041,457
Total.....	\$30,543,071

### SBA Personnel Actions Taken as a Result of Investigations

A. Dismissals.....	1
B. Resignations/Retirements .....	1
C. Suspensions .....	2
D. Reprimands.....	0
E. Other.....	0

### Program Actions Taken as a Result of Investigations

A. Suspensions and/or Debarments Recommended to the Agency .....	19
B. Suspensions and/or Debarments Pending at the Agency** .....	40
C. Proposed Debarments Issued by the Agency .....	8
D. Final Debarments Issued by the Agency.....	4
E. Suspensions Issued by the Agency .....	11
F. Proposed Debarments Declined by the Agency.....	0
G. Actions by Other Agencies Resulting from Investigations in which the OIG Participated .....	24

\* May include actions from earlier reporting periods.

\*\*SBA has initiated administrative proceedings in twenty-six of the forty pending cases.

**Appendix I: OIG Reports Issued October 1, 2011 through March 31, 2012**

***Small Business Access to Capital - Recovery Act***

<b>Title</b>	<b>Report Number</b>	<b>Issue Date</b>	<b>Questioned Costs</b>	<b>Funds for Better Use</b>
Recovery Act 504 Loan Pool Transaction Entry Process	12-06R	12/15/2011	\$0	\$0
High-Dollar Early-Defaulted Loans Require an Increased Degree of Scrutiny and Improved Quality Control at the National Guaranty Purchase Center	12-11R	3/23/2012	\$15,188	\$0
<b>Program Subtotal</b>	<b>2</b>		<b>\$15,188</b>	<b>\$0</b>

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

<b>Title</b>	<b>Report Number</b>	<b>Issue Date</b>	<b>Questioned Costs</b>	<b>Funds for Better Use</b>
Small Business Administration's Rationale for Excluding Certain Types of Contracts from the Annual Small Business Procurement Calculations Needs to be Documented	12-04	12/6/2011	\$0	\$0
The SBA's Improper Payment Review and Reporting for its Contracting Activities did not Comply with IPERA and IPIA Requirements During FY 2011	12-07	3/8/2012	\$0	\$0
The SBA's Office of International Trade Inappropriately Awarded a One Million Dollar State Trade and Export Promotion (STEP) Program Grant to an Ineligible Recipient	12-12	3/30/2012	\$1,022,781	\$0
<b>Program Subtotal</b>	<b>3</b>		<b>\$1,022,781</b>	<b>\$0</b>

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**Appendix I: OIG Reports Issued October 1, 2011 through March 31, 2012**

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*Agency Management*

Title	Report Number	Issue Date	Questioned Costs <sup>4</sup>	Funds for Better Use
Independent Auditors' Report on the SBA's FY 2011 Financial Statements	12-02	11/14/2011	\$0	\$0
Audit of the SBA's Special-Purpose Financial Statements	12-03	11/15/2011	\$0	\$0
KPMG Management Letter Communicating Matters Relative to SBA's FY 2011 Financial Statements	12-05	12/15/2011	\$0	\$0
SBA's Lender Loan Reporting Process has Systemic Reporting Issues and Data Control Weaknesses	12-08	2/23/2012	\$0	\$7,700,000
Accounting of FY 2011 Drug Control Funds and Performance Summary Report				
Independent Review of the SBA's	12-09	3/12/2012	\$0	\$0
FY 2011 Review of SBA's Improper Payments	12-10	3/15/2012	\$0	\$0
Review of the SBA's Cash Gifts	12-13	3/30/2012	\$0	\$0
<b>Program Subtotal</b>	<b>7</b>		<b>\$0</b>	<b>\$7,700,000</b>
<b>TOTALS (all programs)</b>	<b>12</b>		<b>\$1,037,969</b>	<b>\$7,700,000</b>

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<sup>4</sup> Questioned costs are those found to be improper.

## Appendix II: OIG Reports with Questioned Costs

		Reports	Recommendations <sup>5</sup>	Questioned Costs <sup>6</sup>	Unsupported Costs <sup>7</sup>
A.	<b>No management decision made by September 30, 2011</b>	3	6	\$6,110,404	\$5,811,900
B.	Issued during this reporting period	2	2	\$1,037,969	\$0
	Universe from which management decisions could be made in this reporting period – Subtotals	5	8	\$7,148,373	\$5,811,900
C.	Management decision(s) made during this reporting period	2	5	\$4,010,404	\$3,711,900
	(i) Disallowed costs	4	4	\$3,736,456	\$3,711,900
	(ii) Costs not disallowed	1	1	\$273,948	\$0
D.	<b>No management decision made by March 31, 2012</b>	<b>3</b>	<b>3</b>	<b>\$3,137,969</b>	<b>\$2,100,000</b>

## Appendix III: OIG Reports with Recommendations that Funds be put to Better Use

		Reports	Recommendations	Recommended Funds For Better Use
A.	<b>No management decision made by September 30, 2011</b>	0	0	\$0
B.	Issued during this reporting period	1	2	\$7,700,000
	Universe from which management decisions could be made in this reporting period – Subtotals	1	2	\$7,700,000
C.	Management decision(s) made during this reporting period	0	0	\$0
	(i) Recommendations agreed to by SBA management	0	0	\$0
	(ii) Recommendations not agreed to by SBA management	0	0	\$0
D.	<b>No management decision made by March 31, 2012</b>	<b>1</b>	<b>2</b>	<b>\$7,700,000</b>

<sup>5</sup> Reports may have more than one recommendation

<sup>6</sup> Questioned costs are those that found to be improper.

<sup>7</sup> Unsupported costs may be proper, but lack documentation. Unsupported costs are a subset of questioned costs.

## Appendix IV: OIG Reports with Non-Monetary Recommendations

		Reports	Recommendations
A.	No management decision made by September 30, 2011*	6	21**
B.	Issued during this reporting period	10	91
	Universe from which management decisions could be made in this reporting period – Subtotals	16	112
C.	Management decision(s) made (for at least one recommendation in the report) during this reporting period	6	63
D.	No management decision made by March 31, 2012*	10	49

\* Adding the number of reports for C. & D. will not result in the subtotal of A. & B. because any single report may have recommendations that fall under both C. & D.

\*\* Information is different than previously reported due to database corrections.

## Appendix V: Reports from Prior Periods with Overdue<sup>8</sup> Management Decisions

Title	Report Number	Date Issued	Status
Premier Certified Lenders in the Section 504 Loan Program	10-10	3/23/2010	The Agency has not responded to one recommendation in the report.
SBA's Funding of Information Technology Contracts Awarded to ISIKA Technologies, Inc.	11-14	6/2/2011	The Agency has not responded to five recommendations in the report.
Banco Popular Did Not Adequately Assess Borrower Repayment Ability When Originating Huntington Learning Center Franchise Loans	11-16	7/13/2011	The Agency has not responded to one recommendation in the report.
Release of Collateral by SBA's Disaster Processing and Disbursement Center Raises Concerns	11-17	9/26/2011	The Agency has not responded to one recommendation in the report.

<sup>8</sup> "Overdue" is defined as more than 180 days from the date of issuance.

## Appendix VI: OIG Reports without Final Action as of March 31, 2012

Report Number	Title	Date Issued	Date of Management Decision	Final Action Target Date
0-14	7(a) Service Fee Collections	3/30/00	8/22/00	6/30/11
3-08	SBA's Oversight of the Fiscal Transfer Agent for the 7(a) Loan Program	1/30/03	10/15/03	4/30/12
3-26	Microloan Program	5/12/03	8/28/03	5/21/12
4-34	Audit of SBA's Process for Complying with the Federal Managers' Financial Integrity Act Reporting Requirements	7/29/04	9/9/04	4/30/11
6-10	FY 2005 Financial Statements - Management Letter	1/18/06	3/7/06	9/30/12
6-25	Audit of SBA's Implementation of the Improper Payments Information Act	6/13/06	7/19/06	6/30/12
7-03	Audit of SBA's Fiscal Year 2006 Financial Statements	11/15/06	12/20/06	6/30/11
8-12	Oversight of SBA Supervised Lenders	5/9/08	6/20/08	7/31/12
8-13	Planning for the Loan Management and Accounting System Modernization and Development Effort	5/14/08	8/27/08	12/11/11
9-03	Audit of SBA's Fiscal Year 2008 Financial Statements	11/14/08	9/30/09	12/15/10
9-05	Audit of SBA's Fiscal Year 2008 Financial Statements – Management Letter	12/17/08	2/18/09	4/30/12
9-12	Review of SBA National Guaranty Purchase Center Furniture Contract	3/31/09	3/31/09	10/15/09
9-15	Participation in the 8(A) Program by Firms Owned by Alaska Native Corporations	7/10/09	*	**
9-16	SBA's Fiscal Year 2008 Improper Payment Rate for the 7(A) Guaranty Loan Program	7/10/09	*	**
9-17	Review of Allegations Concerning How the Loan Management and Accounting System Modernization Project is Being Managed	7/30/09	*	**

\* Management decision dates vary with different recommendations.

\*\* Target dates vary with different recommendations.

## Appendix VI: OIG Reports without Final Action as of March 31, 2012

Report Number	Title	Date Issued	Date of Management Decision	Final Action Target Date
10-01	Monitoring of Insurance Coverage for Disaster Loan Recipients	10/20/09	11/6/09	5/31/12
10-04	Audit of SBA's FY 2009 Financial Statements	11/13/09	12/11/09	6/1/10
ROM 10-04	Review of Controls Over Job Creation and Retention Statistics Reports by SBA Under the American Recovery and Reinvestment Act of 2009	12/4/09	*	8/31/11
10-06	Audit of SBA's FY 2009 Financial Statements - Management Letter	12/15/09	1/20/10	**
10-10	Premier Certified Lenders in the Section 504 Loan Program	3/23/10	4/26/10	12/31/11
ROM 10-14	Accuracy of Recovery Act Contract Award Obligations Reported to the Federal Procurement Database System - Next Generation and Recovery.Gov	4/15/10	5/3/10	1/31/12
ROM 10-16	SBA's Planning and Award of the Customer Relationship Management Contracts	6/29/10	3/28/11	**
10-12	Audit of the Assessment of the Community Express Pilot Loan Program	8/25/2010	3/28/2011	11/30/2011
10-14	Adequacy of Quality Assurance Oversight of the Loan Management and Accounting System Project	9/13/10	*	6/13/11
ROM 10-18	Notice of Finding and Recommendation on Lender-Approved ARC Loans to Affiliates	9/22/10	4/1/11	5/31/12
ROM 10-19	Material Deficiencies Identified in Early-Defaulted and Early-Problem Recovery Act Loans	9/24/10	*	**
11-02	Usefulness of the Small Business Innovation Research Tech-Net Database	11/12/10	3/4/11	3/30/12
11-03	Audit of SBA's FY 2010 Financial Statements	11/12/10	*	**
11-05	Audit of SBA's FY 2010 Financial Statements - Management Letter	12/15/10	*	**
ROM 11-01	Improper Allotment of Recovery Act Apportionments	12/15/10	2/9/11	2/28/11

\* Management decision dates vary with different recommendations.

\*\* Target dates vary with different recommendations.

## Appendix VI: OIG Reports without Final Action as of March 31, 2012

Report Number	Title	Date Issued	Date of Management Decision	Final Action Target Date
11-06	Weaknesses Identified During the FY 2010 FISMA Review	1/28/11	3/28/11	**
11-07	Processing of Insurance Recovery Checks at the Disaster Loan Servicing Centers	2/10/11	*	**
11-08	SBA's Procurement of Information Technology Hardware and Software Through Isika Technologies, Inc.	2/25/11	3/30/11	**
ROM 11-04	Quality of SBA's Recovery Act Data on Public Websites	3/22/2011	10/6/11	**
11-10	Management Advisory Report on Records Management and Documentation Process at the Disaster Loan Servicing Centers	3/29/11	6/20/11	**
11-11	Effectiveness of SBA's Surveillance Review Process	3/31/11	*	12/31/11
11-15	Release of Collateral by the Disaster Loan Servicing Centers	6/3/11	6/20/11	4/15/12
ROM 11-05	Material Deficiencies Identified in Four 7(A) Recovery Act Loans Resulted in \$3.2 Million of Questioned Costs	6/29/11	7/19/11	7/12/12
11-16	Banco Popular did not adequately assess Borrower Repayment Ability when Originating Huntington Learning Center Franchise Loans	7/13/11	9/30/11	6/30/12
ROM 11-06	Material Deficiencies Identified in Five 7(A) Recovery Act Loans Resulted in \$2.7Million of Questioned Costs	8/22/11	11/14/11	01/31/12
ROM 11-07	Origination and Closing Deficiencies Identified In 7(a) Recovery Act Loan Approvals	9/30/11	*	**
12-02	Independent Auditors' Report on the SBA's FY 2011 Financial Statements	11/14/11	12/22/11	**
12-05	KPMG Management Letter Communicating Matters Relative to SBA's FY 2011 Financial Statements	12/15/11	*	**
12-06R	Recovery Act 504 Loan Pool Transaction Entry Process	12/15/11	1/24/12	9/30/12

\*\* Target dates vary with different recommendations.

**Appendix VII: Summary of Significant Recommendations from Prior Semiannual Reporting Periods without Final Action as of March 31, 2012**

<b>Report Number</b>	<b>Date Issued</b>	<b>Recommendation</b>	<b>Date of Management Decision</b>	<b>Final Action Target Date</b>
9-12	3/31/09	Establish internal controls that ensure that OBO and OPGM are unable to modify contracts without the appropriate supporting documentation, including a statement of work.	3/31/09	10/15/09
9-15	7/10/09	Conduct a program review to evaluate whether the growth in ANC 8(a) obligations has adversely impacted, or will adversely impact, other 8(a) firms and the overall effectiveness of the 8(a) program and, if so, make programmatic revisions to minimize the adverse impact.	8/4/09	9/30/12
9-15	7/10/09	As part of the recommended program review, determine whether 8(a) firms owned by ANCs and tribes should continue to be exempt from the cap on total sole source awards in CFR 124.519 and, if not, remove the exemption from this regulation.	8/2/09	6/30/11
9-17	7/30/09	Take steps to modify the contract to require the QA/IV & V contractor to report all findings and recommendations to the Program Manager and an independent QA Manager designated by the CIO.	8/28/09	9/30/09
9-17	7/30/09	Establish a process for reviewing and accepting LMAS deliverables that complies with SDM requirements.	8/28/09	9/30/09
9-17	7/30/09	Take steps to ensure that a well-defined deliverable acceptance process is established for the LMAS project in accordance with SBA's Enterprise Quality Assurance Plan.	9/3/09	4/30/11
10-01	10/20/09	Determine the actions needed to achieve compliance with statutory flood insurance monitoring requirements and the cost implications of achieving compliance.	11/6/09	5/31/12
10-01	10/20/09	Develop and execute a plan for achieving compliance on existing and future loans. Alternatively, if achieving compliance is determined to be not cost effective, seek additional funding or a legislative change to the statutory flood insurance requirement.	11/6/09	5/31/12
10-01	10/20/09	Revise SOP 50-52 to clarify what action(s) servicing center personnel should take when borrowers refuse to obtain required hazard insurance.	11/6/09	5/31/12
10-04	11/13/09	Implement a process to monitor the audit logs of all financial applications on a regular basis.	12/11/09	6/1/10

**Appendix VII: Summary of Significant Recommendations from Prior Semiannual Reporting Periods without Final Action as of March 31, 2012**

<b>Report Number</b>	<b>Date Issued</b>	<b>Recommendation</b>	<b>Date of Management Decision</b>	<b>Final Action Target Date</b>
ROM 10-04	12/4/09	Implement the necessary controls to check the reasonableness of data, including user prompts, range checks, and the prevention of negative figures in E-Tran to ensure the accuracy of lender-reported job creation and retention statistics.	2/17/10	8/31/11
ROM 10-04	12/4/09	Implement a data quality review and testing process to determine if job data is properly recorded, classified, and reported.	2/2/10	08/31/11
10-10	3/23/10	Evaluate the need to establish monetary or other guidelines on the level of excess funds that CDCs should retain as a reserve for future operations and/or invest in other local economic development activities.	4/26/10	12/31/11
ROM 10-14	4/15/10	Reconcile Recovery Act contract awards reported to FPDS-NG and Recovery.Gov and report to Recovery.Gov all non-competitive contract awards previously not reported to Recovery.Gov including the eight contract actions identified by the OIG.	5/3/10	1/31/12
ROM 10-16	6/29/10	Exclude the CRM contract awarded to Copper River from SBA calculations used to determine the number of 8(a) program contracts and small business contracts for fiscal year 2009.	3/28/11	9/30/11
ROM 10-16	6/29/10	Work with the OCIO to establish measurable outcomes for the CRM initiative and identify the likelihood that a contractor could meet measurable outcomes in contract evaluation criteria for any future contracts under this initiative.	3/28/11	5/15/11
10-14	9/13/10	Revise the LMAS QA plan to incorporate all the components required by the enterprise-wide QA plan.	10/21/10	6/13/10
10-14	9/13/10	Take steps to hold TestPros accountable for performing the activities specified in its contract.	10/19/10	6/13/10
ROM 10-18	9/22/10	Cancel the loan guaranties and collect any associated interest paid to the lenders for any loans that SBA determines were made to ineligible companies.	4/1/11	5/31/12

**Appendix VII: Summary of Significant Recommendations from Prior Semiannual Reporting Periods without Final Action as of March 31, 2012**

<b>Report Number</b>	<b>Date Issued</b>	<b>Recommendation</b>	<b>Date of Management Decision</b>	<b>Final Action Target Date</b>
ROM 10-19	9/24/10	Implement a process for providing feedback to SBA employees and lenders when deficiencies are identified.	12/17/10	12/15/11
ROM 10-19	9/24/10	Require the lenders to bring the 25 purchased loans with material deficiencies into compliance and recover the \$375,259 in guaranties paid.	4/1/11	02/15/12
ROM 10-19	9/24/10	Flag the other loans that have not yet been purchased to ensure the loan deficiencies are properly addressed at the time of the purchase review.	6/29/11	04/15/12
11-02	11/12/10	Require participating agencies to submit award information to SBA and other participating agencies at the time of award, as required by SBIR Policy Directive, Section 7(a) (iii).	3/4/11	3/30/12
11-03	11/12/10	Coordinate with SBA program offices to: improve the vulnerability tracking and monitoring process to fully address high and medium risk vulnerabilities for key financial systems; ensure that the vulnerability reports are reviewed and analyzed on a regular basis; periodically monitor the existence of necessary services and protocols running on servers and network devices; and develop a more thorough approach to track and mitigate patch management and configuration management vulnerabilities identified during monthly scans.	12/8/10	4/20/11
11-03	11/12/10	Develop a comprehensive security education and training program for all IT security personnel and a method for monitoring the training program.	2/7/11	6/1/11
11-03	11/12/10	Implement and enforce the procedures documented in SOP 90.47.2 for sanitizing media to be disposed and for maintaining a log of employees who sanitize media to validate the appropriateness of the sanitization process.	3/23/11	4/15/11
11-03	11/12/10	Coordinate with program offices using end-user programs containing sensitive data, such as Personally Identifiable Information and financial data, to implement end-user computing procedures in accordance with the guidance.	1/3/11	4/15/11

**Appendix VII: Summary of Significant Recommendations from Prior Semiannual Reporting Periods without Final Action as of March 31, 2012**

<b>Report Number</b>	<b>Date Issued</b>	<b>Recommendation</b>	<b>Date of Management Decision</b>	<b>Final Action Target Date</b>
11-03	11/12/10	Enforce an organization-wide configuration management process, to include policies and procedures for maintaining documentation that supports testing and approvals of software changes.	2/7/11	4/30/11
11-03	11/12/10	Coordinate with SBA program offices to prevent users from anonymously connecting unauthorized devices by developing and implementing procedures to ensure mandatory domain authentication for IP address issuance.	2/10/11	4/15/11
11-03	11/12/10	Coordinate with SBA program offices to develop and implement procedures for user access reviews to ensure that proper access rights are set for financial subsystems.	2/10/11	4/29/11
11-03	11/12/10	Implement procedures and conduct audits of financial system software changes to ensure all changes are sufficiently approved and tested.	12/8/10	1/31/11
11-05	12/15/10	Update the system's program logic to ensure that qualifying loans with executed due process notices will be automatically referred.	2/10/11	11/30/11
11-05	12/15/10	Work with the Chief Information Officer to perform an analysis of loans charged-off in prior years to identify and correct any DCIA non-compliance issues noted.	2/9/11	11/30/11
11-05	12/15/10	Continue to allocate resources as required to timely address charge-offs.	3/7/11	3/7/11
11-05	12/15/10	Work with the HubZone Program Office Director to develop and implement controls to more effectively monitor the execution of its policies and procedures, particularly related to the authorization of payroll transactions and the performance of leave audits, to ensure that they are being followed (e.g., develop policies that require quarterly audits of leave discrepancies).	3/31/11	12/31/11

**Appendix VII: Summary of Significant Recommendations from Prior Semiannual Reporting Periods without Final Action as of March 31, 2012**

<b>Report Number</b>	<b>Date Issued</b>	<b>Recommendation</b>	<b>Date of Management Decision</b>	<b>Final Action Target Date</b>
11-05	12/15/10	Revise the current methodology to maintain and periodically update SBA's organizational structure, functional statements, and charts. Further, the revised methodology should be documented in the SOP.	3/31/11	9/30/11
11-05	12/15/10	Reinforce, through management training, the importance of properly and fully completing the Separation Checklist.	3/31/11	9/30/11
11-05	12/15/10	Continue work with Colson to implement consistent edit checks so that a meaningful monthly comparison and reconciliation can be made between the errors identified by Colson and those identified by SBA.	4/25/11	1/31/12
11-05	12/15/10	Work with the Chief Information Officer to conduct an in-depth analysis of the existing Treasury referral protocol to identify and correct the program coding that is preventing the 139 charged-off loans from being automatically referred.	2/10/11	11/30/11
11-05	12/15/10	Work with the Chief Information Officer to implement interim, quarterly monitoring reviews to identify all charged-off loans where the automatic referral did not occur.	2/9/11	11/30/11
ROM 11-01	12/15/10	Ensure the newly implemented Funds Control System has adequate system controls in place to prevent allotments from exceeding apportioned amounts.	2/9/11	2/28/11
11-06	1/28/11	Update the list of Major Systems to include all the interfaces between each system and all other systems and networks, including those not operated by, or under the control of the agency and obtain written Interconnection Security Agreements for every SBA system that has an interconnection to another system.	3/28/11	9/30/11
11-06	1/28/11	Enforce SOP 90-47 2 requirements for contractor background investigations and perform periodic reviews to ensure that SBA contractors have completed the clearance process prior to accessing sensitive information.	3/28/11	3/31/11
11-06	1/28/11	Establish a program at SBA to manage, control and monitor system interconnections throughout their lifecycle. The program should encompass planning, establishing, maintaining, and terminating system interconnections, including enforcement of security requirements.	3/28/11	9/30/11

**Appendix VII: Summary of Significant Recommendations from Prior Semiannual Reporting Periods without Final Action as of March 31, 2012**

<b>Report Number</b>	<b>Date Issued</b>	<b>Recommendation</b>	<b>Date of Management Decision</b>	<b>Final Action Target Date</b>
11-06	1/28/11	Develop configuration management policies and procedures that address purpose, scope, roles, responsibilities, management commitment, coordination among organizational entities, and compliance.	3/28/11	9/30/11
11-06	1/28/11	Develop and maintain a centralized inventory of all agency hardware and software.	3/28/11	9/30/11
11-06	1/28/11	Revise the SBA Certification and Accreditation Program Description procedural document to reflect the risk management framework approach established in NIST SP 800-37, Rev.1, and the current POA&M process.	3/28/11	6/30/11
11-06	1/28/11	Modify the POA&M reporting tool to comply with the requirements set forth in OMB Memorandum 04-25.	3/28/11	4/30/11
11-06	1/28/11	Develop and test system disaster recovery plans for all of SBA's major systems at least annually and initiate any necessary corrective actions based on test results.	3/28/11	7/30/11
11-07	2/10/11	Identify and recover other DOBs improperly returned during FY 2008, FY 2009, and FY 2010.	4/7/11	4/30/12
11-07	2/10/11	Assign the processing of insurance recovery checks to selected individual(s) at each center and provide them training to allow them to become proficient in calculating duplication of benefits.	4/7/11	4/30/12
11-07	2/10/11	Ensure the servicing centers document all of the information related to the decision to return or retain each check for future reference.	4/19/11	4/30/12
11-08	2/25/11	Instruct the contracting officer to immediately terminate contracts: SBAHQ-09-D-0009, SBAHQ-10-D-0001, and Blanket Purchase Agreement (BPA) SBAHQ-10-A-0001 and re-solicit the information technology (IT) hardware and software requirement using full and open competition procedures.	3/30/11	7/1/11
11-08	2/25/11	Conduct a comprehensive review of data submitted to the Federal Procurement Data System – Next Generation (FPDS-NG) for SBA contracts awarded to iTechnologies, reconcile all discrepancies identified, and correct any inaccurately reported data.	3/30/11	1/31/12

**Appendix VII: Summary of Significant Recommendations from Prior Semiannual Reporting Periods without Final Action as of March 31, 2012**

<b>Report Number</b>	<b>Date Issued</b>	<b>Recommendation</b>	<b>Date of Management Decision</b>	<b>Final Action Target Date</b>
ROM 11-04	3/22/11	Research the \$21,627,140 in this report to determine whether the award has been made or the funds should be deobligated. This research should result in these actions being posted to FPDS.gov.	10/6/11	6/30/12
ROM 11-04	3/22/11	Deploy an independent statistical verification and validation of all SBA transactions awarded and subsequently reported to FPDS.gov.	10/6/11	6/30/12
ROM 11-04	3/22/11	Research the \$695,157 in this report to determine the disposition of these awards and whether Recovery Act funds were actually used to fund the awards. If not, these awards need to be corrected in PRISM, FPDS.gov, and the contract files.	10/6/11	1/31/12
ROM 11-04	3/22/11	Develop and implement a data quality plan that documents processes to ensure timely, accurate, and complete submission of contracts data to USASpending.gov.	10/6/11	6/30/12
ROM 11-04	3/22/11	Implement continuous monitoring procedures to ensure that contractor-reported information is correct and accurate, and that all prime contractors are accurately reporting the use of subcontractors.	10/6/11	12/31/11
11-10	3/29/11	Develop record designation and retention requirements for all loan servicing documents and coordinate with the Office of Management & Administration to incorporate this guidance into SOP 50 52. The requirements should specify which documents should be designated as records, and therefore retained, and for how long.	6/20/11	12/31/11

**Appendix VII: Summary of Significant Recommendations from Prior Semiannual Reporting Periods without Final Action as of March 31, 2012**

<b>Report Number</b>	<b>Date Issued</b>	<b>Recommendation</b>	<b>Date of Management Decision</b>	<b>Final Action Target Date</b>
11-10	3/29/11	Revise SOP 50 52 to include a requirement to preserve the analyses performed to conduct all servicing actions. A summary of the analysis should be present on the Form 327 and the detail of the analysis should accompany the SBA Form 327 action. The analysis should include sufficient detail to permit an outside party, not connected with the transaction, to verify the accuracy of the decision.	6/20/11	12/31/11
11-10	3/29/11	Refine the electronic recordkeeping system to facilitate usability so that all documents of a specific type and for a specific range of dates can be located and retrieved.	6/20/11	4/15/12
11-11	3/31/11	Take the appropriate steps to amend SBA's selection criteria to include errors identified in GC's anomaly reports, data on 8(a) contracting activity, and inquiries to SBA's 8(a) Business Development staff on suspected problems on 8(a) contract execution.	7/7/11	12/31/11
11-11	3/31/11	Take the appropriate steps to amend SBA's selection criteria to eliminate those criteria that do not indicate risk with the contracting activity, i.e. availability to staff within commuting distance.	7/12/11	12/31/11
11-11	3/31/11	Take the appropriate steps to develop and implement a strategy that ensures contracting activities that meet SBA's selection criteria are identified, prioritized on a nation-wide basis, and targeted for a surveillance review.	7/7/11	12/31/11
11-11	3/31/11	Take the appropriate steps to determine (a) the level of effort needed to establish an effective monitoring process for small business procurement activities and (b) the amount of resources needed to implement such a process.	7/7/11	12/31/11
11-11	3/31/11	Take the appropriate steps to request resources from the Agency or through the annual budget process as appropriate (Based on the results from Recommendation #3).	7/7/11	12/31/11

**Appendix VII: Summary of Significant Recommendations from Prior Semiannual Reporting Periods without Final Action as of March 31, 2012**

<b>Report Number</b>	<b>Date Issued</b>	<b>Recommendation</b>	<b>Date of Management Decision</b>	<b>Final Action Target Date</b>
11-11	3/31/11	Revise Chapter 4, "How Do I Perform a Surveillance Review?" and corresponding appendices. Update SOP 60 02 7, Prime Contracts Program, to modify definitions of rating categories to minimize subjectivity within each rating category, including examples of major and minor deficiencies.	7/7/11	12/31/11
11-11	3/31/11	Revise Chapter 4, "How Do I Perform a Surveillance Review?" and corresponding appendices. Update SOP 60 02 7, Prime Contracts Program, to include (1) 8(a) Business Development Program specific requirements as identified in the Partnership Agreements and Procedural Notice 8000-632; and (2) 8(a) Business Development Program in Appendix 7, Analysis of Contract Files and Appendix 8, Interview Questions.	7/7/11	12/31/11
11-11	3/31/11	Revise Chapter 4, "How Do I Perform a Surveillance Review?" and corresponding appendices. Update SOP 60 02 7, Prime Contracts Program, to establish a formal follow-up process that ensures PCRs receive copies of final reports and follow-up on deficiencies and recommendations.	7/7/11	12/31/11
11-11	3/31/11	Issue written instructions to remind surveillance review teams to address all interview and contract review checklist questions.	7/7/11	12/31/11
11-11	3/31/11	Issue written instructions to remind surveillance review teams to evaluate whether contracting activities are monitoring the performance of work requirements on contracts they administer.	7/7/11	12/31/11
11-11	3/31/11	Develop and implement a plan to ensure that surveillance review reports are issued to the contracting activity that was reviewed within a specific timeframe.	7/7/11	12/31/11

**Appendix VII: Summary of Significant Recommendations from Prior Semiannual Reporting Periods without Final Action as of March 31, 2012**

<b>Report Number</b>	<b>Date Issued</b>	<b>Recommendation</b>	<b>Date of Management Decision</b>	<b>Final Action Target Date</b>
11-14	6/2/11	Establish procedures to discontinue SBA's practice of inappropriately obligating funds on contracts in anticipation of future needs.	Overdue	Target date not established.
11-14	6/2/11	Review all ongoing SBA indefinite delivery/indefinite quantity contracts as a part of good financial management practices to ensure that task orders are being issued in accordance with Federal Acquisition Regulation Subpart 165.505 and not as a tool to inappropriately obligate funds.	Overdue	Target date not established.
11-15	6/3/11	Provide additional training to servicing center staff to increase proficiency in performing appropriate release of collateral.	6/20/11	04/15/12
ROM 11-05	6/29/11	Seek recovery of \$373,532, plus interest, from Chetco Federal Credit Union on the guaranty paid by SBA for the loan to The Henry Group of Oregon, LLC.	7/19/11	07/12/12
11-16	7/13/11	Seek recovery of the loan guaranties, less any recoveries, paid in connection with the 10 defaulted loans and their associated lines of credit.	Overdue	Target date not established.
ROM 11-06	8/22/11	Ensure all SBA loan officers involved in the loan approval and purchase processes understand and implement the steps necessary to identify all affiliates and determine their impact on repayment ability, size, and SBA's guaranty percentage.	11/14/11	1/31/12
ROM 11-07	9/26/11	Flag the 10 lender-approved loans with identified deficiencies that pose an approximate \$3 million risk of loss to the SBA to ensure the deficiencies are properly addressed if the loans default and are submitted for purchase. Further, notify the OIG of any denials, repairs, withdrawals, or cancellations of SBA's guaranties made as a result of the deficiencies identified during the purchase reviews.	12/12/11	06/30/12
10-01	10/20/09	Revise SOP 50-52 to clarify what action(s) servicing center personnel should take when borrowers refuse to obtain required hazard insurance.	11/6/09	5/31/12

**Appendix VII: Summary of Significant Recommendations from Prior Semiannual Reporting Periods without Final Action as of March 31, 2012**

<b>Report Number</b>	<b>Date Issued</b>	<b>Recommendation</b>	<b>Date of Management Decision</b>	<b>Final Action Target Date</b>
10-04	11/13/09	Implement a process to monitor the audit logs of all financial applications on a regular basis.	12/11/09	6/1/10
ROM 10-04	12/4/09	Implement the necessary controls to check the reasonableness of data, including user prompts, range checks, and the prevention of negative figures in E-Tran to ensure the accuracy of lender-reported job creation and retention statistics.	2/17/10	8/31/11
ROM 10-04	12/4/09	Implement a data quality review and testing process to determine if job data is properly recorded, classified, and reported.	2/2/10	8/31/10
10-10	3/23/10	Evaluate the need to establish monetary or other guidelines on the level of excess funds that CDCs should retain as a reserve for future operations and/or invest in other local economic development activities.	4/26/10	12/31/11

**Appendix VIII: Summary of Significant Recommendations October 1, 2011 - March 31, 2012**

<b>Report Number</b>	<b>Title</b>	<b>Date Issued</b>	<b>Recommendation</b>
12-02	Independent Auditor's Report on the SBA's FY 2011 Financial Statements	11/14/2011	The CIO coordinate with SBA program offices to enhance security vulnerability management processes. Specifically, the SBA should: (a) redistribute procedures and train employees on the process for reviewing and mitigating security vulnerabilities, (b) periodically monitor the existence of unnecessary services and protocols running on their servers and network devices, (c) perform vulnerability assessments with administrative credentials and penetration tests on all SBA offices from a centrally managed location with a standardized reporting mechanism that allows for trending, on a regularly scheduled basis in accordance with NIST guidance, (d) develop a more thorough approach to track and mitigate configuration management vulnerabilities identified during monthly scans, and (e) monitor security vulnerability reports for necessary or required configuration changes to their environment.
12-02	Independent Auditor's Report on the SBA's FY 2011 Financial Statements	11/14/2011	The CIO coordinate with SBA program offices to update the VAT procedures, to include: (a) updating the VAT policies and procedures in accordance with NIST, (b) performing technical reviews of the results for critical issues that need immediate action and take timely corrective action, (c) executing procedures to monitor the completion of the patch management deployment across the SBA enterprise, and (d) prioritizing vulnerabilities as part of the ongoing continuous monitoring process.
12-02	Independent Auditor's Report on the SBA's FY 2011 Financial Statements	11/14/2011	The CIO coordinate with SBA program offices to prevent users from anonymously connecting unauthorized devices by developing and implementing procedures to ensure mandatory domain authentication for Internet Protocol (IP) address issuance.
12-02	Independent Auditor's Report on the SBA's FY 2011 Financial Statements	11/14/2011	The CIO coordinate with SBA program offices to ensure users' access rights are authorized prior to gaining access to financial systems.
12-02	Independent Auditor's Report on the SBA's FY 2011 Financial Statements	11/14/2011	The CIO coordinate with SBA program offices to fully implement the SBA entity wide incident management and response program and ensure that procedures are enforced.
12-02	Independent Auditor's Report on the SBA's FY 2011 Financial Statements	11/14/2011	The CIO coordinate with SBA program offices to ensure that information systems hosted by third parties comply with SBA policy and NIST guidance.

## Appendix VIII: Summary of Significant Recommendations October 1, 2011 - March 31, 2012

Report Number	Title	Date Issued	Recommendation
12-02	Independent Auditor's Report on the SBA's FY 2011 Financial Statements	11/14/2011	The CIO coordinate with SBA program offices to develop and implement procedures for user access reviews to ensure that proper access rights are set for financial subsystems.
12-02	Independent Auditor's Report on the SBA's FY 2011 Financial Statements	11/14/2011	The CIO coordinate with SBA program offices to oversee the review and validation of financial system accounts on a quarterly basis.
12-02	Independent Auditor's Report on the SBA's FY 2011 Financial Statements	11/14/2011	The CIO coordinate with SBA program offices to implement a process to monitor the audit logs of all financial applications on a regular basis.
12-02	Independent Auditor's Report on the SBA's FY 2011 Financial Statements	11/14/2011	The CIO coordinate with the CFO to restrict access to software program libraries based on the principle of least privilege, and implement compensating controls over actions where limited resources cause individuals to perform conflicting job functions.
12-02	Independent Auditor's Report on the SBA's FY 2011 Financial Statements	11/14/2011	The CIO coordinate with the CFO to ensure that DBA and system administrator access is restricted through role-based segregation of duties and managed through an effective audit log review process.
12-02	Independent Auditor's Report on the SBA's FY 2011 Financial Statements	11/14/2011	The CIO develop a comprehensive security education and training program for all IT security personnel and a method for monitoring the training program.
12-02	Independent Auditor's Report on the SBA's FY 2011 Financial Statements	11/14/2011	The CIO enforce an organization-wide configuration management process, to include policies and procedures for maintaining documentation that supports testing and approvals of software changes.
12-02	Independent Auditor's Report on the SBA's FY 2011 Financial Statements	11/14/2011	The CIO implement configuration management policies and procedures for document retention (to include supporting evidence) to validate the authorization of operating system changes.
12-02	Independent Auditor's Report on the SBA's FY 2011 Financial Statements	11/14/2011	The CIO enforce existing SBA policies to rotate backups off-site.
12-02	Independent Auditor's Report on the SBA's FY 2011 Financial Statements	11/14/2011	The CIO coordinate with the CFO to create, implement, and test system specific and the HQ COOP.

## Appendix VIII: Summary of Significant Recommendations October 1, 2011 - March 31, 2012

Report Number	Title	Date Issued	Recommendation
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	The Associate Administrator, Government Contracting and Business Development revise the Goaling Guidelines for the Small Business Preference Programs to include contracts awarded and/or performed overseas in the small business goaling baseline beginning with fiscal year 2011.
12-07	The SBA's Improper Payment Review and Reporting for its Contracting Activities did not Comply with IPERA and IPIA Requirements During FY 2011	3/8/2012	Develop and implement a more robust test plan that provides reasonable assurance of detecting improper payments within the program during FY 2012.
12-07	The SBA's Improper Payment Review and Reporting for its Contracting Activities did not Comply with IPERA and IPIA Requirements During FY 2011	3/8/2012	Determine the underlying causes of the contracting activities improper payments for the FY2011 IPERA review and develop and implement a robust Corrective Action Plan and a Payment Recapture Audit Plan for the improper payments of its contracting activities for FY2011 or obtain a written waiver from OMB.
12-07	The SBA's Improper Payment Review and Reporting for its Contracting Activities did not Comply with IPERA and IPIA Requirements During FY 2011	3/8/2012	Provide contract training to the SBA personnel responsible for developing the test plan and performing the agency's improper payment review to ensure the detection of improper payments.
12-07	The SBA's Improper Payment Review and Reporting for its Contracting Activities did not Comply with IPERA and IPIA Requirements During FY 2011	3/8/2012	Develop procedures to annually review the SBA's Corrective Action Plan to determine if actions are sufficient.
12-07	The SBA's Improper Payment Review and Reporting for its Contracting Activities did not Comply with IPERA and IPIA Requirements During FY 2011	3/8/2012	Submit to the Senate Homeland Security and Government Affairs Committee and the House Committee on Oversight and Governmental Reform within 90 days of this memorandum a plan that includes: (a) Measurable milestones for becoming compliant with IPERA; (b) designation of an accountable senior agency official; and (c) The establishment of an accountability mechanism, describing the actions the agency will take to become compliant.

## Appendix VIII: Summary of Significant Recommendations October 1, 2011 - March 31, 2012

Report Number	Title	Date Issued	Recommendation
12-08	SBA's Lender Loan Reporting Process has Systemic Reporting Issues and Data Control Weaknesses	2/23/2012	The Associate Administrator, Office of Capital Access, research, and correct loans that have not been reported within the Electronic Loan Information Processing System (ELIPS) for a significant length of time (i.e. 6 months or more) which contribute to subsidy overstatements currently estimated at \$5.2 million.
12-08	SBA's Lender Loan Reporting Process has Systemic Reporting Issues and Data Control Weaknesses	2/23/2012	The Associate Administrator, Office of Capital Access, utilize the "lender exception" detail reports to identify and address lenders that consistently do not report loans and issue corrective action plans.
12-08	SBA's Lender Loan Reporting Process has Systemic Reporting Issues and Data Control Weaknesses	2/23/2012	The Associate Administrator, Office of Capital Access, ensure that currently operated systems are authorized for operation and meet the requirements of applicable NIST guidance and that any new system meets this requirement before becoming operational.
12-08	SBA's Lender Loan Reporting Process has Systemic Reporting Issues and Data Control Weaknesses	2/23/2012	The Associate Administrator, Office of Capital Access, collect the \$2.5 million in secondary market late penalty fees by either billing lenders or offsetting against any guarantee purchase amounts.
12-10	FY 2011 Review of SBA's Improper Payments	3/15/2012	The Associate Administrator for Capital Access adjust the risk assessment to separately assess the risk of improper 7(a) guaranty loan approvals and improper 7(a) guaranty default.
12-10	FY 2011 Review of SBA's Improper Payments	3/15/2012	The Associate Administrator for Capital Access adjust the testing process for 7(a) loan approvals to ensure all necessary documentation is obtained and a determination is made as to whether the loans were approved in compliance with the relevant program regulations and requirements.
12-10	FY 2011 Review of SBA's Improper Payments	3/15/2012	The Associate Administrator for Capital Access, upon revising the improper payments test procedures and estimating an accurate rate of improper payments, develop a corrective action plan for 7(a) loan approvals that correctly addresses root causes and will reduce improper payments.
12-10	FY 2011 Review of SBA's Improper Payments	3/15/2012	The Associate Administrator for Capital Access require loan officers to thoroughly evaluate creditworthiness (including repayment ability) on early default loans during both guaranty purchase and improper payment reviews.
12-10	FY 2011 Review of SBA's Improper Payments	3/15/2012	The Associate Administrator for Capital Access determine and report an accurate statistically valid estimate of improper 7(a) default purchases for FY 2012 in the next Agency Financial Report.

## Appendix VIII: Summary of Significant Recommendations October 1, 2011 - March 31, 2012

Report Number	Title	Date Issued	Recommendation
12-10	FY 2011 Review of SBA's Improper Payments	3/15/2012	The Associate Administrator for Capital Access, upon completing the revised improper payment rate projection for 7(a) purchases, conduct a detailed, and objective cost/benefit analysis for payment recapture audits of 7(a) purchases.
12-10	FY 2011 Review of SBA's Improper Payments	3/15/2012	The Associate Administrator for Capital Access assess the risk of approving ineligible loans within the 504 loan program.
12-10	FY 2011 Review of SBA's Improper Payments	3/15/2012	The Associate Administrator for Capital Access adjust the testing process for 504 loan approvals to ensure all necessary documentation is obtained and reviewed and a determination is made as to whether the loans were approved in compliance with the relevant SBA program regulations and requirements.
12-10	FY 2011 Review of SBA's Improper Payments	3/15/2012	The Associate Administrator for Capital Access, upon revising the improper payments test procedures and estimating an accurate rate of improper payments, develop a corrective action plan for 504 loan approvals that correctly addresses root causes and will reduce improper payments.
12-10	FY 2011 Review of SBA's Improper Payments	3/15/2012	The Associate Administrator for Disaster Assistance develop a corrective plan that identifies all root causes and develop a methodology to reduce the errors associated with each root cause.
12-10	FY 2011 Review of SBA's Improper Payments	3/15/2012	The Associate Administrator for Disaster Assistance, perform detailed analysis of the cost-effectiveness of a payment recapture audit program. Such analysis should conclude whether the benefits of a recapture program would exceed the costs. If so, a payment recapture audit program should be implemented.
12-11R	High-Dollar Early-Defaulted Loans Require an Increased Degree of Scrutiny and Improved Quality Control at the National Guaranty Purchase Center	3/23/2012	The Director, Office of Financial Program Operations establish a specialized unit of well-trained, highly experienced loan specialists to perform purchase reviews with the level of scrutiny necessary to identify all material deficiencies on early-defaulted loans approved for \$500,000 or more.
12-12	The SBA's Office of International Trade Inappropriately Awarded a One Million Dollar State Trade and Export Promotion (STEP) Program Grant to an Ineligible Recipient	3/30/2012	The Associate Administrator for the Office of International Trade withhold fund disbursements of grant number SBAHQ-11-IT-0047 to the Commonwealth of the Northern Mariana Islands. In the event that funds are disbursed between the issuance of the draft version and final version of this Advisory Memorandum, recover all funds that were disbursed.

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**Appendix VIII: Summary of Significant Recommendations October 1, 2011 - March 31, 2012**

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<b>Report Number</b>	<b>Title</b>	<b>Date Issued</b>	<b>Recommendation</b>
12-12	The SBA's Office of International Trade Inappropriately Awarded a One Million Dollar State Trade and Export Promotion (STEP) Program Grant to an Ineligible Recipient	3/30/2012	The Associate Administrator for the Office of International Trade take precautions to ensure the Commonwealth of the Northern Mariana Islands or any other ineligible applicant is not awarded a STEP grant in future years, unless Congress modifies the Small Business Jobs Act to make the Commonwealth of the Northern Mariana Islands eligible.

## Appendix IX: Cosponsored and Other Activities

Name or Subject of Event	Name of Cosponsor(s)	Location of Event	Date Fully Executed
2012 SBA Maryland Small Business Week Awards Breakfast and Trade Show	Baltimore DO - Maryland Small Business Week Awards Program, Inc.	Woodlawn, MD	2/2/2012
Workshop: Social Media - Recipe for Success	Baltimore DO - Business and Professional Women	Timonium, MD	2/27/2012
2012 Emerging Leaders (E200)	Baltimore DO - Baltimore City Small Business Resource Center, MD Department of Business and Economic Development, MD SBDC, Greater Baltimore SCORE Chapter #3, Greater Baltimore Committee, Women Entrepreneurs of Baltimore, Baltimore City Chamber of Commerce, Greater Baltimore Black Chamber of Commerce, Baltimore Hispanic Chamber of Commerce, Baltimore County Chamber of Commerce, Morgan State University Entrepreneurial Development Center, Meridian Management Group, Inc.	Baltimore, MD	3/26/2012
2012 Emerging Leaders (E200)	Boston DO - Hispanic-American Chamber of Commerce, City of Boston Dept. of Neighborhood Dev., University of Massachusetts Amherst through the Massachusetts SBDC, SCORE, Center for Women & Enterprise, Inc., State Office of Supplier Diversity, First Trade Union Bank, Mercantile Bank, Eastern Bank, Boston Private Bank, Century Bank	Boston, MA	3/28/2012
Small Business Community Outreach Event	Cincinnati BO - Greater Cincinnati SCORE Chapter 34, Huntington Bank, First Financial Bank, U.S. Bank, Chase Bank, Fifth Third Bank, Key Bank, PNC Bank, Kemba Credit Union, Sharefax Credit Union, Bad Girl Ventures, Hamilton County Development Corporation, Cincinnati Micro-Enterprise Corporation, Community Action Agency, Urban League, Cincinnati Hispanic Chamber of Commerce, African-American Chamber of Commerce, Cincinnati USA Regional Chamber, Corinthian Baptist Church, Office of Ohio State Treasurer	Cincinnati, OH	3/23/2012
Train Your People, Grow Your Business	Connecticut DO-West Hartford Chamber of Commerce	West Hartford, CT	1/31/2012
Women in Business for Women Who Mean Business	Connecticut DO-West Hartford Chamber of Commerce	West Hartford, CT	1/31/2012

## Appendix IX: Cosponsored and Other Activities

Name or Subject of Event	Name of Cosponsor(s)	Location of Event	Date Fully Executed
2012 Emerging Leaders (E200)	Dallas/Fort Worth Texas DO - North Texas SBDC Network, Dallas Black Chamber of Commerce, Greater Dallas Asian American Chamber of Commerce, DFW Minority Supplier Development Council, Greater Dallas Hispanic Chamber of Commerce	Dallas, TX	3/12/2012
Successful Child Care-The Bottom Line Starts with Quality	Delaware DO-State of Delaware, Department of Services for Children, Youth and their Families - Office of Child Care Licensing, Delaware State University - Delaware Center for Enterprise Development, Delaware Economic Development Office, University of Delaware - Delaware Small Business & Technology Development Center, First State Community Loan Fund, State of Delaware - Department of Health & Social Services, Delaware Institute for Excellence in Early Childhood	Dover, DE	3/21/2012
2012 Emerging Leaders (E200)	Des Moines DO - Greater Des Moines Partnership, Iowa Department of Economic Development, City of Des Moines Office of Economic Development, The Corp. for Economic Development in Des Moines, ISED Ventures, United Way of Central Iowa, VentureNet Iowa, State Public Policy Group, Inc., Iowa SBDC, SCORE, Business Innovation Zone, Neighborhood Dev. Corp., Des Moines Area Community College, Iowa State Bank, Wells Fargo, US Bank, Bankers Trust,	Des Moines, IA	2/29/2012
Youth Entrepreneur Series Event (YES Event)	Georgia DO-Board of Regents of the University System of Georgia - Georgia Institute of Technology - Georgia Tech Enterprise Innovation Institute	Atlanta, GA	2/22/2012
2012 Emerging Leaders (E200)	Georgia DO - Invest Atlanta dba Atlanta Development Authority, Atlanta Workforce Development Agency, Women's Economic Development Agency, Minority Business Development Agency, SCORE Atlanta Chapter	Atlanta, GA	3/15/2012
Doing Business with the Government	Hawaii DO - US Department of Transportation - Hawaii, Honolulu Minority Business Center	Honolulu, HI	2/10/2012
HUBZone Outreach Events - From Job Creation to Economic Development	HQ/GCBD - District of Columbia: Department of Small and Local Business Development and Chamber of Commerce	Washington, DC	2/16/2012

## Appendix IX: Cosponsored and Other Activities

Name or Subject of Event	Name of Cosponsor(s)	Location of Event	Date Fully Executed
National Small Business Week 2012	HQ OCPL-SCORE	Washington, DC	1/31/2012
Work at Home Business Workshop	Los Angeles DO - Work at Home Business Expo	Glendale, CA	3/6/2012
Lender and Business Matchmaker	Maine DO - Maine Centers for Women, Work and Community, Federal Reserve Bank of Boston, Maine SCORE Chapter 305, Federal Home Loan Bank of Boston	Augusta, ME	2/22/2012
Leap Into Business: Young Entrepreneur Program	Montana DO - Helena Young Professionals, Carroll College and the University of Montana – College of Technology	Helena, MT	2/13/2012
2012 New Mexico Small Business Week Awards Luncheon and Expo Event	New Mexico DO - Santa Fe Community College through New Mexico Small Business Development Center	Albuquerque, NM	2/29/2012
New Mexico SBA and New Mexico SBDC PTAP Workshops	New Mexico DO - New Mexico Small Business Development Center Procurement Technical Assistance Program	New Mexico	3/10/2012
Lehigh Valley Lender Match & Business Resource Expo	Philadelphia DO-Community Action Committee of the Lehigh Valley, Lehigh University Small Business Development Center, Lehigh Valley Economic Development Corporation, Lehigh Valley SCORE, Nazareth Area Chamber of Commerce, Pennsylvania Community Development & Finance Corporation, Slate Belt Chamber of Commerce, Whitehall Area Chamber of Commerce	Bethlehem, PA	1/24/2012
Meet The Lenders and Counselors, Southeastern Pennsylvania	Philadelphia DO - NBC 10 Philadelphia, SCORE Montgomery County Chapter 513	King of Prussia, PA	3/14/2012
Federal Contracting Matchmaking Event	Puerto Rico & Virgin Islands DO-Colegio de Ingenieros y Agrimensores de Puerto Rico	San Juan, PR	3/6/2012
Small Business Week Breakfast and Awards Ceremony	Puerto Rico DO - Puerto Rico Bankers Association	San Juan, PR	3/6/2012
Annual Celebration of Small Business in Virginia	Richmond DO-Small Business Awards Foundation, Inc.	Richmond, VA	2/2/2012
Series of Government Contracting & Business Development Workshops & Matchmaker Events	Rhode Island DO - Rhode Island Manufacturing Extension Service - Rhode Island Procurement Technical Assistance Center	Providence, RI	2/10/2012

## Appendix IX: Cosponsored and Other Activities

Name or Subject of Event	Name of Cosponsor(s)	Location of Event	Date Fully Executed
Small Business Government Contracting Matchmaker Fair	Rhode Island DO-Office of U.S. Senator Sheldon Whitehouse, Rhode Island Small Business Development Center, Center for Women & Enterprise, Joseph G.E. Knight SCORE Chapter 13, Rhode Island Procurement Technical Assistance Center	Warwick, RI	2/22/2012
Small Business Workshop Series	Rhode Island DO - City of Providence Department of Planning and Development, Rhode Island Small Business Development Center, Center for Women & Enterprise	Providence, RI	3/14/2012
Southwest Veterans' Business Resource Center & SBA Small Business Summit 2012	Santa Ana DO-Southwest Veterans' Business Resource Center	Perris, CA	1/24/2012
4th Annual Small Business Resource Expo	Santa Ana DO - Greater Riverside Chambers of Commerce	Riverside, CA	3/14/2012
Small Business Week Awards	Santa Ana DO - Inland Empire Small Business Development Center	Riverside, CA	3/21/2012
Export Trade Assistance Program	Santa Ana DO-Rancho Santiago Community College District Center for International Trade Development, Riverside County Economic Development Agency-Office of Foreign Trade, Inland Empire U.S. Export Assistance Center	Santa Ana, CA	1/24/2012
Modernizing Your Business in 2012	Santa Ana DO - Chamber of Commerce for Hispanic Entrepreneurs	Santa Ana, CA	2/10/2012
International Market Insights	Santa Ana DO-Irvine Chamber of Commerce, U.S. Commercial Service	Irvine, CA	1/31/2012
Small Business Seminar Series	Santa Ana DO - City of Cypress - Redevelopment Projects Office	Cypress, CA	3/14/2012
Women Business Owners Conference	Santa Ana DO - Institute for Women Entrepreneurs, Orange County SCORE 114	Anaheim, CA	3/21/2012
Salute to Small Business	South Carolina DO - South Carolina Chamber of Commerce, University of South Carolina - Small Business Development Center of South Carolina, South Carolina Department of Commerce, ECI/Find New Markets, SCORE Midlands SC Chapter, South Carolina Manufacturing Extension Partnership, U.S. Department of Agriculture – Rural Development Administration, U.S. Department of Commerce – U.S. Export Assistance Center	Columbia, SC	3/8/2012
Small Business Week 2012	St. Louis DO - Small Business Week of Eastern Missouri, Inc.	St. Louis, MO	3/1/2012
Equal Opportunity & Entrepreneurs: In Harmony with the EEOC (via webinar)	St. Louis DO - U.S. Equal Employment Opportunity Commission	St. Louis, MO	3/14/2012

## Appendix IX: Cosponsored and Other Activities

Name or Subject of Event	Name of Cosponsor(s)	Location of Event	Date Fully Executed
OPERATION: Start Up and Grow	Syracuse DO-Entrepreneurship Bootcamp for Veterans with Disabilities, M&T Bank, New York Business Development Corporation, NY Veteran Business Outreach Center, Onondaga Community College , Onondaga Small Business Development Center, The Tech Garden , The WISE Women's Business Center, Martin J. Whitman School of Management - Department of Entrepreneurship & Emerging Enterprises - Falcone Center for Entrepreneurship at Syracuse University	Syracuse, NY	2/10/2012
Small Business Excellence Award Recognition	Syracuse DO-New York Business Development Corporation	Syracuse, NY; Albany, NY	2/10/2012
2012 Emerging Leaders (E200)	Syracuse DO - Onondaga SBDC, The WISE Women's Business Center, Syracuse SCORE, CenterState Corp. for Economic Opportunity, The Tech Garden, The Falcone Center for Entrepreneurship, SUNY ESF, CNY Technology Dev. Organization, Inc., MACNY, Syracuse University, The Downtown Committee of Syracuse, Inc., The City of Syracuse Office of Neighborhood and Business Dev.	Syracuse, NY	3/28/2012
Small Business Awards Luncheon	Utah DO - Mountain West Small Business Finance CDC, Utah Certified Development Company	Salt Lake City, UT	3/8/2012
Vermont Small Business Award Winners 2012	Vermont DO-Vermont Business Magazine	Shelburne, VT	2/8/2012
Spring Business Fair	Vermont DO-City of Burlington Community and Economic Development Office, Champlain Valley Office of Economic Opportunity Micro Business Development Program	Burlington, VT	2/22/2012
Contracting Workshop Series	Vermont DO - Vermont Tech-Vermont Small Business Development Center, Vermont Procurement Technical Assistant Center	Montpelier, VT	2/27/2012
Women's Network for Entrepreneurial Training (WNET) Business Roundtables	Wyoming DO-First Interstate Bank	Casper, WY	1/13/2012
Business Roundtables	Wyoming DO-Atlantic City Federal Credit Union, Wind River Development Fund	Fort Washakie, WY	1/24/2012
Torrington Business Roundtables	Wyoming DO - Goshen County Economic Development Corporation, Wyoming Women's Business Center	Torrington, WY	2/10/2012

## Appendix X: Legal Actions Summary October 1, 2011- March 31, 2012

State	Program	Jointly with	Alleged Violation(s) Prosecuted	Legal Action
AZ	BL	FBI	An individual allegedly used his father's identity to obtain two mortgage loans and an SBA 504 loan. In order to get the loans approved, the son allegedly misrepresented that the father owned various properties and businesses, had large amounts of cash on hand, and earned a six-figure salary. The loss on the SBA loan is over \$2.4 million.	Individual indicted.
DC	GC	FBI, IRS/CI Army/CID DCIS	Government officials received bribes from participants in SBA programs (i.e. 8(a), Alaska Native Corporation, Service-Disabled/Veteran Owned, etc.) in return for the award of contracts. The same government officials then certified receipt of goods and services and authorized payment of fraudulent invoices submitted by the contractors. The contractors then provided a portion of the proceeds to the government officials, paid kickbacks to other contractors, and retained portions for themselves. The bribe and kickback payments exceed \$20 million.	Seven individuals charged, of which four have pled guilty. To date, forfeiture related to this case includes cash, real property, automobiles, and fine jewelry.
DC	GC	FBI, VA/OIG, GSA/OIG, DOL/OIG IRS/CI Army/CID DCIS	The executive vice-president of a government contracting firm submitted false information to federal agencies to procure and set prices on federal contracts. A second individual, the executive vice president of another government contracting firm, is alleged to have submitted false information to the SBA regarding his company's status as both Service Disabled Veteran Owned (SDVO) and Historically Underutilized Business Zone (HUBZone) small business concerns.	Two individuals charged; one pled guilty.
DC	IA	None	A former SBA program manager used a government travel card to rent automobiles for personal use and forged her supervisor's signature on travel authorizations and vouchers. As a result of the employee's false claims, the government paid fraudulent travel costs totaling \$7,919.68.	Former SBA employee sentenced to 30 months' probation and \$11,735.79 in restitution.

## Appendix X: Legal Actions Summary October 1, 2011- March 31, 2012

State	Program	Jointly with	Alleged Violation(s) Prosecuted	Legal Action
FL	GC	DCIS	Two individuals created an undisclosed affiliate of a larger company in order to bid on government small business set-aside contracts. The undisclosed affiliate obtained a \$100 million set-aside contract with the Department of Defense for language instruction.	Two individuals convicted in a jury trial. Jury also determined.
GA	BL	FBI	The owner of a day care facility conspired with another individual to orchestrate what appeared to be the sale of the school, via a 504 loan package worth \$3,175,000. In reality, the owner never intended to relinquish possession of the school and used the proceeds of the loan to continue to operate the business.	Owner sentenced to 30 months in prison, 36 months supervised release, and restitution of \$1,675,213.
GA	GC	VA/OIG, USDA/OIG, Army/CID, DHS/OIG	The president of a construction company allegedly operated a scheme to fraudulently use the status of a legitimate service-disabled veteran to obtain government contracts set aside for Service-Disabled, Veteran-Owned small businesses. The contracts obtained were valued at over \$2.7 million.	President indicted.
ID	GC	IRS/CI, VA/OIG, GSA/OIG, USDA/OIG, DOI/OIG, DCIS, AFOSI Army/CID	Two construction companies fraudulently purported to have SBA HUBZone status based upon false claims that their principal places of business were located in HUBZones and that two employees from each company resided in HUBZones. Contracts obtained as a result of false claims by the two companies total over \$1.6 million.	Both company presidents pled guilty on behalf of their companies to criminal informations.
IL	IA	FBI	A former SBA lender relations officer recommended selling 25 delinquent loans to his stepbrother and his son-in-law for substantially less than they were worth. He did not disclose to the SBA the true value of each loan or the familial relationships when making the recommendations.	Former SBA lender relations officer sentenced to 33 months in prison, 3 years supervised release, and \$400,000 in restitution.
IL	GC	VA/OIG, DCIS, USSS	A former associate director of a federal government outpatient pharmacy and his wife created a company to provide temporary pharmacists to the government. The company received SBA certification as a woman-owned, minority-owned, and 8(a) program participant. The couple allowed another company to masquerade as their company and fraudulently qualify for set-aside contracts. This scheme resulted in the government being billed for more than \$8 million in services.	Former associate director sentenced to 60 months in prison; wife sentenced to 24 months' probation. The couple and their company ordered to pay \$400,000 restitution, jointly and severally.

## Appendix X: Legal Actions Summary October 1, 2011- March 31, 2012

State	Program	Jointly with	Alleged Violation(s) Prosecuted	Legal Action
KY	BL	USSS	An individual used the identity of his business partner, a federal air marshal, to obtain an SBA Express Loan and multiple credit card accounts.	Individual pled guilty.
LA	DL	HUD/OIG, DHS/OIG, MSGA	An individual misrepresented the location of his primary residence when applying for Hurricane Katrina disaster assistance from multiple agencies. He was approved for an SBA loan of \$88,000, but only received a disbursement of \$10,000.	Individual sentenced to 6 months in a halfway house, 6 months home detention, and 2 years supervised release. He was also ordered to pay \$55,602.63 in restitution and a \$10,000 fine.
LA	DL	None	The manager of a construction company and his wife, the owner of a financial services company, submitted fraudulent documentation in support of a \$126,300 SBA loan made to their clients, the SBA borrowers. The borrowers obtained the loan to make repairs to their residence, which had been damaged by Hurricane Ike. The borrowers hired the wife's company to negotiate and finalize the SBA loan through a power of attorney agreement. The husband's company was responsible for the repairs to the borrowers' residence. The manager and his wife drained the borrowers' bank account without finishing the work on the family's home.	Husband and wife both sentenced to 18 months in prison, 3 years supervised release, and restitution of \$126,300, to be paid jointly and severally.
LA	DL	HUD/OIG	An individual provided false statements to the SBA when applying for disaster assistance. He was approved for a loan of \$141,800 based on damages to his home caused by Hurricane Katrina.	Individual pled guilty and was sentenced to 60 months' probation and \$31,800 in restitution.
LA	DL	None	A pastor was approved for an SBA disaster loan totaling \$963,900 to rebuild his church, which sustained severe damage as a result of Hurricane Katrina. The pastor did not use the loan funds in accordance with the Loan Authorization and Agreement. Instead, he used proceeds to purchase real estate, luxury vehicles, fine jewelry, designer fashions, and other items for his personal use.	Pastor pled guilty.

## Appendix X: Legal Actions Summary October 1, 2011- March 31, 2012

State	Program	Jointly with	Alleged Violation(s) Prosecuted	Legal Action
MD	BL	FBI	Two brothers, joint owners of an investment firm, and another individual encouraged prospective borrowers to apply for SBA 7(a) business loans using the services of their company. The individuals allegedly submitted fraudulent SBA loan applications and supporting documentation on behalf of their clients thereby falsely enhancing the creditworthiness of the borrowers and their businesses. To date, the conspiracy has resulted in losses of over \$37 million to the SBA.	Three individuals and the company indicted; one pled guilty.
MI	BL	USSS	An individual acted as a broker and recruited “straw buyers” to fraudulently obtain 12 SBA-guaranteed loans by falsifying equity injections and loan disbursements on HUD settlement statements.	Individual sentenced to 61 months in prison, 3 years supervised release, and \$8,976,448.77 in restitution to be paid jointly with his co-conspirators.
MO	BL	FBI	A former bank vice president assisted others in fraudulently securing a \$1.6 million SBA-guaranteed loan by preparing an affidavit falsely representing that a particular loan had never been past due.	Former vice president pled guilty.
MO	BL	FBI	When applying for SBA financing, an individual purported to have never been charged, arrested, or convicted of any criminal offense, when in fact, she had been charged with several such offenses. The individual obtained two SBA-guaranteed loans totaling \$350,000 for her father’s business.	Individual pled guilty to a superseding information.

## Appendix X: Legal Actions Summary October 1, 2011- March 31, 2012

State	Program	Jointly with	Alleged Violation(s) Prosecuted	Legal Action
MO	BL	FDIC/OIG, FBI	A former bank vice president engaged in numerous fraudulent transactions involving both SBA and non-SBA loans, in order to divert funds to his own personal accounts. His activity resulted in a loss of \$451,763 to the bank.	Former vice president sentenced to 41 months in prison, 5 years supervised release, and \$451,763 in restitution. In addition, he was barred from holding any position of financial trust without permission.
MO	GC	GSA OIG, VA OIG	Two individuals set up a “figurehead” service-disabled veteran as the purported president and operator of a company. The company misrepresented itself as a Service-Disabled Veteran-Owned Small Business in order to obtain federal contracts. A third individual, a government employee, accepted illegal gratuities in exchange for steering work to the company. The company was awarded a total of \$3.4 million in government set-aside and sole source contracts, of which \$657,000 were Recovery Act funds.	Three individuals pled guilty to criminal informations.
MS	DL	HUD/OIG, DHS/OIG, MSAO	On his SBA loan application, an individual misrepresented the location of his primary residence in order to secure a \$144,900 Hurricane Katrina disaster home loan. Using the same information, he also received disaster benefits from the Federal Emergency Management Agency and the Mississippi Development Authority.	Individual repaid remaining balance on SBA loan and was sentenced to 12 months probation, 6 months home confinement, and a \$2,500 fine.
MS	DL	FBI	A husband and wife obtained a \$1 million Hurricane Katrina disaster business loan and misused the proceeds, including almost \$390,000 to purchase a 43-foot yacht.	Husband pled guilty; wife entered into a pretrial diversion.
NJ	BL	IRS/CI, ENJPD	An organized group of Korean nationals brokered 33 loans, totaling approximately \$1.8 million, using false identities, documents, or business names. Of the 33 loans, 17 were SBA-guaranteed, resulting in approximately \$800,000 of loss to the SBA.	Group leader sentenced to 65 months in prison, 36 months supervised release, and \$1,134,950.50 in restitution to be paid jointly and severally with other defendants. A second individual has pled guilty.

## Appendix X: Legal Actions Summary October 1, 2011- March 31, 2012

State	Program	Jointly with	Alleged Violation(s) Prosecuted	Legal Action
OH	BL	FBI	Two individuals allegedly provided false and fictitious loan application documents, invoices, and additional supporting documentation in order to secure a \$1,715,600 SBA-guaranteed Recovery Act loan to open a tire recycling plant.	Two individuals indicted.
TX	BL	DHS/ATF	An individual failed to disclose on the SBA Form 912 that he had been arrested 22 times. Based on this misrepresentation, he received an SBA-guaranteed loan of \$1,724,800 to build a restaurant and gas station.	Individual sentenced to 60 months in prison, 36 months supervised release, and restitution of \$169,517.12.
TX	BL	FBI, IRS/CI	Four individuals engaged in a complex loan fraud scheme, which involved producing fraudulent loan documents to induce a lender to issue SBA-guaranteed 7(a) loans totaling \$2,479,000.	Each of the four sentenced to 5 years' probation. Three of the four ordered to pay restitution in the amounts of \$77,911.76, \$88,001.47, and \$88,147.00.
TX	BL	FBI	Two individuals conspired with others to misrepresent the sources of equity injections and down payments relating to two commercial loans totaling over \$1.3 million and one SBA-guaranteed loan for over \$1.8 million.	Two individuals pled guilty.
TX	DL	DHS/OIG	A physician, who was a co-borrower on an SBA disaster loan, allegedly made several material false statements in a mortgage application, which was approved for \$417,000 to purchase rental property from her husband, the other SBA co-borrower.	Physician indicted and suspended from her duties as an assistant medical examiner.
TX	DL	DHS/OIG	A real estate broker/bank director engaged in a false repair invoice scheme to obtain approximately \$1 million in SBA disaster loans. He directed contractors, family members, and employees to verify and submit more than \$750,000 in false repair claims to the SBA.	Broker and his brother pled guilty.

## Appendix X: Legal Actions Summary October 1, 2011- March 31, 2012

<b>State</b>	<b>Program</b>	<b>Jointly with</b>	<b>Alleged Violation(s) Prosecuted</b>	<b>Legal Action</b>
TX	BL	None	An individual, acting as a loan agent, received loan applications from potential borrowers and then inflated the income information provided by the applicants and submitted the fraudulent loan applications to various banks.	Loan agent pled guilty and was sentenced to 24 months in prison, 60 months supervised release, and \$409,143 in restitution..
TX	BL	FBI	A loan broker for a development company represented to financial institutions that borrowers had paid their required cash injections when they had not. The broker would make copies of checks that borrowers wrote out for the amounts of their cash injections. The broker then presented the copies of the checks at closing as having been paid even though the checks had never been cashed. The broker received a fee for each loan closed.	Broker sentenced to 36 months in prison, 36 months supervised release, and restitution of \$8,581,970.30.
TX	BL	FBI	A businessman made multiple material misrepresentations to lenders and the SBA regarding the purchase of a Houston motel. The false statements related in part to his submission of fraudulent documents as proof that he paid over \$700,000 in equity injection in order to obtain an SBA-guaranteed loan of \$1,327,000.	The businessman pled guilty.
TX	DL	DHS/OIG, HUD/OIG	An individual allegedly made false statements to several federal agencies in order to obtain approximately \$40,000 in Hurricane Ike disaster benefits.	Individual charged in state court.
TX	DL	None	An individual allegedly forged signatures of his estranged wife and others when applying for two SBA disaster loans to repair his residence and a rental property from Hurricane Katrina damages. He also allegedly used the loan proceeds for personal living expenses, rather than to repair the properties. Loss to the SBA was approximately \$54,000.	Individual indicted.
UT	BL	None	The owner of an aviation services company failed to disclose that the company was delinquent on federal and state taxes when applying for a \$900,000 SBA-guaranteed loan.	Owner signed a pre-trial diversion agreement.

## Appendix X: Legal Actions Summary October 1, 2011- March 31, 2012

State	Program	Jointly with	Alleged Violation(s) Prosecuted	Legal Action
VA	GC	DHS/OIG, DHS/ICE, DOS/DSS, DOL/OIG	The owner of an information services company used falsified documents as a basis for his claim that he was a U.S. citizen when applying for 8(a) status for his company. He also used the same falsified documents to obtain a Department of Defense security clearance.	Owner sentenced to 2 years' probation and a \$20,000 fine. In addition, owner must cooperate with an order to remove him from the U.S. and comply with a denaturalization order.

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

**Joint-investigation Agency Acronyms:** AFOSI=Air Force Office of Special Investigations; Army/CID=U.S. Army/Criminal Investigation Division; DCIS=Defense Criminal Investigative Service; DHS/ATF=Department of Homeland Security/Alcohol, Tobacco, Firearms, and Explosives; DHS/ICE=Department of Homeland Security/Immigration and Customs Enforcement; DHS/OIG=Department of Homeland Security/OIG; DOI/OIG=Department of Interior/OIG; DOL/OIG=Department of Labor/OIG; DOS/DSS=Department of State/Diplomat Security Service; ENJPD= Englewood New Jersey Police Department; FBI=Federal Bureau of Investigation; FDIC/OIG=Federal Deposit Insurance Corporation/OIG; GSA/OIG=General Services Administration/OIG; HUD/OIG=Department of Housing and Urban Development/OIG; IRS/CI=Internal Revenue Service/Criminal Investigation; MSAO=Mississippi State Auditor's Office; MSGA=Mississippi State Grant Authority; USDA/OIG=U.S. Department of Agriculture/OIG; USSS=United States Secret Service; VA/OIG=Department of Veterans Affairs/OIG.

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## Appendix XI: Results of External Peer Reviews

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

### **Auditing**

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

The OIG did not have a peer review conducted during this semiannual reporting period. The last peer review of the OIG was conducted by the Department of Commerce OIG, which issued its final report on December 18, 2009. The OIG received a rating of “Pass” in that report (federal audit organizations can receive a rating of Pass, Pass with Deficiencies, or Fail). There are no outstanding recommendations from previous peer reviews of the OIG.

### **Investigations**

Section 6(e)(7) of the IG Act, *Attorney General Guidelines for Offices of Inspector General with Statutory Law Enforcement Authority*, and the *CIGIE Quality Standards for Investigations* require external peer reviews of OIG investigative functions be conducted every 3 years.

The OIG was subject to a peer review during this semiannual reporting period. The Department of Veteran’s Affairs OIG conducted this review. The final report, issued on December 21, 2011, found the system of internal safeguards and management procedures for the investigative function of SBA OIG to be in compliance with the quality standards established by the CIGIE and the applicable Attorney General Guidelines (OIGs can be assessed as either Compliant or Noncompliant). No recommendations were offered.

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## Appendix XII: Office of Inspector General Organization

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

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

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

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

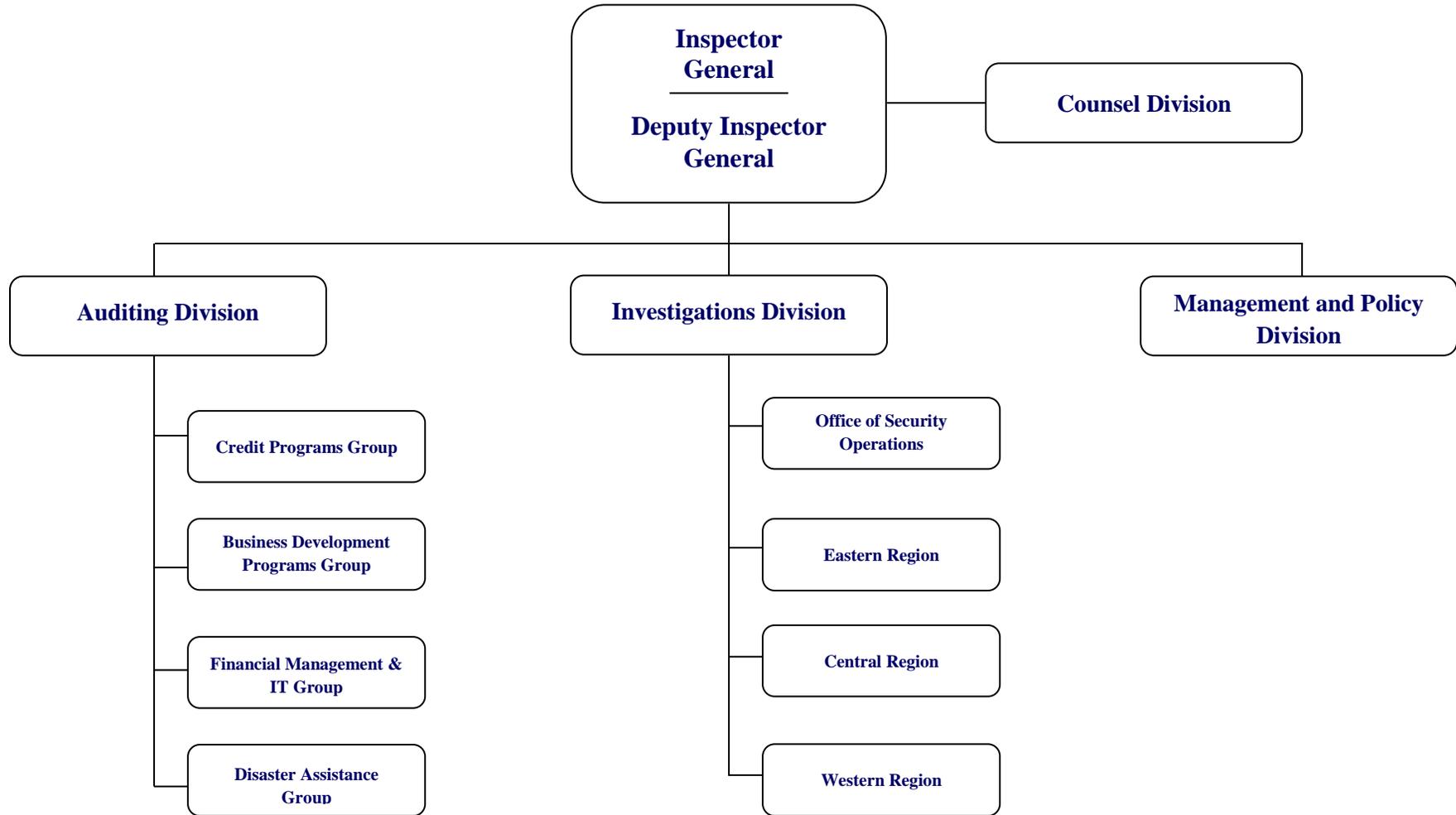
The **Management and Policy Division** provides business support (e.g., budget and financial management, human resources, IT, and procurement) for the various OIG functions; coordinates preparation of the OIG's Semiannual Report to Congress, Report on the Most Serious Management and Performance Challenges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

The OIG headquarters is located in Washington, DC, and has field staff located in Atlanta, GA; Chicago, IL; Dallas/Fort Worth, TX; Detroit, MI; Denver, CO; Herndon, VA; Houston, TX; Kansas City, MO; Los Angeles, CA; Miami, FL; New Orleans, LA; New York, NY; Philadelphia, PA; Tacoma, WA; and Washington, DC. An organization chart for the OIG is shown on page 63.

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**Appendix XIII: Office of Inspector General Organizational Chart**

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# Make A Difference!

To promote integrity, economy, and efficiency, we encourage you to report instances of fraud, waste, or mismanagement to the [OIG Hotline](#).\*

## Online:

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

## Call:

1-800-767-0385 (Toll Free)

## Write or Visit:

U.S. Small Business Administration  
Office of Inspector General  
Investigations Division  
409 Third Street, SW (5<sup>th</sup> 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.