

U.S. Small Business Administration Office of Inspector General

Semiannual Report to Congress Spring 2009



October 1, 2008 – March 31, 2009

Inspector General Act Statutory Reporting Requirements

The specific reporting requirements prescribed in the Inspector General Act of 1978, as amended, are listed below.

<i>Source</i>		<i>Page</i>
Section 4(a)(2)	Review of Legislation and Regulations	23
Section 5(a)(1)	Significant Problems, Abuses, and Deficiencies	3-23
Section 5(a)(2)	Recommendations with Respect to Significant Problems, Abuses and Deficiencies	34-36
Section 5(a)(3)	Prior Significant Recommendations Not Yet Implemented	31-33
Section 5(a)(4)	Matters Referred to Prosecutive Authorities	45-53
Sections 5(a)(5) and 6(b)(2)	Summary of Instances Where Information Was Refused	None
Section 5(a)(6)	Listing of OIG Reports	26
Section 5(a)(7)	Summary of Significant Audits & Other Reports	3-23
Section 5(a)(8)	Audit Reports with Questioned Costs	27
Section 5(a)(9)	Audit Reports with Recommendations that Funds Be Put to Better Use	27
Section 5(a)(10)	Summary of Reports From Prior Semiannual Reports Where No Management Decision Was Made	28
Section 5(a)(11)	Significant Revised Management Decisions	None
Section 5(a)(12)	Significant Management Decisions with Which the OIG Disagreed	None
Section 5(a)(13)	Information Described Under Section 05(b) of the Federal Financial Management Improvement Act of 1996	N/A



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

April 2009

I am pleased to present the U.S. Small Business Administration (SBA) Office of Inspector General (OIG) Spring 2009 Semiannual Report to Congress. This report provides a summary of the OIG's activities from October 1, 2008 through March 31, 2009.

During this reporting period, the OIG issued 12 reports with recommendations for improving Agency operations, reducing fraud and unnecessary losses in SBA programs, and recovering improper payments. In addition, OIG investigations continued to focus on wrongdoers who employ a variety of methods to fraudulently obtain loans from SBA and its lenders. Examples include submitting fraudulent documents, making fictitious asset claims, misrepresenting residency, manipulating property values, overstating disaster losses, and misusing loan proceeds. The OIG achieved monetary recoveries and savings of more than \$56 million from disallowed costs agreed to by management, recommendations that funds be put to better use agreed to by management, court ordered and other investigative recoveries and fines, and loans/contracts not made as a result of investigations and name checks. OIG investigations lead to 32 indictments and 27 convictions of subjects who defrauded the Federal Government.

This American Recovery and Reinvestment Act of 2009 (Recovery Act), which was signed into law late in this reporting period, contains a number of SBA provisions intended to help unlock credit markets and promote economic recovery for the nation's small business sector. Given the severity of recent economic circumstances, there will be significant pressure on SBA to expedite and maximize financial assistance to small businesses. Since this pressure can increase the vulnerability of SBA's programs to fraud and unnecessary losses, the OIG plans to focus considerable efforts on assessing the adequacy of internal controls and detecting and deterring fraud, waste, and abuse in SBA's implementation of Recovery Act programs. Information regarding OIG's recovery oversight efforts is available on our website at: www.sba.gov/ig/recovery.

We look forward to working closely with SBA's new Administrator, Karen Mills, as well as the entire SBA leadership team, in continuing to carry out the OIG's mission to fight waste, fraud, and abuse and promote greater government efficiency.

Peter L. McClintock
Acting Inspector General

Table of Contents

Overview of SBA and the OIG	1
Management Challenges	3
Recovery Oversight	5
Disaster Loans	6
Small Business Access to Capital	10
Small Business Development, Contracting, Education, and Training	16
Agency Management	18
Other Significant OIG Activities	22
Statistical Highlights	24
Appendices	
I. OIG Reports Issued	26
II. OIG Reports with Questioned Costs	27
III. OIG Reports with Recommendations that Funds Be Put to Better Use	27
IV. OIG Reports with Non-Monetary Recommendations	28
V. OIG Reports from Prior Semiannual Periods with Overdue Management Decisions as of March 31, 2008	28
VI. OIG Reports Without Final Action as of March 31, 2009	29
VII. Summary of Significant Recommendations from Prior Semiannual Reporting Periods Without Final Action as of March 31, 2009	31
VIII. Summary of Significant Recommendations, October 1, 2008 through March 31, 2009	34
IX. Events/Activities Where SBA Used its Cosponsorship Authority, October 1, 2008 through March 31, 2009	37
X. Legal Actions Summary, October 1, 2008 through March 31, 2009	45
XI. OIG Organizational Chart	55

Table of Contents

Additional Semiannual Legislative Reporting Requirements from the Small Business Act, as Amended:

SBA Cosponsorship and Fee-Based Administration-Sponsored Events—Small Business Act, Section 4(h)	20
SBDC Surveys—Small Business Act, Section 21(a)(7)	16
SBA Gift Authority—Small Business Act, Section 4(g)(2).....	20

Glossary of Abbreviations

ATF	Bureau of Alcohol, Tobacco, Firearms, and Explosives
C&A	Certification and Accreditation
CDC	Certified Development Company
CFO	Chief Financial Officer
CID	Criminal Investigative Division
CIO	Chief Information Officer
COC	Certificate of Competency
COTR	Contracting Officer's Technical Representative
DCMS	Disaster Credit Management System
DHS	Department of Homeland Security
DOJ	Department of Justice
EPA	Environmental Protection Agency
EVM	Earned Value Management
FBI	Federal Bureau of Investigation
FISMA	Federal Information Security Management Act
GAO	Government Accountability Office
HHS	Department of Health and Human Services
HSPD	Homeland Security Presidential Directive
HUBZone	Historically Underutilized Business Zone
HUD	Housing and Urban Development
IDMS	Identity Management System
IPIA	Improper Payments Information Act
IRS	Internal Revenue Service
IT	Information Technology
NCIS	Naval Criminal Investigative Service
NGPC	National Guaranty Purchase Center
OCA	Office of Capital Access
ODA	Office of Disaster Assistance
OIG	Office of Inspector General
OGC	Office of General Counsel
OMB	Office of Management and Budget
PIV	Personal Identity Verification
POA&M	Plan of Action and Milestones
SBA	Small Business Administration
SBDC	Small Business Development Center
SBIC	Small Business Investment Company
SCORE	Service Corps of Retired Executives
SDB	Small Disadvantaged Business
SOP	Standard Operating Procedures
WBC	Women's Business Center

Overview of SBA and the OIG

The Small Business Administration

The mission of the Small Business Administration (SBA) under the Small Business Act, as amended, is to maintain and strengthen the Nation's economy by enabling the establishment and vitality of small businesses and assisting in the economic recovery of communities after disasters. The Agency's current strategic plan has three programmatic strategic goals that broadly define what the Agency and its programs are trying to accomplish.

- Expand America's ownership society, particularly in underserved markets.
- Provide timely financial assistance to homeowners, renters, nonprofit organizations and businesses affected by disaster.
- Improve the economic environment for small business.

A fourth goal in SBA's strategic plan defines the responsibility of the Agency's executive leadership and support functions to help accomplish the three programmatic goals.

- Ensure management and organizational excellence to increase responsiveness to customers, streamline processes, and improve compliance and controls.

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. SBA headquarters is located in Washington, D.C., while its business products and services are delivered with the help of 10 regional offices, 68 district offices, 4 disaster field offices, and 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. As of March 31, 2009, SBA had 2,193 employees, including Office of Inspector General (OIG) personnel, but excluding a total of 2,982 disaster-funded employees for disaster loan making and disaster loan servicing.

The Office of Inspector General

Pursuant to the Inspector General Act of 1978, as amended, the OIG adds value to SBA programs and operations by providing auditing, investigative, and other services to support and assist the Agency in achieving its mission. In addition to its responsibilities under the IG Act, the OIG carries out other significant statutory responsibilities and Government-wide mandates, including responsibilities under the Small Business Act and the Small Business Investment Act.

The OIG seeks to improve SBA programs by identifying key issues facing the Agency, following up to ensure that corrective actions are taken, and promoting a high level of integrity. The Office's efforts and accomplishments during the first half of FY 2009, which are summarized in this report, focused on the two strategic goals in the OIG's strategic plan.

- Improving the economy, efficiency, and effectiveness of SBA programs and operations.
- Promoting and fostering integrity in SBA programs and operations.

Overview of SBA and the OIG

Using this framework, the OIG concentrated on critical risks facing SBA, including (1) risks of financial losses due to limited oversight and controls; (2) risks to SBA's performance of its statutory mission to promote small business development and Government contracting; and (3) risks associated with SBA's information technology and financial management systems and other internal operations.

Audit and other reports issued during this reporting period are listed in Appendix I. Investigative actions are summarized in Appendix X. Copies of OIG reports and other work products are available on the OIG's website at <http://www.sba.gov/ig>.

Agency Management Challenges

Overview

In accordance with the Reports Consolidation Act of 2000, the OIG each year identifies the most serious management and performance challenges facing the Agency for inclusion in SBA's Performance and Accountability Report. The Management Challenges represent areas that the OIG considers to be 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. 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.

The Management Challenges represent areas that the OIG considers to be particularly vulnerable to fraud, waste, abuse, or mismanagement, or which otherwise pose significant risk to the Agency, its operations, or its credibility.

FY 2009 Report on SBA's Top Management Challenges

The Management Challenges identified in the OIG's FY 2009 report, issued on October 20, 2008, were as follows.

- Procurement flaws allow large firms to obtain small business awards and agencies to count contracts performed by large firms towards their small business goals.
- Information systems security needs improvement.
- Effective human capital strategies are needed to enable SBA to successfully carry out its mission and become a high-performing organization.
- SBA's National Guaranty Purchase Center needs better controls over the business loan purchase process.
- SBA needs to further strengthen its oversight of lending participants.
- The Section 8(a) Business Development (BD) program needs enhanced business development processes, objectively defined eligibility standards, upgraded training and information systems, improved graduation procedures, and better oversight of contractor compliance with program regulations.
- Insufficient and outdated SBA controls continue the excessive risk of the Small Business Investment Company (SBIC) program.
- Effective tracking and enforcement would reduce financial losses from loan agent fraud.

As in prior years, the FY 2009 report used a color-scoring scheme to show the Agency's progress in addressing the actions needed to resolve each Management Challenge. The chart on the next page provides a summary of SBA's progress for each of the eight Management Challenges in the FY 2009 report. While progress on a number of the challenges has been encouraging, much more remains to be done. By their nature, these challenges require continued long-term commitment and effort by the Agency.

Agency Management Challenges

Summary of SBA's FY 2009 Management Challenges

	Topic	Status Score				New	Change in Status	
		Green	Yellow	Orange	Red		Improved	Worsened
1	Small Business Contracts	1	1	2			1	
2	IT Security	2	4				3	
3	Human Capital		3					
4	Loan Guaranty Purchase	2	1	1			2	
5	Lender Oversight	4	2	4			4	
6	8(a) BD Program	1	3	1	1		3	
7	SBIC Program	1	4				3	
8	Loan Agent Fraud	1				2	1	

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

“Improved” refers to an action item that showed progress this year over last year’s score.

“Worsened” refers to an action item that showed regression this year from last year’s score.

Recovery Oversight

Overview

The American Recovery and Reinvestment Act of 2009 (Recovery Act), which was signed into law on February 17, 2009, contains a number of SBA provisions intended to help unlock credit markets and promote economic recovery for the nation's small business sector. These include reduced loan fees, higher guaranties, new SBA credit programs, secondary market incentives, and enhancements to current SBA programs. In order to provide enhanced levels of transparency and accountability, the Recovery Act and related implementation guidance require increased reporting and oversight to deter and detect fraud, waste, and abuse and ensure that program goals are met.

Given the severity of recent economic circumstances, there will be significant pressure on SBA to expedite and maximize financial assistance to small businesses in implementing Recovery Act programs. Past experience, such as SBA's response to the 9-11 terrorist attacks and the 2005 Gulf Coast hurricanes, has shown that this pressure can increase the vulnerability of SBA's programs to fraud and unnecessary losses. Therefore, the OIG's oversight efforts will focus heavily on assessing the adequacy of internal controls and detecting and deterring fraud, waste, and abuse in Recovery Act programs.

The OIG is devoting considerable effort to providing effective recovery oversight. OIG staff has met regularly with responsible SBA officials and communication processes have been established to monitor and provide recommendations regarding the Agency's Recovery Act actions before they are implemented. Two examples of OIG's accomplishments during the six-week period between February 17, 2009, and the end of the reporting period, are discussed below. Additional information regarding recovery oversight activities can be found on the OIG's website at www.sba.gov/ig/recovery.

OIG Oversight Framework

The OIG has developed an oversight framework that identifies risks associated with SBA's implementation of the Recovery Act, together with potential OIG oversight activities to address each of the risks. The OIG will use this framework to guide its oversight activities, including both immediate and long-term actions. The framework is available on the OIG's website.

Phishing Scam

Soon after the Recovery Act became law, the OIG learned that small businesses across the country were receiving faxed letters on SBA letterhead offering assistance in obtaining tax rebates under the legislation. Businesses were requested to fax back bank account information to a number provided in the letter. The letters were not authorized by the SBA, but were fraudulent attempts to obtain financial information. In response, the OIG: (1) worked with the Agency to quickly issue a press release and Information Notice advising small businesses of the scam; (2) located the telecommunications company that was providing the fax number referenced in the letter, requested that the number be terminated, and received confirmation that this had occurred; and (3) informed other OIG's of the scam so they could look out for similar scams in their agencies.

Disaster Loans

Overview

The Disaster Loan program plays a vital role in the aftermath of disasters by providing long-term, low-interest loans to affected homeowners, renters, and businesses of all sizes. There are two types of disaster loans: (1) physical disaster loans for permanent rebuilding and replacement of uninsured disaster-damaged privately-owned real and/or personal property, and (2) economic injury disaster loans to provide necessary working capital to small businesses until normal operations resume after a disaster. Physical disaster loans are available to homeowners, renters, businesses of all sizes, and nonprofit organizations. 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.

In 2005, Gulf Coast Hurricanes Katrina, Rita, and Wilma caused more than \$118 billion in estimated property damage; as of March 31, 2009, SBA had disbursed nearly \$6.6 billion in loans to assist the victims of these disasters. More recently, as of March 31, 2009, SBA had approved nearly 15,000 disaster loans, totaling almost \$674 million, as a result of Hurricanes Gustav and Ike and flooding in the Midwest during 2008. The OIG's audits and reviews continue to focus on loan origination, disbursement, repayment, servicing, and liquidation activities related to these loans, including whether loan applications were processed in accordance with SBA procedures; uses of loan proceeds were verified before loans were fully disbursed; duplicate benefits were appropriately identified and recovered; and loan servicing and liquidation activities were effectively staffed and managed. The OIG also continues to investigate allegations of unauthorized use of loan proceeds, overstatement of financial losses, material false statements in the application process, false/counterfeit supporting documentation, and false assertions regarding primary residency in affected areas at the times of the disasters.

Use of Proceeds from Gulf Coast Disaster Loans

An OIG review found that SBA's Office of Disaster Assistance (ODA) did not have adequate controls in place to reasonably ensure that proper documents were secured from borrowers and that borrower receipts were sufficiently reviewed before making subsequent loan disbursements. As a result, ODA processed questionable claims, including some with potential fraud.

The OIG reviewed a statistical sample of 127 loan disbursements and found that 69, or 54 percent, totaling \$10.1 million, were made without proper documents and certifications. Rather, ODA processed disbursements with incomplete and unsigned certifications from borrowers. For example, case workers relied on vendor quotes and contractor proposals as evidence of work completed, receipts were of questionable authenticity, or no supporting documentation was provided. This occurred because ODA made procedural changes that eliminated review of borrower documentation supporting how prior

The OIG reviewed a statistical sample of 127 loan disbursements and found that 54 percent were made without proper documents and certifications from borrowers

proceeds were used for disbursements under \$50,000 on secured loans, and provided case workers with discretion regarding which documents to review when making disbursements over \$50,000 in aggregate. Through discussions with vendors associated with 31 of the

disbursements reviewed, the OIG determined that ODA accepted inadequate support for \$350,000 in expenditures on four loans which, upon further analysis, appeared to be false claims made by borrowers. Despite the questionable nature of the support submitted by these borrowers, case workers did not follow up with contractors and/or inspect damaged property to verify whether proceeds were used as claimed.

Disaster Loans

Further, because ODA had not secured borrower certifications for these expenditures, the Agency may have weakened its ability to pursue criminal penalties as well as civil remedies from these borrowers under the False Claims Act.

The OIG recommended that the ODA reject unsigned or incomplete Borrower's Progress Certification forms. Further, because "use of proceeds" reviews are an important control to detect fraudulent claims and ensure that repairs are being made, the OIG also recommended that ODA revise its Standard Operating Procedures (SOP) to (1) require review of either all, or a sample of, disbursements over \$10,000 to provide assurance that prior proceeds were properly used, and (2) require that Borrower's Progress Certification forms and supporting receipts be reviewed and signed by ODA to document that reviews were made. Finally, the OIG recommended that ODA reemphasize to reviewers that they should conduct site visits or contact vendors to confirm expenditures when questionable contractor receipts are submitted by borrowers.

Borrower Eligibility for Gulf Coast Disaster Loans

An OIG review found that ODA did not have adequate controls in place to prevent ineligible applicants from receiving disaster loans for properties that were not their primary residences. The OIG reviewed a sample of 35 loans disbursed between October 2005 and October 2008 and found that 29 loans, or 83 percent, were approved by ODA without adequately verifying whether the properties were the primary residences of the applicants. In addition, ODA did not obtain proof of ownership for one loan applicant. Further review determined that for 8 of the 29 loans, on which ODA disbursed \$683,200, the properties may not have been the applicants' primary residences. Another borrower received a Housing and Urban Development (HUD) *Road Home Grant* for approximately \$19,000 after receiving an SBA disaster loan, resulting in a duplicate benefit. The OIG made two recommendations to address weaknesses associated with identifying borrowers' primary residences, and a third recommendation that ODA request remittance from HUD for the *Road Home Grant* that duplicated disaster benefits awarded under the SBA loan.

...ODA did not have adequate controls in place to prevent ineligible applicants from receiving disaster loans for properties that were not their primary residences.

Improper Payment Rate for the Disaster Loan Program

The Improper Payments Information Act (IPIA) of 2002 requires federal agencies to review their programs and activities annually, identify programs that may be susceptible to significant improper payments, estimate amounts improperly paid, and report on the amounts of improper payments and actions to reduce them. Since implementation of the IPIA, SBA has reported a low improper payment rate for the Disaster Loan program; however, an OIG review disclosed that SBA's estimate for FY 2007 significantly understated the level of improper payments and was not statistically valid. SBA reported that improper payments were about \$4.5 million, or 0.55 percent of the \$819.7 million in loans approved in FY 2007. In contrast, the OIG estimated the improper payment rate to be at least 46 percent, or approximately \$1.5 billion of \$3.4 billion in loans disbursed in FY 2007.

...the OIG estimated the improper payment rate to be at least 46 percent, or approximately \$1.5 billion of \$3.4 billion in loans disbursed in FY 2007.

Disaster Loans

SBA did not properly estimate the rate because of major sampling design errors, flaws in measurement methodology, and inadequate reviews of loan files. In preparing its estimate, the Agency employed attribute sampling, when it should have used variable sampling. The Agency also did not properly calculate the error rate or apply it when projecting the total value of FY 2007 improper payments because it did not consult with a statistician, as required by Office of Management and Budget (OMB) guidance. In addition, SBA's improper payment reviews did not adequately detect significant errors during loan origination and disbursement. The OIG's review of 30 of the 210 loans sampled by SBA revealed nine improper payments, whereas the Agency had only identified two. Finally, loan reviewers did not have clear instructions regarding what constituted improper payments.

SBA did not properly estimate the rate because of major sampling design errors, flaws in measurement methodology, and inadequate reviews of loan files.

The OIG made seven recommendations to address the identified deficiencies. The Agency generally concurred with the recommendations, but commented on several issues raised in the report. ODA disagreed with OIG's assertion that, to be accurate, improper payment reviews must be based on disbursements rather than approvals, but agreed to revisit the issue with OMB to obtain clear guidance for the Disaster Loan program. ODA also responded that payments involving a borrower's lack of repayment ability or creditworthiness should not be considered improper because the Agency's policy in effect at the time allowed such payments. The OIG contended that loans to borrowers lacking repayment ability constituted improper payments despite the approval process followed and ultimately conflicted with the intent of the IPIA. The Agency promised to work with OMB to clarify guidance and ensure issuance of appropriate disclosures for previously reported improper payment rates.

Task Force Continues to Battle Gulf Coast Hurricane Fraud

In conjunction with other law enforcement organizations on the Hurricane Katrina Fraud Task Force, the OIG had made 54 arrests and obtained 65 indictments and 59 convictions from the task force's inception through March 31, 2009. The following are some examples of OIG cases related to the Gulf Coast hurricanes.

- A Mississippi couple was indicted for conspiracy and theft of government funds based on an allegation that they received \$300,000 in disaster relief funds, including \$152,000 from an SBA disaster home loan, for an address that was not their primary residence. This case originated from a referral by the U.S. Attorney's Office for the Southern District of Mississippi. The OIG is conducting this investigation jointly with the HUD OIG, the Mississippi State Auditor's Office, the U.S. Department of Homeland Security (DHS) OIG, and the U.S. Department of Health and Human Services (HHS) OIG.
- A Louisiana couple pled guilty to wire fraud. They received a \$94,000 SBA disaster home loan and a \$125,500 SBA disaster business loan, claiming damages from Hurricane Katrina to both their residence and a day care business located at the same address. The couple transmitted to SBA, via facsimile, false inflated receipts as supporting documentation for repairs completed. Based upon these receipts, SBA approved additional disbursements on the approved loans. The OIG is conducting this investigation jointly with DHS OIG and HUD OIG.

Disaster Loans

- The operator of a Texas seafood business pled guilty to making a false and fraudulent statement. He had submitted a disaster loan application to SBA in which he claimed that the company had a Louisiana business location that sustained an estimated \$2.8 million in damage from Hurricane Rita. In addition, he submitted a false commercial lease agreement showing that the company occupied real property in the Louisiana town during the hurricane, as well as fraudulent invoices showing more than \$1.9 million in hurricane-related repair expenses. In fact, at no time did he own or operate a business in the Louisiana town. The OIG conducted this joint investigation with the Bureau of Alcohol, Tobacco, Firearms and Explosives (ATF) and DHS OIG.

Aftermath of 9/11 Disaster Loan Fraud Results in Further Legal Actions

In response to the September 11, 2001, terrorist attacks, SBA disbursed over \$1.1 billion in disaster assistance loans. Unfortunately, as with other disasters, the need to disburse funds quickly created opportunities for dishonest applicants to commit fraud. OIG investigations have resulted in the prosecution of numerous parties who took advantage of this tragedy. For example, the former president of a foreign mining company was sentenced to 3 months in prison and 5 years supervised release after pleading guilty to being an accessory after the fact for helping a co-conspirator, the former owner of an auto supply company, to fraudulently negotiate an SBA-issued two-party check. After the attacks on

...the need to disburse funds quickly created opportunities for dishonest applicants to commit fraud.

New York City, the co-conspirator obtained an SBA disaster loan of nearly \$647,000 for his company to pay outstanding debts. As part of the loan, he received a two-party check from SBA for over \$86,000 payable jointly to his company and the mining company. At the co-conspirator's request, the mining company's president deposited the check into his company's account, kept \$12,000 that the mining company was actually owed, and wire transferred the balance to the co-conspirator. The OIG is conducting this investigation jointly with the U.S. Postal Inspection Service.

Small Business Access to Capital

Overview

As of March 31, 2009, SBA had a financial assistance portfolio of guaranteed and direct loans of more than \$90 billion. SBA's largest lending program, and the principal vehicle for providing small businesses with access to credit that cannot be obtained elsewhere, is the Section 7(a) Loan Guaranty program. This program is vulnerable to fraud and unnecessary losses because it relies on numerous third parties (e.g., borrowers, loan agents, and lenders) to complete loan transactions. Approximately 80 percent of loans guaranteed annually by SBA are made by lenders to whom SBA has delegated loan-making authority. Additionally, SBA has centralized many loan functions and reduced the number of staff performing these functions. As SBA has placed more responsibility and independence on its lenders, the need for OIG oversight has increased significantly. OIG reviews have continued to identify weaknesses in SBA's lender oversight efforts.

SBA's 504 Loan program provides small businesses with long-term, fixed-rate financing, in the form of government-guaranteed loans, for the purchase of land, buildings, machinery, and other fixed assets. These loans are issued through a partnership with Certified Development Companies (CDC) and private sector third-party lenders and are funded through the issuance of government-guaranteed debentures. The CDC's are non-profit corporations that are certified and regulated by SBA to package, process, close, and service loans under the 504 program.

Another financial assistance program, the SBIC program, was established in 1958 to stimulate and supplement the flow of private equity capital and long-term debt financing to small business concerns using private venture capital firms and SBA-guaranteed funding. In addition, small and emerging contractors who cannot obtain surety bonds through regular commercial channels can apply for SBA bonding assistance under the Surety Bond Guarantee program.

Review of Liquidation Process at the National Guaranty Purchase Center

SBA guarantees loans that are made by participating lenders. Upon default, SBA authorizes lenders to continue servicing the account and, should liquidation become necessary, completely liquidate or sue upon the loan instrument. During the liquidation process, SBA's National Guaranty Purchase Center (NGPC) in Herndon, Virginia, reviews and approves lender actions, if necessary. When no further recovery is expected on a loan, the NGPC also performs a review to determine if the lender materially complied with SBA's liquidation requirements.

The OIG reviewed the liquidation processing for defaulted 7(a) loans at the NGPC to determine whether (1) the Center's liquidation process, which culminates in loan charge-off, identified and addressed lender noncompliance with SBA's procedures to mitigate losses, and (2) the Center adequately managed loans in liquidation status. Based on a statistical sample of 54 of 7,120 loans charged-off between October 2005 and July 2007, the OIG found that the NGPC's purchase and liquidation processes did not identify or address lender deficiencies meriting repair or denial of guaranties for 21 of the loans, totaling \$1.4 million (the OIG recommended recovery of all but \$.2 million of these payments in a prior reporting period). Based on these results, the OIG estimated that SBA made at least \$23 million in improper payments on loans charged-off during the time period reviewed.

Based on these results, the OIG estimated that SBA made at least \$23 million in improper payments on loans charged-off during the time period reviewed.

Small Business Access to Capital

The OIG also reviewed a sample of 60 charged-off loans out of 9,143 loans that were in liquidation between July 2006 and July 2007. Seventy-seven percent were in liquidation for an average of three years, and were not properly monitored. As a result, the NGPC did not timely recover approximately \$2.6 million in improper payments and liquidation proceeds, timely charge-off or remove 44 loans from the liquidation portfolio, or correctly report the outstanding balances on two loans. Based on these results, the OIG estimated that at least 6,034 loans in liquidation as of July 31, 2007, had overstated values of at least \$324 million.

The OIG made six recommendations for mitigating the deficiencies found in the NGPC's liquidation process, developing better management of the Center's liquidation portfolio, and improving lender oversight.

Review of SBA-Serviced Liquidation of Certified Development Company Loans

Certified Development Company (CDC) loans are placed into liquidation when SBA purchases the debentures that guarantee the loans. Currently SBA processes most of the liquidations, while others are processed by Premier Certified Lenders (PCL) and Authorized CDC Liquidators (ACL). In February 2007, SBA centralized all of its CDC liquidations by shifting liquidation responsibilities from its district offices to two commercial loan service centers in Fresno, California and Little Rock, Arkansas. The OIG conducted a review of CDC liquidations to determine (1) whether SBA's liquidation efforts maximized recoveries of outstanding balances on purchased CDC loans, and (2) whether centralization improved the liquidation process.

The OIG reviewed a sample of 95 loans that were in liquidation as of July 29, 2007, having outstanding loan balances totaling of \$29.3 million, and found that SBA did not maximize opportunities to recover \$12.7 million on 30 of the loans. Based on the sample results, the OIG estimated that SBA missed opportunities to collect at least \$106 million on 1,427 loans in liquidation as of July 29, 2007, that had recorded purchase dates. Missed collection opportunities were attributed to deficiencies found in all of the key areas of the liquidation process. Specifically, SBA did not:

...the OIG estimated that SBA missed opportunities to collect at least \$106 million on 1,427 loans in liquidation...

- Conduct adequate or timely protective bid analyses;
- Obtain current appraisals;
- Perfect liens;
- Identify and pursue all available assets;
- Attempt and reach compromises reflective of obligors' repayment ability;
- Properly charge-off loans; or
- Refer charged-off loans to Treasury.

The OIG also found that, in the first 6 months after centralization, there was no measurable improvement in the percentage of fully liquidated loans at the service centers because the two centers inherited a large number of incomplete loans files and focused resources on reducing a backlog of older loans awaiting charge-off; by April 2008, SBA had reduced the backlog from as high as 509 to 153. SBA has since re-engineered the liquidation process and increased staffing at the two centers. These improvements are

Small Business Access to Capital

expected to expedite referral of loans to Treasury for further debt collection. The Agency agreed with OIG's recommendation to evaluate whether these improvements have enabled the centers to complete all required liquidation actions and, if not, make appropriate staffing and process adjustments to do so.

Ongoing Investigation Continues to Generate Prosecutorial Actions

Eighteen individuals were arrested in 2007 by OIG and U.S. Secret Service agents for a scheme in which a lender's former executive vice president and others conspired to fraudulently qualify loan applicants for SBA-guaranteed loans, primarily for the purchase of gas stations, across several Midwestern states. The scheme involved at least 89 fraudulent loans issued before the fraud was discovered and the lender's office was subsequently closed. The loans totaled approximately \$85 million. Thus far, 37 individuals

This investigation has identified 89 fraudulent loans totaling about \$85 million and has, thus far, resulted in the indictment of 37 individuals.

have been indicted or otherwise charged and 24 have been convicted. Four of those individuals are international fugitives. To date, court-ordered restitution, SBA recoveries of loan guaranties

from the lender, and potential cost savings from the withdrawal of loan guaranties total approximately \$56.5 million. The investigation is continuing, with more indictments expected. The following cases are part of the ongoing joint investigation with the U.S. Secret Service, except for the case involving the owner of an Illinois finance company, which is a joint effort with the Federal Bureau of Investigation (FBI).

- The former executive vice president mentioned above was sentenced to 120 months incarceration and 2 years supervised release, and was ordered to pay \$30 million in restitution to the lender, nearly \$3 million to a bank, and over \$800,000 to SBA. He previously pled guilty to conspiracy to defraud SBA and to lying to a federal grand jury.
- A former employee of a Michigan bank was sentenced to 9 months home confinement and 5 years probation for misapplication of bank funds. She had issued a \$1,680,000 cashier's check based on a non-sufficient funds credit card check written by a bank customer. The investigation found that the unfunded cashier's check was used by a Michigan man and his co-conspirators to purchase a house with the intent to promptly resell (or "flip") the property to a straw buyer.
- The former owner of an Illinois finance company pled guilty to bank fraud as well as fraud involving bank entries, reports, and transactions. The bank fraud charge related to his submitting a false account verification letter and bogus tax returns to influence a bank's approval of a \$1.2 million home equity line of credit. The second charge related to a scheme to induce a non-bank lender and SBA to approve a \$1.35 million SBA-guaranteed loan to one of his companies. He also provided fraudulent cashier's checks at loan closing. In addition to his own SBA loan, he brokered SBA-guaranteed loans for others through the non-bank lender involved in the investigation. Fraudulent equity injection documentation was provided to the lender in at least 20 instances. The total loss, including loans charged off and loans now in liquidation, is over \$9 million.
- A Michigan man pled guilty to making a false statement for the purpose of influencing the action of SBA. He signed a HUD settlement statement that falsely represented that he paid a \$510,000 deposit for the purchase of two gas stations. The total amount of the two SBA loans involved in the transactions was \$1.35 million.

Small Business Access to Capital

Corrupt Loan Agents Harm SBA Loan Programs

A prospective borrower or a lender may pay a loan agent to prepare documentation for an SBA loan application and/or refer the borrower to a lender (or vice versa). Although honest loan agents connect small businesses to sources of capital, disreputable agents have perpetrated frauds involving hundreds of millions of dollars in SBA-guaranteed loans. Such loans often default for nonpayment, thus increasing losses in the loan guaranty program.

In one case, a loan broker, a business associate of the broker, and a broker-created Texas corporation allegedly defrauded a Texas bank by fraudulently procuring a \$980,000 SBA-guaranteed loan to purchase three convenience stores. The loan broker had wanted to purchase only one store, but the stores were not being sold individually. He recruited two additional borrowers to purchase the three stores under another name, knowing that the borrowers were not able to pay the required capital injection. The bank's business development officer allegedly accepted a \$1,500 check from the loan broker in exchange for influencing the award of the loan. The officer's wife allegedly negotiated the check, which was made out to her. The broker, the bank officer, the bank officer's wife, the broker's business associate, and the corporation were all indicted on various counts of aiding and abetting and criminal forfeiture. In addition, the broker, his associate, and the corporation were indicted for bank fraud. Finally, the broker was indicted for bribing a financial institution officer, while the bank officer and his wife were indicted for accepting a bribe by a financial institution officer. The OIG is conducting this investigation jointly with the FBI.

...disreputable agents have perpetrated frauds involving hundreds of millions of dollars in SBA-guaranteed loans

Criminals Use an Array of Methods to Defraud Loan Guaranty Programs

Criminals use an assortment of tactics to fraudulently obtain—or induce others to obtain—SBA-guaranteed loans. Such tactics 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, prior criminal records, or other SBA-backed loans. These actions make financial loss to SBA and its lenders more likely. The following examples illustrate what people are willing to do to fraudulently obtain SBA loans.

- The former owner of a Virginia grocery store was sentenced to 2 years probation, over \$188,000 in restitution, and a \$100 special assessment fee after previously pleading guilty to wire fraud in connection with a \$690,000 SBA-guaranteed business loan secured by her home. In order to obtain cash through her collateralized home, she downloaded a bank letterhead from the Internet and created a fraudulent release of lien. As a Virginia notary, she notarized the fraudulent release of lien and then posed as a bank official to record it at the county land record office. She then refinanced her home and received a cash payout of approximately \$158,000. During a routine asset check, bank officials discovered the fraudulent release of lien and reported their findings to SBA and the OIG. She defaulted on the loan, resulting in a loss of nearly \$318,000 to the Agency.
- Between 2002 and 2005, the president of a Texas slaughtering business received \$1,236,500 in SBA-guaranteed loans and an additional \$1,712,000 in non-SBA loans. He used numerous

Small Business Access to Capital

fraudulent representations and documents to convince multiple lenders that he had sufficient collateral and income to repay the amounts borrowed. He was sentenced to 37 months in prison, 5 years supervised release, a \$10,000 fine, nearly \$2.4 million in restitution, and a \$600 special assessment fee after pleading guilty to wire fraud, aiding and abetting, and making a false statement to a bank. The OIG is conducting this investigation jointly with the FBI.

- An Illinois man was involved in a scheme to induce a non-bank lender to approve three separate loans (one SBA-guaranteed loan and two non-SBA loans)—totaling more than \$4 million—to purchase three gas stations in Iowa. Along with a co-conspirator, he enlisted “front” borrowers and provided the lender with fraudulent documentation on behalf of the borrowers in order for the three loans to be approved. The man pled guilty to bank fraud and fraud involving bank entries, reports, and transactions. The co-conspirator previously pled guilty to making false statements. The OIG is conducting this investigation jointly with the FBI.
- A Colorado man was indicted for submitting a false loan application. He received two SBA-guaranteed loans totaling \$1.35 million but allegedly hid his criminal history, which would have precluded him from receiving the loans. Criminal history records showed that he had pled guilty to embezzling over \$115,000 from an organization while he was its executive director. He had also pled guilty to a third degree assault charge. The estimated loss on the loans is \$970,000. This case was initiated based on a referral from the FBI. The OIG is working this investigation jointly with the FBI.
- An Illinois man pled guilty to wire fraud in connection with two SBA-guaranteed loans from two lenders in the amounts of \$660,000 and \$200,000 for the nearly simultaneous purchases of two construction-related businesses. At the time of his loan applications, he had been arrested and faced theft and fraud charges related to a third business that he owned. He concealed the felony arrest, as well as pending charges from the SBA lenders, in order to qualify for the loans. In addition, he falsified the required equity injections for both loans.
- A Colorado woman was ordered to pay over \$1.7 million in restitution to various parties, including SBA, a non-bank lender, the physician who employed her, a health care group, and an insurance company. She previously had been sentenced to 60 months incarceration and 60 months of parole for felony theft. While employed as an office manager, she used her employer’s personal information and signature stamp to fraudulently obtain two SBA loans totaling \$150,000, a non-SBA loan of nearly \$181,000, as well as other funds, primarily for her personal benefit. The OIG worked this investigation jointly with the Denver District Attorney’s office based on a referral from the lender.

False Equity Injection Continues to Affect Loan Programs

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. SBA requires that borrowers inject such available money into projects financed by guaranteed loans. Some borrowers circumvent this requirement by falsifying the amount or source of such injections.

For example, an investigation disclosed that a company obtained a \$1 million SBA-guaranteed loan through a non-bank lender and a \$300,000 non-SBA loan from a bank to purchase a convenience store

Small Business Access to Capital

from another company. It is alleged that the defendants falsely represented to the bank that the purchaser provided funds at closing. Consequently, four individuals in Texas were indicted for conspiracy, false statements on a loan application, aiding and abetting, mail fraud, and wire fraud. Two of the individuals were the president and vice president of a business that owned convenience stores. The third individual owned a business that purchased convenience stores, and the fourth individual owned a title company. The OIG is conducting this investigation jointly with the FBI.

Small Business Development, Contracting, Education, and Training

Overview

Through its government contracting programs, SBA works to maximize opportunities for small, woman and minority-owned, and other disadvantaged businesses to obtain federal contract awards. These programs include, among others, the Historically Underutilized Business Zone (HUBZone) Empowerment Contracting program and the Small Disadvantaged Business (SDB) Certification program. 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, SBA's Section 8(a) Business Development program offers a broad range of business development support, such as mentoring, procurement assistance, business counseling, training, financial assistance, surety bonding, and other management and technical assistance. SBA also provides assistance to existing and prospective small businesses through a variety of counseling and training services offered by partner organizations. Among these 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.

8(a) Fraud Investigation Results in Sentencing

The Section 8(a) Business Development program for small businesses operated by socially and economically disadvantaged individuals provides preferences in obtaining federal contracts. Such preferences can be an incentive for a firm to falsely claim 8(a) status. Although the program requires that a disadvantaged individual have control and ownership of an 8(a) company, this sometimes is not the case. The OIG is conducting the following interrelated investigations jointly with the Environment Protection Agency (EPA) Criminal Investigative Division (CID), the Naval Criminal Investigative Service (NCIS), the Internal Revenue Service (IRS) CID, and the FBI.

- A non-disadvantaged businessman involved with three Maryland SBA 8(a)-certified demolition and asbestos abatement companies conspired with others by not disclosing that non-disadvantaged individuals provided critical bonding, insurance, financial support, and control over the companies. Between 2002 and 2004, and without SBA's knowledge and approval, the businessman and his co-conspirators received approximately \$900,000 more in bonuses and salaries than the president of one of the 8(a) firms. The businessman was sentenced to 30 days in jail, 6 months home confinement, 18 months supervised release, a \$20,000 fine, and a \$100 special assessment fee after previously pleading guilty to conspiracy to defraud SBA.
- Another non-disadvantaged Maryland man conspired with one of the above companies and other individuals by not disclosing critical support and control that he provided to that company and the two other 8(a) firms. The company concealed the fact that non-disadvantaged individuals exercised significant control over the contracts bid upon and the selection and payment of subcontractors. The man was sentenced to 18 months in prison, 3 years supervised release, a \$400,000 fine, \$300,000 in restitution, and a \$200 special assessment fee for conspiracy to defraud SBA and participation in a money laundering conspiracy. The company was sentenced to 3 years probation, a \$75,000 fine, and a \$400 special assessment fee for conspiracy to defraud

Small Business Development, Contracting, Education, and Training

SBA. Moreover, SBA suspended the company from the 8(a) program and suspended the company and its owner from any federal procurement or non-procurement programs and activities.

- Finally, the president and owner of a Maryland demolition and asbestos abatement company conspired with others to maintain a company's 8(a) eligibility by not disclosing that non-disadvantaged individuals provided start-up money for the company, exercised significant control over the contracts bid upon, and directed the selection and payment of subcontractors. Although this person was the qualified disadvantaged individual, the non-disadvantaged individuals received the additional \$900,000 in bonuses and salaries mentioned above. The owner was sentenced to 2 months in jail, 3 years probation, a \$100,000 fine, and a \$100 special assessment fee for conspiracy to defraud SBA.

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. To date, however, SBA has not issued these regulations. In addition, paragraph 21(a)(7)(C)(iii) states that, until the issuance of such regulations, any 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. The Agency reported that there were no SBDC surveys requiring OIG approval during this reporting period.

Agency Management

Audit of SBA's FY 2008 Financial Statements

On November 14, 2008, pursuant to the Chief Financial Officers Act of 1990, KPMG LLP issued the independent auditors' report and accompanying reports on internal control and compliance with laws and regulations for the fiscal year ended September 30, 2008. The audit was performed under a contract with the OIG.

The independent auditors' report concluded that SBA's consolidated financial statements presented the financial position of SBA fairly, in all material respects, including net costs, changes in net position, and combined statements of budgetary resources, for the years ending September 30, 2008 and 2007. The report did not find any instances of noncompliance with applicable laws and regulations; however, with respect to internal control over financial reporting, the independent auditor again reported a significant deficiency related to information technology (IT) controls, but did not consider the deficiency to be a material weakness. It noted that, while SBA has made progress in its efforts to address prior IT internal control deficiencies since last year's report, deficiencies continue to exist for security access controls, software program changes, and end-user computing. The Agency concurred with the independent auditors' findings and agreed to implement their recommendations.

...the independent auditor again reported a significant deficiency related to information technology (IT) controls

In its Management Letter, dated December 17, 2008, KMPG identified non-reportable conditions that came to its attention during this audit. It commented on internal controls over financial reporting and other operational matters that were not considered reportable for the purposes of this audit, recognizing a need for improvement in the following areas:

- Timely charge-off of delinquent loans;
- Adherence to IT general control procedures and review of payments;
- Development of procedures to track loan files;
- Loan guaranty approval processes and prevention of duplicate loans;
- On-site lender reviews and examinations; and
- Congressional grant monitoring.

Issues recognized in the FY 2007 Financial Statement audit that still needed improvement included:

- Guaranty loan charge-off and lender follow-up processes;
- Development and communication of standard operating procedures;
- Undelivered orders; and
- Payroll processing and controls over official personnel files.

Resolved issues from the FY 2007 Financial Statement audit included:

- Loan guaranty purchase process; and
- Review of the disaster program credit model calculations

The Agency concurred with these findings and agreed to, or had already begun implementing, KPMG's recommendations.

Agency Management

HSPD-12 Card Issuance System

Homeland Security Presidential Directive 12 (HSPD-12) requires federal agencies to implement a system for Personal Identity Verification (PIV) cards. To comply with this Directive, SBA developed an Identity

...SBA had not fully satisfied any of three OMB requirements for 2007 and would not meet a fourth in 2008.

Management System (IDMS) to maintain the personal identity information of its employees. An OIG review of this system found that SBA had not fully satisfied any of three OMB requirements for 2007 and would not meet a fourth in 2008.

Specifically, SBA was not a certified organization capable of developing or operating an HSPD-12 compliant system, did not ensure that the development contractors were GSA-approved, and did not perform a security review of IDMS to ensure privacy data maintained was adequately protected. Moreover, SBA did not follow systems development protocol or conduct acceptance testing when introducing major software and hardware changes. Consequently, IDMS experienced server freezes, data integrity issues, user processing bottlenecks, and problems capturing and verifying fingerprints, as well as other issues. SBA also did not follow its own capital investment policy for IT investments costing more than \$200,000 in a single year or more than \$500,000 over three years. To ensure that IDMS was managed within budget and schedule, and complied with OMB requirements for project funding, the Agency should have used Earned Value Management (EVM) techniques to manage the project.

Based on the significant risk of maintaining personal identity information in a system that has not undergone required security reviews, the OIG recommended that SBA immediately cease IDMS operations until the system was deemed capable of protecting the privacy data contained therein.

...the OIG recommended that SBA immediately cease IDMS operations until the system is deemed capable of protecting the privacy data it contains.

The OIG also recommended that SBA comply with Certification and Accreditation (C&A) requirements to secure HSPD-12 and IDMS operations, conduct tests to ensure IDMS meets functional requirements, use EVM techniques to manage project performance, and report a baseline plan for accomplishing the project's objectives to OMB, as required.

System Access by Contractors Without Security Clearances

The OIG is required to annually assess SBA's compliance with the Federal Information Security Management Act (FISMA). To supplement the FY 2008 assessment, the OIG conducted a review of

...SBA did not consistently ensure that contractors were properly vetted prior to granting them access to sensitive SBA systems and data...

system access by contractors without security clearances. The OIG found that SBA did not consistently ensure that contractors were properly vetted prior to granting them access to sensitive

SBA systems and data and did not consistently report and track this vulnerability in its Plan of Action and Milestones (POA&M).

The OIG recommended that the Chief Information Officer (CIO) require system owners to confirm that all contractor personnel with access to sensitive systems and data have background investigations and clearances commensurate with SBA policy and immediately suspend system access for any contractors not in compliance. The OIG also recommended measures to heighten or clarify notification, review, self-assessment, rating, reporting, and documentation requirements to ensure compliance.

Agency Management

National Guaranty Purchase Center Furniture Contract

The OIG initiated a review in response to allegations that SBA made an advance payment for the purchase and installation of workstation furniture at the NGPC in Herndon, Virginia, that was not delivered. The OIG found that:

- The original award was inappropriately sole-sourced to a small business contractor. In addition, shortly thereafter, the contract was inappropriately modified, doubling the value of the original award.
- SBA violated federal regulations by (1) advancing a \$226,678 payment to the contractor prior to delivery of the furniture, and (2) making two additional payments totaling \$78,856 that were unrelated to the contract.
- The Contracting Officer's Technical Representative (COTR) inappropriately certified that the contractor should be paid and did not inform the contracting officer that the furniture had not been delivered. The contractor failed to use the advance to pay the vendor, resulting in repossession of the furniture.
- SBA inappropriately reduced the contractor's debt for the undelivered furniture based solely on un-validated contractor invoices.
- The vice president of the contractor was also the owner of the subcontractor; therefore, the subcontractor may not have acted independently in repossessing the furniture.
- Two SBA contracting officers involved in the contract did not follow applicable rules or regulations. They signed documents without full knowledge of what they were approving and made decisions without informing superiors or requesting assistance from SBA's Office of General Counsel (OGC).

The OIG recommended that SBA establish controls to prevent inappropriate contract modifications; revise its SOP to require proof of delivery of goods and services with payment requests; determine whether \$239,030 in payments to the contractor were proper and, if not, seek reimbursement; and determine whether disciplinary actions should be taken against the SBA contracting officers who managed the contract. The Agency agreed with most of the recommendations, but planned further legal consultation before determining whether debarment action against the contractor was feasible, appropriate, and warranted.

Agency Management Decisions

The Inspector General Act requires Federal agencies to make decisions on all audit findings and recommendations within 6 months of report issuance. Agency officials may agree, disagree, or propose alternative actions to the recommendations. In an attempt to reduce the number of overdue management decisions, the OIG revised its reporting process by requesting that the Agency transmit decisions on audit recommendations at the same time that it provides management comments to the draft report. During this reporting period, management decisions were made for 62, or 73 percent, of the 85 recommendations that

Agency Management

were issued. At the end of the semi-annual reporting period, SBA had not made decisions on 8 recommendations that were made in prior reporting periods.

SBA Gift Authority

Section 4(g)(2) of the Small Business Act, as amended, provides that any gift, devise, or bequest of cash accepted by the Administrator under Section 4(g) shall be held in a separate account and shall be subject to semiannual audits by the Inspector General, who shall report his findings to Congress. According to the information provided by SBA's Office of Strategic Alliances, SBA did not accept any cash gifts during this semiannual reporting period.

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 cosponsorships and fee-based Administration-sponsored events. SBA's Office of Strategic Alliances provided information to the OIG related to cosponsorships, 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, 2008 and March 31, 2009, there were 51 cosponsored events.

Other Significant OIG Activities

Character Screening Lessens Potential Program Fraud

Participants in SBA programs involving business loans, disaster assistance loans, Section 8(a) certifications, surety bond guarantees, SBICs, and Certified Development Companies must meet Agency character standards. To help ensure that this occurs, the OIG's Office of Security Operations utilizes name checks and, where appropriate, fingerprint checks to determine criminal background information. During this reporting period, the OIG processed 1,423 external name check requests for these programs.

The OIG also refers applicants who appear ineligible because of character issues to program officials for adjudication. The referrals are based on data from the OIG's on-line connection with the FBI. As a result of OIG referrals during this reporting period, SBA business loan program managers declined 25 applications totaling nearly \$8.6 million, and disaster loan program officials declined 14 applications totaling over \$1.1 million.

In addition, the Section 8(a) program declined 11 applications for admission.

During this reporting period, the OIG also initiated 184 background investigations and issued 16 security clearances for Agency employees and contractors. The OIG also adjudicated 88 background investigative reports and coordinated with the ODA to adjudicate 136 derogatory background investigation reports. Finally, the OIG processed 2,166 internal name check requests for Agency activities such as success stories, "Small Business Person of the Year" nominees, and disaster assistance new hires.

OIG Promotes Debarment and Administrative Enforcement Actions

The OIG has aggressively promoted debarments by SBA as deterrence against parties that have engaged in fraud or have otherwise exhibited such a lack of business integrity that it is in the public interest to exclude them from receiving government contracts and other federal benefits. The OIG regularly identifies candidates for debarment and submits detailed recommendations with supporting documents to facilitate the efforts of the SBA debarment officials. Debarment statistics for the reporting period are in the Statistical Highlights section of this report.

The OIG regularly identifies candidates for debarment and submits detailed recommendations with supporting documents to facilitate the efforts of the SBA debarment officials.

The OIG has recently made a number of recommendations for debarment based upon fraudulent conduct in the SBA business loan programs. As a result of several OIG investigations, numerous individuals have been identified as submitting falsified proof of equity injections, making false claims of U.S. citizenship, and submitting false financial information in order to obtain SBA-guaranteed loans. The OIG also recommended debarment of an individual and his company for submitting false financial information as part of a Certificate of Competency (COC) application. The COC was needed in order for the company to be awarded a \$2.3 million federal contract. As of the close of the reporting period, the Agency was considering these various recommendations.

Other Significant OIG Activities

The OIG has also recommended that SBA develop better procedures for taking administrative enforcement actions against loan agents and packagers that commit fraud or other wrongdoing. Past OIG investigations have identified loan agent fraud on hundreds of millions of dollars of SBA loans. SBA's regulations at 13 C.F.R. Part 103 authorize the Agency to suspend or revoke a loan agent's privilege to conduct business with SBA. The regulations discuss the types of activities considered to be "good cause" for suspending or revoking an agent but are silent on what procedures must be followed in order to undertake a revocation or suspension action. To help deter fraud by loan agents and packagers, the OIG has recommended that the Agency issue procedures to be used for these types of administrative enforcement actions.

OIG Reviews of Proposed Agency Regulations and Initiatives Lead to Improved Program Controls

The internal controls that an organization puts into place are integral to the detection and deterrence of waste, fraud, abuse, and inefficiencies. Additionally, federal agencies enforce integrity and accountability through the regulations they issue to govern their programs. As part of its oversight of Agency programs and operations, the OIG each year reviews and provides comments on a large number of proposed revisions to SBA regulations and internal control documents, such as SOPs, policy notices, forms, and plans for Agency reorganizations. Frequently, the OIG identifies material weaknesses and provides the Agency with recommendations and proposed revisions to promote more effective controls. During this reporting period, the OIG reviewed 55 proposed revisions of internal control documents and submitted comments on 32 of these initiatives.

The Agency's adoption of OIG recommendations has resulted in more robust controls in and enhancements to a wide variety of Agency directives. For example, the OIG reviewed and commented on material weaknesses in various proposed revisions of regulations and internal controls for the 8(a) Business Development program, which has historically experienced weaknesses in its oversight capabilities. The OIG comments focused on improving controls over these programs in order to promote accountability among, and prevent fraud and abuse by, program participants. In addition, OIG comments focused on strengthening SBA's oversight of the performance of federal procurement actions by 8(a) companies to ensure compliance with subcontracting limitations.

Other examples of OIG efforts in this area concerned several regulatory and procedural revisions for the business loan programs, including comments recommending that SBA (1) strengthen its oversight of lenders participating in these programs during the Agency's reviews of lender requests for payment of loan guaranties, and (2) clarify SOPs governing underwriting by lenders. At the end of the reporting period, the OIG also provided comments on proposed internal control documents and regulations prepared by the Agency in connection with its implementation of the Recovery Act. Finally, the OIG provided extensive comments on a proposed revision of internal operating procedures regarding the acceptance of gifts by SBA employees, so as to limit the potential for bribes and conflicts of interest, and a proposed revision of the Agency's internal control procedures.

Fraud Awareness Briefings

During this reporting period, the OIG conducted 6 fraud awareness presentations for approximately 980 representatives of lending institutions, federal and local agencies, and law enforcement organizations. Topics included loan agent and lender fraud, as well as fraud indicators in other SBA loan programs.

Statistical Highlights

6-Month Productivity Statistics October 1, 2008 through March 31, 2009

Summary of Office-Wide Dollar Accomplishments

Totals

A. Potential Investigative Recoveries and Fines	\$41,653,389**
B. Loans/Contracts Not Approved or Canceled as Result of Investigations.....	\$2,157,000
C. Loans Not Made as a Result of Name Checks	\$9,695,653
D. Disallowed Costs Agreed to by Management	\$2,929,457
E. Recommendations that Funds Be Put to Better Use Agreed to by Management	\$0
Total	\$56,435,499

Efficiency and Effectiveness Activities Related to Audits and Other Reports

A. Reports Issued	12
B. Recommendations Issued	85
C. Dollar Value of Costs Questioned.....	\$4,274,033
D. Dollar Value of Recommendations that Funds Be Put to Better Use	\$46,367,586
E. Collections as a Result of Questioned Costs	\$0

Audit and Report Follow-up Activities

A. Recommendations for which Management Decisions were made During the Reporting Period	62
B. Disallowed Costs Agreed to by Management	\$2,929,457
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	27

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

A. Legislation, Regulations, Standard Operating Procedures, and Other Issuances * Reviewed	55
--	----

** Includes \$89,641 in restitution/recovery funds not reported in the previous semiannual period.

Statistical Highlights

6-Month Productivity Statistics October 1, 2008 through March 31, 2009

Indictments, Convictions, and Case Activity

A. Indictments from OIG Cases	32
B. Convictions from OIG Cases.....	27*
C. Cases Opened	37
D. Cases Closed.....	61

Investigations Recoveries and Management Avoidances

A. Potential Recoveries and Fines as a Result of OIG Investigations	\$41,653,389**
B. Loans/Contracts Not Approved or Canceled as Result of Investigations.....	\$2,157,000
C. Loans Not Approved as a Result of the Name Check Program	\$9,695,653
Total.....	\$53,506,042

SBA Personnel Actions Taken as a Result of Investigations

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

Program Actions Taken as a Result of Investigations

A. Debarments Recommended to the Agency	16
B. Debarments Pending at the Agency	24
C. Proposed Debarments Issued by the Agency	26
D. Final Debarments Issued by the Agency	0
E. Proposed Debarments Declined by the Agency	2

OIG Hotline Operation Activities

A. Total Fraud Line Complaints.....	231
B. Total Complaints Referred to Investigations Division	41
C. Total Complaints Referred to SBA or Other Federal Investigative Agencies.....	2
D. Total Complaints Referred to Other Entities.....	4
E. Total Complaints Needing No Action.....	184

* Includes one conviction that occurred in the last semiannual reporting period that was not reported.

** Includes \$89,641 in restitution/recovery funds not reported in the previous semiannual period.

Appendices

Appendix I
OIG Reports Issued
October 1, 2008 through March 31, 2009

Title	Report Number	Issue Date	Questioned Costs	Funds for Better Use
<i>Disaster Loans</i>				
Audit of Use of Proceeds from Gulf Coast Hurricane Disaster Loans	9-06	01/15/2009	\$0	\$10,147,500
Review of Borrower Eligibility for Gulf Coast Disaster Loans	9-09	03/31/2009	\$19,000	\$683,200
Audit of Improper Payments in the Disaster Assistance Program	9-10	03/26/2009	\$0	\$0
Program Subtotal	3		\$19,000	\$ 10,830,700
<i>Small Business Access to Capital</i>				
Audit of the Liquidation Process at the National Guaranty Process Center	9-08	01/30/2009	\$2,800,000	\$22,836,886
SBA-Serviced Liquidation of Certified Development Company (CDC) Loans	9-11	03/30/2009	\$0	\$0
Program Subtotal	2		\$2,800,000	\$22,836,886
<i>Agency Management</i>				
SBA's Implementation of an HSPD-12 Card Issuance System	9-01	10/06/2008	\$0	\$0
Fiscal Year 2009 Report on the Most Serious Management and Performance Challenges Facing the Small Business Administration	9-02	10/10/2008	\$0	\$0
Audit Of SBA's Fiscal Year 2008 Financial Statements	9-03	11/14/2008	\$0	\$0
GFRS for Fiscal Year 2008	9-04	11/14/2008	\$0	\$0
Audit of SBA's Fiscal Year 2008 Financial Statements - Management Letter	9-05	12/17/2008	\$0	\$0
System Access By Contractors Without Security Clearances	9-07	1/26/2009	\$0	\$0
Review of SBA National Guaranty Purchase Center Furniture Contract	9-12	3/31/2009	\$239,030	\$0
Program Subtotal	7		\$239,030	\$0
TOTALS (all programs)	12		\$ 3,058,030	\$ 33,667,586

Appendices

Appendix II OIG Reports with Questioned Costs

		Reports	Recommendations*	Questioned Costs**	Unsupported Costs**
A.	No management decision made by September 30, 2008	1	6	\$1,216,003	\$0
B.	Issued during this reporting period	3	4	\$19,000	\$3,039,030
	Universe from which management decisions could be made in this reporting period – Subtotals	4	10	\$1,235,003	\$3,039,030
C.	Management decision(s) made during this reporting period	2	3	\$0	\$3,039,030
	(i) Disallowed costs	2	3	\$0	\$2,929,457
	(ii) Costs not disallowed	1	1	\$0	\$109,573
D.	No management decision made by March 31, 2009	6	12	\$1,235,003	\$10,147,500

* Reports may have more than one recommendation.

** Questioned costs are those which are found to be improper, whereas unsupported costs may be proper, but lack documentation.

Appendix III OIG Reports with Recommendations that Funds Be Put to Better Use

		Reports	Recommendations*	Recommended Funds For Better Use
A.	No management decision made by September 30, 2008	1	1	\$12,700,000
B.	Issued during this reporting period	3	3	\$33,667,586
	Universe from which management decisions could be made in this reporting period – Subtotals	4	4	\$46,367,586
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.	No management decision made by March 31, 2009	4	4	\$46,367,586

* Reports may have more than one recommendation.

Appendices

Appendix IV OIG Reports with Non-Monetary Recommendations

		Reports	Recommendations
A.	No management decision made by September 30, 2008**	2	2
B.	Issued during this reporting period	10	78
	Universe from which management decisions could be made in this reporting period – Subtotals	12	80
C.	Management decision(s) made (for at least one recommendation in the report) during this reporting period	7	58
D.	No management decision made by March 31, 2009*	8	22

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

** Information is different from what was previously reported due to database corrections.

Appendix V OIG Reports From Prior Semiannual Periods with Overdue* Management Decisions as of March 31, 2009

Title	Report Number	Date Issued	Status
Annual Credit Reviews for Gulf Coast Hurricane Disaster Loan Disbursements	8-10	3/28/08	The Agency has not responded to one recommendation in the report.
Disaster Loan File Transfer and Service Delays	8-17	8/17/08	The Agency has not responded to one recommendation in the report.
Audit of Six SBA Guaranteed Loans	8-18	9/08/08	The Agency has not responded to six recommendations in the report.

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

Appendices

Appendix VI OIG Reports Without Final Action as of March 31, 2009

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	10/11/08
2-29	Audit of Internal Control Over Colson Services Corporation's Contract as Central Servicing Agent for SBA's Certified Development Company Loan Program	9/16/02	12/12/02	8/15/09
3-08	SBA's Oversight of the Fiscal Transfer Agent for the 7(a) Loan Program	1/30/03	4/15/07	11/30/09
4-16	SBA's Administration of the Procurement Activities of Asset Sale Due Diligence Contracts and Task Orders	3/17/04	***	**
4-34	Audit of SBA's Process for Complying with the Federal Managers' Financial Integrity Act Reporting Requirements	7/29/04	***	**
4-40	Audit of a SBA-guaranteed Loan to Elatec Technology Corporation and HK Equipment, Inc.	9/13/04	4/5/06	6/30/07
4-41	Audit of Selected SBA General Support Systems	9/10/04	11/9/04	9/30/05
4-44	SBA-Sponsored and Cosponsored Events Conducted by District Offices	9/24/04	***	9/30/05
5-12	Audit of SBA's Information Systems Controls – FY 2004	2/24/05	4/18/05	4/15/05
5-23	SBA's Administration of its Special Appropriation Grants	9/24/04	***	9/1/08
5-28	Review of SBA Procedures For Cash Gifts	9/30/05	2/23/06	2/29/08
6-04	Audit of SBA's Fiscal Year 2005 Financial Statements	11/14/05	5/10/06	6/30/07
7-03	Audit of SBA's Fiscal Year 2006 Financial Statements	11/15/06	1/4/2007	12/31/2007
7-16	Vulnerability Technology Security Assessment	3/6/07	3/7/07	3/30/07
7-21	SBA's Use of the Loan and Lender Monitoring System	5/2/2007	5/2/07	**
7-26	Audit of Liquidation of Disaster Loans	10/23/07	10/23/07	**
7-28	SBA's Oversight Of Business Loan Center, LLC	7/11/07	9/27/07	12/31/2009
7-29	Quality Assurance Reviews of Loss Verification	07/23/07	***	**

** Target dates vary with different recommendations.

*** Management decision dates vary with different recommendations.

Appendices

Appendix VI OIG Reports Without Final Action as of March 31, 2009

Report Number	Title	Date Issued	Date of Management Decision	Final Action Target Date
8-06	Audit of SBA's FY 2007 Financial Statements - Management Letter	12/14/07	12/18/07	**
8-09	Loan Classification and Overpayments of Secondary Loans	3/26/08	***	**
8-12	Oversight of SBA Supervised Lenders	5/9/08	6/20/08	12/31/09
8-13	Planning for the Loan Management and Accounting System Modernization and Development Effort	5/14/08	**	**
8-14	Non-Native Managers Secured Millions of Dollars from 8(a) Firms Owned by Alaska	8/7/08	8/18/08	3/31/09
8-16	Acceptance of VBP Group into the 8(a) Program and Subsequent Contract Award by SBA	7/18/08	8/11/08	**

** Target dates vary with different recommendations.

*** Management decision dates vary with different recommendations.

Appendices

Appendix VII
Summary of Significant Recommendations
From Prior Semiannual Reporting Periods
Without Final Action as of March 31, 2009*

Report Number	Date Issued	Recommendation	Date of Management Decision	Final Action Target Date
4-16	3/17/04	Develop and implement procedures to monitor contractor compliance with the 50 percent rule when applicable.	5/12/04	9/1/08
4-16	3/17/04	Ensure the amount of subcontracting is reviewed and documented in the contract file for awards of 8(a) and small business set-aside contracts and task orders to small businesses.	5/12/04	9/1/08
4-16	3/17/04	Revise the SOP on Procurement and Grants Management as soon as possible, incorporate policies to address the outstanding items described above within 6 months of the issuance of this report.	5/12/04	9/1/08
5-12	2/24/05	For all SBA internal and contractor supported general support systems and major applications, e.g., Egan Mainframe, SBA and Corio UNIX, Network and Windows 2000; Loan Accounting System (LAS), Sybase, Mainframe, Joint Accounting and Administration Management System (JAAMS) Oracle, and related application functions: (1) develop and document policies and procedures clearly outlining what activities should be logged, who should be responsible for reviewing logs, what the logs should be reviewed for, how often logs should be reviewed, and how long logs should be retained; (2) assign responsibility within the Office of the Chief Information Officer for the review of application and general support system security logs; and (3) retain audit logs for a sufficient period of time (at least 90 days).	4/18/05	4/15/06

* These are a subset of the universe of recommendations without final action.

** Recommendation does not have a management decision.

Appendices

Appendix VII Summary of Significant Recommendations From Prior Semiannual Reporting Periods Without Final Action as of March 31, 2009*

Report Number	Date Issued	Recommendation	Date of Management Decision	Final Action Target Date
8-09	3/23/08	Revise current procedures for classifying loans in the Loan Accounting System to ensure that loan currency is not solely based on the next installment due date.	9/3/08	9/30/09
8-09	3/23/08	Ensure that SBA is in compliance with the 1086 agreement by actively monitoring the Fiscal and Transfer Agent's monthly default reports, adhering to all requirements, and taking appropriate action on the reported loans.	9/3/08	3/31/09
8-09	3/23/08	Modify the 1086 agreement to require lenders to request guaranty purchase when interest is 120 days or more past due and seek reimbursement from lenders for interest accrued in excess of 120 days on loans SBA purchases directly from the secondary market.	9/3/08	3/31/09
8-09	3/23/08	Discontinue the practice of including the amount of SBA's ongoing guaranty fees in the purchase payment to the Fiscal and Transfer Agent.	9/3/08	3/30/09
8-13	5/14/08	Design and implement an Enterprise-wide QA function that fully addresses the risk and scope of the LMAS project and ensures the OCIO can fulfill responsibilities under the Clinger-Cohen Act to provide independent quality assurance and oversight of Information Technology investments.	8/26/08	4/30/09
8-13	5/14/08	Make cost-effective remediation of mainframe vulnerabilities a priority and ensure that migration of LAS occurs before the current mainframe contract expires in 2012 to reduce SBA's mainframe costs and timely mitigate associated security risks.	8/27/08	3/31/09

* These are a subset of the universe of recommendations without final action.

** Recommendation does not have a management decision.

Appendices

Appendix VII
Summary of Significant Recommendations
From Prior Semiannual Reporting Periods
Without Final Action as of March 31, 2009*

Report Number	Date Issued	Recommendation	Date of Management Decision	Final Action Target Date
8-16	7/18/08	If immediate action is necessary to protect the Government's interest initiate debarment proceedings for the participant under either SBA's non-procurement debarment and suspension procedures or the FAR.	8/11/08	8/30/09

* These are a subset of the universe of recommendations without final action.

** Recommendation does not have a management decision.

Appendices

Appendix VIII Summary of Significant Recommendations October 1, 2008 through March 31, 2009

Report Number	Title	Date Issued	Recommendation
9-01	SBA's Implementation of an HSPD-12 Card Issuance System	10/6/08	Develop and execute a test strategy to ensure that IDMS meets all of the HSPD-12 functional requirements, including reading and authenticating the digital certificates on identity cards.
9-06	The Use of Proceeds from Gulf Coast Disaster Loans	1/15/09	Revise SOP 50 30 6 to require that a review be conducted of how prior proceeds were used on a sample of disbursements exceeding \$10,000 to provide the Agency with some assurance that borrowers used prior proceeds appropriately. The SOP should also require that the Borrower's Progress Certification form and supporting receipts be reviewed and signed by ODA to document that a review was made.
9-06	The Use of Proceeds from Gulf Coast Disaster Loans	1/15/09	Require site visits or follow-up with vendors when questionable invoices, including quotes for large dollar amounts with no receipts, unsigned certifications or vendor quotes, inadequate certifications, or no official documents, are submitted to verify the accuracy of what the borrower has reported.
9-08	Audit of the Liquidation Process at the National Guaranty Purchase Center	1/30/09	Recover approximately \$2.8 million of improper payments and liquidation proceeds from lenders on the 24 loans identified in Appendices IV and V.
9-08	Audit of the Liquidation Process at the National Guaranty Purchase Center	1/30/09	Direct the Center to ensure that charge-off reviews are properly supervised and all required documentation is obtained from lenders.
9-08	Audit of the Liquidation Process at the National Guaranty Purchase Center	1/30/09	Revise liquidation recovery rates in SOP 50 51 (2) to reflect the forced sale liquidation values related to the various types of collateral used to secure SBA loans.
9-08	Audit of the Liquidation Process at the National Guaranty Purchase Center	1/30/09	Further enhance the Center's newly designed portfolio management system to include the appropriate controls and ensure the appropriate resources are assigned to address loans needing action.

Appendices

Appendix VIII Summary of Significant Recommendations October 1, 2008 through March 31, 2009

Report Number	Title	Date Issued	Recommendation
9-09	Audit of the Liquidation Process at the National Guaranty Purchase Center	1/30/09	Perform periodic reviews of non-purchased loans in liquidation when appropriate to ensure they are removed from the portfolio and their outstanding balances are correct.
9-09	Audit of Borrower Eligibility for Gulf Coast Disaster Loans	3/31/09	Revise current procedures for verifying an applicant's primary residence to ensure that a more reliable method is used than that provided in the SOP.
9-10	Audit of Borrower Eligibility for Gulf Coast Disaster Loans	3/31/09	Request remittance from HUD for the \$19,000 associated with the Road Home grant that duplicated disaster benefits awarded under the SBA loan.
9-10	SBA's FY 2007 Improper Payment Rate for the Disaster Loan Program	3/26/09	Revise the sampling design methodology for estimating improper payments to ensure that the sample is based on disbursements versus loan approvals in accordance with OMB guidance, and employs variable sampling procedures.
9-10	SBA's FY 2007 Improper Payment Rate for the Disaster Loan Program	3/26/09	Require that a statistician be consulted when developing the sample error rate and projection methodology to ensure that the estimate derived is statistically valid, as required by OMB guidance.
9-10	SBA's FY 2007 Improper Payment Rate for the Disaster Loan Program	3/26/09	Implement a corrective action plan to reduce improper payments in the Disaster Assistance Loan Program.
9-10	SBA's FY 2007 Improper Payment Rate for the Disaster Loan Program	3/26/09	Recalculate the FY 2008 estimate of improper payments and if different from the original estimate of improper payments, provide the revised estimate to the Acting Chief Financial Officer.
9-10	SBA's FY 2007 Improper Payment Rate for the Disaster Loan Program	3/26/09	Report the improper rate calculated by the OIG for FY 2007 to OMB.
9-10	SBA's FY 2007 Improper Payment Rate for the Disaster Loan Program	3/26/09	Ensure the correct FY 2008 improper payment estimate is reported to OMB.

Appendices

Appendix VIII Summary of Significant Recommendations October 1, 2008 through March 31, 2009

Report Number	Title	Date Issued	Recommendation
9-12	SBA-Serviced Liquidation of Certified Development Company Loans	3/30/09	Evaluate whether staffing and process improvements introduced after the audit was completed have enabled the centers to complete all required liquidation actions, and, if not, make appropriate staffing and process adjustments as necessary to ensure that loans are properly liquidated.
9-12	Review of SBA's National Guaranty Purchase Center Furniture Contract	3/31/09	Establish internal controls that ensure that OBO and DPGM are unable to modify contracts without the appropriate supporting documentation, including a statement of work.
9-12	Review of SBA's National Guaranty Purchase Center Furniture Contract	3/31/09	Revise SOP 00 11 1 to require that COTRs submit supporting documentation with their payment requests, such as a receiving report, to show that the contractor has delivered the goods or services that are being submitted for payment.
9-12	Review of SBA's National Guaranty Purchase Center Furniture Contract	3/31/09	Determine whether the \$78,856 in invoices for Task Order #1 – Nashville, TN was paid under the proper contract or purchase order, and if a duplicate payment was made, recover any funds from the contractor as necessary.
9-12	Review of SBA's National Guaranty Purchase Center Furniture Contract	3/31/09	Determine whether the contractor performed the work supporting SBA's \$160,174 offset and whether the invoices were already paid. Seek reimbursement where work was not performed or duplicate payments were made.
9-12	Review of SBA's National Guaranty Purchase Center Furniture Contract	3/31/09	Terminate SBA's contractual relationship with the company involved.
9-12	Review of SBA's National Guaranty Purchase Center Furniture Contract	3/31/09	Initiate proceedings to debar the company involved from receiving future Government contracts.
9-12	Review of SBA's National Guaranty Purchase Center Furniture Contract	3/31/09	Determine whether actions taken by the contracting officers warranted unsatisfactory performance, and require disciplinary actions, including terminating their contract authority, if appropriate.

Appendices

Appendix IX

Events/Activities Where SBA Used its Cosponsorship Authority* Small Business Act, Section 4(h) October 1, 2008 through March 31, 2009

Name/Subject of Event	Event Start Date	Event End Date	Location of Event	Name(s) of Cosponsor(s)
SBA Lenders Conference	April 21, 2009	April 21, 2009	Charlotte, NC	Charlotte Chamber of Commerce
NEO Connects	TBA 2009		Cleveland, OH	The Cleveland Clinic Foundation, Urban League of Greater Cleveland SBDC, Commission on Economic Inclusion, Greater Cleveland Partnership
MED Week Award Program	March 18, 2009	March 18, 2009	Los Angeles, CA	City of Los Angeles, Mayor's Office of Housing and Economic Development, US Department of commerce Minority Business Development Agency
Series: GC/BD Workshops & Matchmaker Events	March 1, 2009	December 31, 2009	Providence, RI	Rhode Island Procurement Technical Assistance Center
2009 Albany Matchmaker	September 10, 2009	September 10, 2009	Albany, NY	New York Business Development Corporation, University at Albany thru the Small Business Development Center, The Business Review, The Albany-Colonie Chamber of Commerce
2009 Ohio Business Matchmaker	March 18, 2009	March 18, 2009	Dayton, OH	Ohio Department of Development, Ohio Business Connection, Southern Ohio Procurement Outreach Center, Aeronautical Systems Center Small Business Office, Defense Logistics Agency
Annual SBA Small Business Newspaper Insert	May 22, 2009	May 22, 2009	Denver, CO	The Denver Business Journal

* The Agency provided this information based on approved cosponsorship agreements. Some events have not yet been held. This information has not been verified by the OIG.

Appendices

Appendix IX

Events/Activities Where SBA Used its Cosponsorship Authority* Small Business Act, Section 4(h) October 1, 2008 through March 31, 2009

Name/Subject of Event	Event Start Date	Event End Date	Location of Event	Name(s) of Cosponsor(s)
Small Business Week Breakfast Awards Ceremony	May 15, 2009	May 15, 2009	San Juan, PR	Puerto Rico Bankers Association
Small Business Expo, Business Matchmaker, Small Business Week Awards Luncheon	May 6, 2009	May 6, 2009	Buffalo, NY	SCORE Buffalo Niagara Chapter #45, Business First Inc.
Tiger Team Assessment Program	March 2009	December 31, 2009	Santa Ana, CA	Orange County SBDC, Institute for Women Entrepreneurs, SCORE Chapter 114
Export Trade Assistance Partnership: The New Basic Guide to Exporting	May 11, June 8, July 13, August 10, September 14, 2009	May 11, June 8, July 13, August 10, September 14, 2009	Newport Beach, CA	U.S. Commercial Service
SBA Tri-County Faith Based Financing Conference	October 8, 2009	October 8, 2009	Ontario, CA	AmPac Tristate CDC, Inland Empire Women's Business Center
Series: Youth Entrepreneurial Workshop	April 10, 24; May 8, 22; June 12, 26, 2009	April 10, 24; May 8, 22; June 12, 26, 2009	Baltimore, MD	Woodlawn Library
Oklahoma Small Business Awards Luncheon Program	April 7, 2009	April 7, 2009	Midwest City, OK	Rose State College thru SBDC, The Journal Record Publishing Company, Oklahoma Center for the Advancement of Science and Technology, Oklahoma Department of Commerce
E-200	April 2009	November 2009	Portland, OR	Oregon DO

* The Agency provided this information based on approved cosponsorship agreements. Some events have not yet been held. This information has not been verified by the OIG.

Appendices

Appendix IX
Events/Activities Where SBA Used its Cosponsorship Authority*
Small Business Act, Section 4(h)
October 1, 2008 through March 31, 2009

Name/Subject of Event	Event Start Date	Event End Date	Location of Event	Name(s) of Cosponsor(s)
21st Annual High-Tech Conference for Small Business	March 3, 2009	March 4, 2009	Los Angeles, CA	Jet Propulsion Laboratory/NASA
E-200	April 2009	November 2009	Jacksonville, FL	North Florida DO
SBA's 2009 Small Business Awards Reception	May 19, 2009	May 19, 2009	West Hartford, CT	Event Management
E-200	April 2009	November 2009	Detroit, MI	Michigan DO
Small Business Excellence Award Recognition	May 4, 2009; May 8, 2009	May 4, 2009; May 8, 2009	Albany, NY; Syracuse, NY	New York Business Development Corporation
E-200	April 2009	November 2009	Des Moines, IA	Des Moines DO
E-200	April 2009	November 2009	Boston, MA	Boston DO
SBA/IRS Small Business Webinar	March 19, June 2009, August 2009	March 19, June 2009, August 2009	Columbia, SC	U.S. Department of Treasury - Internal Revenue Service
Invent Your Future Conference for Woman	March 31, 2009	April 1, 2009	Santa Clara, CA	Invent Your Future Enterprises
E-200	April 2009	November 2009	Atlanta, GA	Georgia DO
E-200	April 2009	November 2009	Dallas, TX	Dallas/Fort Worth DO
New Mexico Small Business Week Awards Celebration 2009	May 5, 2009	May 5, 2009	Albuquerque, NM	Santa Fe Community College thru New Mexico SBDC

* The Agency provided this information based on approved cosponsorship agreements. Some events have not yet been held. This information has not been verified by the OIG.

Appendices

Appendix IX

Events/Activities Where SBA Used its Cosponsorship Authority* Small Business Act, Section 4(h) October 1, 2008 through March 31, 2009

Name/Subject of Event	Event Start Date	Event End Date	Location of Event	Name(s) of Cosponsor(s)
E-200	April 2009	November 2009	Albuquerque, NM	Albuquerque DO
E-200	April 2009	November 2009	Memphis, TN	Tennessee DO
Operation: Start up and Grow	March 19, 2009	March 19, 2009	Syracuse, NY	New York Business Development Corporation, Onondaga Community College, Onondaga SBDC, M&T Bank
Small Business Workshops	March 19, April 16, May 21, June 18, September 17, October 15, November 19, December 31, 2009	March 19, April 16, May 21, June 18, September 17, October 15, November 19, December 31, 2009	New York, NY	The Dutchess County Regional Chamber of Commerce
Small Business Series: How to Start a Business, How to Finance Your Business, Minority Certification, Meet The Professionals Roundtable	March 14, April 18, May 2, June 13, 2009	March 14, April 18, May 2, June 13, 2009	Baltimore, MD	The New David Baptist Church of Christ, The Transforming East Baltimore Community Development Corporation

* The Agency provided this information based on approved cosponsorship agreements. Some events have not yet been held. This information has not been verified by the OIG.

Appendices

Appendix IX

Events/Activities Where SBA Used its Cosponsorship Authority* Small Business Act, Section 4(h) October 1, 2008 through March 31, 2009

Name/Subject of Event	Event Start Date	Event End Date	Location of Event	Name(s) of Cosponsor(s)
Business For Breakfast	Jan. 23, Feb. 27, March 27, April 24, May 22, June 26, July 24, Aug. 28, Sept. 25, Oct. 23, 2009	Jan. 23, Feb. 27, March 27, April 24, May 22, June 26, July 24, Aug. 28, Sept. 25, Oct. 23, 2009	Charleston, WV	SCORE, The State Journal
The Black Business Conference 2009	March 24, 2009	March 24, 2009	Detroit, MI	Chase, Alpha Phi Alpha Fraternity, Inc.
Annual Celebration of Small Business in Virginia	May 8, 2009	May 8, 2009	Richmond, VA	Small Business Awards Foundation, Inc
Federal Contracting Matchmaking	April 3, 2009	April 3, 2009	San Juan, PR	Colegio de Ingenieros y Agrimensores de Puerto Rico
Small Business Week 2009	May 11, 2009; May 14, 2009	May 11, 2009; May 14, 2009	St. Louis, MO	Small Business Week of Eastern Missouri, Inc.
Business Matchmaker	May 1, 2009	May 1, 2009	Vermont	Vermont DO
Surviving the Economic Storm	February 26, 2009	February 26, 2009	Honolulu, HI	Pacific Business News, Altres HR, Hilton Waikki Prince Kuhio, the Chamber of Commerce of Hawaii
5th Annual Connecting Businesses With Contracts Procurement Conference	March 24, 2009	March 24, 2009	Baton Rouge, LA	Southern University Rural Small Business Center thru Southern University and A&M College, Louisiana Procurement Technical Assistance Center

* The Agency provided this information based on approved cosponsorship agreements. Some events have not yet been held. This information has not been verified by the OIG.

Appendices

Appendix IX

Events/Activities Where SBA Used its Cosponsorship Authority* Small Business Act, Section 4(h) October 1, 2008 through March 31, 2009

Name/Subject of Event	Event Start Date	Event End Date	Location of Event	Name(s) of Cosponsor(s)
Cyber Security Is Good Business	January 27, February 3, February 5, 2009 (6 additional dates TBA)	January 27, February 3, February 5, 2009 (6 additional dates TBA)	Mangilao, GU, Wailuku, Hilo, Maui, HI	Federal Bureau of Investigation, National Institute of Standards and Technology
SBA/IRS Telephone/Internet Tax Workshop	January 22, 2009	January 22, 2009	Charlotte, NC	U.S. Department of Treasury – Internal Revenue Service
Straight Talk 2009 & Straight Talk Series	January 24, February 10, February 17, February 24, March 3, March 10, March 17, March 24, March 31, April 7, 2009.	January 24, February 10, February 17, February 24, March 3, March 10, March 17, March 24, March 31, April 7, 2009.	Buffalo, NY	SCORE Buffalo Niagara - Chapter #45
SBA Online Training Course	January 8, January 26; February 8, February 23, 2009	January 8, January 26; February 8, February 23, 2009	Web	Southern State Community College Enterprise Center, WorkForce Connection
Business Resource Day	January 15, 2009	January 15, 2009	Burlington, VT	City of Burlington Community and Economic Development Office

* The Agency provided this information based on approved cosponsorship agreements. Some events have not yet been held. This information has not been verified by the OIG.

Appendices

Appendix IX

Events/Activities Where SBA Used its Cosponsorship Authority* Small Business Act, Section 4(h) October 1, 2008 through March 31, 2009

Name/Subject of Event	Event Start Date	Event End Date	Location of Event	Name(s) of Cosponsor(s)
Salute to Small Business	April 29, 2009	April 29, 2009	Columbia, SC	South Carolina Chamber of Commerce, Small Business Development Center of South Carolina, South Carolina Department of Commerce, ECI/Find New Markets, SCORE, South Carolina Manufacturing Extension Partnership, South Carolina Women's Business Center, U.S. Department of Agriculture – Rural Development, U.S. Department of Commerce, SC Launch!
SBA/USDA Lender Forums	December 3, 9, 2008; January 8, 15, 2009	December 3, 9, 2008; January 8, 15, 2009	Florence, Columbia, Charleston & Greenville, SC	Small Business Development Center of South Carolina, SCORE, South Carolina Women's Business Center, U.S. Department of Agriculture – Rural Development
Closing Reception, Global Entrepreneurship Week/USA	November 21, 2008	November 21, 2008	Washington, DC	The Public Forum Institute
Joint Event	November 12, 2008	November 12, 2008	Washington, DC	MBDA
Immigrant Entrepreneurs Conference	November 15, 2008	November 15, 2008	Des Moines, IA	Community CPA & Associates, Inc., Drake University, Iowa Department of Economic Development, Iowa Women's Enterprise Center

* The Agency provided this information based on approved cosponsorship agreements. Some events have not yet been held. This information has not been verified by the OIG.

Appendices

Appendix IX
Events/Activities Where SBA Used its Cosponsorship Authority*
Small Business Act, Section 4(h)
October 1, 2008 through March 31, 2009

Name/Subject of Event	Event Start Date	Event End Date	Location of Event	Name(s) of Cosponsor(s)
Pennsylvania Small Business Success Stories: How to Survive & Thrive in a Slowdown	November 17, 2008	November 17, 2008	Philadelphia, PA	Office of Senator Arlen Specter

* The Agency provided this information based on approved cosponsorship agreements. Some events have not yet been held. This information has not been verified by the OIG.

Appendices

Appendix X Legal Actions Summary October 1, 2008 through March 31, 2009

State	Program	Alleged Violation(s) Prosecuted	Legal Action	Investigated Jointly With
CA	BL	The owner of two cowhide companies falsified purchase orders, invoices, contracts, financial statements, and tax returns in order to receive more cash advances from his \$2 million SBA Export Working Capital line of credit. The additional funds were used to pay off debts from a failed seafood import company started by the owner.	Owner sentenced to 12 months and one day in prison followed by 5 years supervised release.	FBI
CA	BL	An individual allegedly used a false identity to obtain a \$100,000 SBA Express loan for a business that never existed.	Individual charged in state court.	FBI, SSA OIG, LASD
CA	BL	Two individuals were principals in a sophisticated identity theft ring. They assumed fictitious identities and applied for various types of credit, including SBA Express loans, conventional and/or residential loans, and credit cards.	One individual was sentenced to 28 months in prison, 2 years supervised release, and \$27,000 in restitution. The other was sentenced to 4 months in prison, 4 months home detention, 5 years supervised release, and \$46,998 in restitution.	LAPD, CDOI, DHS/ICE, USPIS, SSA/OIG
CO	BL	The part owner of a construction company allegedly hid his criminal history in order to qualify for two SBA-guaranteed loans totaling \$1.35 million. Criminal history records revealed that he had previously pled guilty to embezzlement and a third degree assault charge.	Part owner indicted.	FBI

Appendices

Appendix X Legal Actions Summary October 1, 2008 through March 31, 2009

State	Program	Alleged Violation(s) Prosecuted	Legal Action	Investigated Jointly With
CO	BL	The former office manager for a plastic surgeon used the doctor's personal information and signature stamp without his authorization to fraudulently obtain two SBA-guaranteed Express loans, totaling \$150,000, and an additional \$180,948 in non-SBA loans.	Office manager sentenced previously. During this reporting period, restitution of \$1,736,514 was ordered. This amount includes restitution payable to SBA, as well as other victims affected by the fraud.	DDAO
FL	DL	The president of a consulting firm claimed that her company had suffered economic injury from Hurricane Wilma and received a \$95,000 SBA disaster business loan to be used as working capital for the business. Instead of injecting the funds into the business, she used a substantial portion of the money at gaming establishments.	President pled guilty and was sentenced to 1 month home detention, 3 years probation, and \$95,000 in restitution.	None
IA	BL	An individual enlisted "front" borrowers and provided false and fraudulent documentation on behalf of the borrowers in order to influence the approval of three loans by a non-bank lender. The loans, one SBA-guaranteed and two direct, totaled over \$4 million.	Individual pled guilty.	FBI
IL	BL	The former owner of a finance company provided fraudulent equity injection documentation to a lender in order to influence the approval of a \$1.35 million SBA-guaranteed loan for one of his companies and at least 20 SBA-guaranteed loans for other businesses. Most of these loans involved the purchase of gas stations and convenience stores.	Former owner pled guilty.	FBI

Appendices

Appendix X Legal Actions Summary October 1, 2008 through March 31, 2009

State	Program	Alleged Violation(s) Prosecuted	Legal Action	Investigated Jointly With
IL	GC	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 allegedly allowed other companies to masquerade as their company and qualify for set-aside contracts. This scheme resulted in the government being billed for more than \$8 million in services.	Criminal information filed against the couple and their company.	VA/OIG, DCIS, USSS
IL	BL	An individual concealed a felony arrest and pending theft/fraud charges in order to qualify for two SBA-guaranteed loans totaling \$860,000 for the purchase of two construction-related businesses. He also falsified the required equity injections for both loans.	Individual pled guilty.	None
IL	BL	An individual conspired with a loan agent to falsely represent to the SBA that he possessed adequate equity injection funds to qualify for \$2,540,000 in SBA-guaranteed and conventional loans to purchase a hotel property. In actuality, the individual formed and used a "shell" company to obtain loan funds to secretly consolidate and refinance delinquent debts and avoid foreclosure of business properties and his personal residence.	Individual pled guilty	None
KY	GC	A business consultant submitted two HUBZone applications to SBA on behalf of a company. The applications contained false statements concerning the address of the company and the number of employees living in a HUBZone. The company subsequently received a \$1.2 million government contract based on its HUBZone status.	Business consultant sentenced to 2 years probation and a \$1,000 fine.	DCIS

Appendices

Appendix X Legal Actions Summary October 1, 2008 through March 31, 2009

State	Program	Alleged Violation(s) Prosecuted	Legal Action	Investigated Jointly With
LA	DL	An individual provided altered building permits in order to induce SBA to release Hurricane Katrina disaster funds for a \$19,500 home loan and a \$49,600 business loan. In addition, he used loan proceeds to purchase a new home, car, and boat.	Individual sentenced to 4 months in prison, 4 months home confinement, and restitution of \$69,100.	None
LA	DL	A business owner conspired with his CPA to fraudulently obtain disaster loans totaling approximately \$3 million and then destroyed a forged SBA financial document in order to impede the investigation. Due to investigative efforts, only \$5,000 was actually dispersed.	Business owner sentenced to 51 months in prison, 3 years supervised release, and \$505,008 in restitution, to be paid jointly and severally with the CPA, who was previously sentenced.	USSS
LA	DL	An individual and his wife submitted fraudulent receipts in support of an SBA disaster home loan and an SBA disaster business loan totaling approximately \$220,000.	Husband and wife pled guilty.	DHS/OIG, HUD/OIG
LA	DL	An individual is alleged to have used \$46,000 of fraudulently acquired Louisiana Road Home funds to partially pay off an SBA loan in the amount of \$105,000.	Individual indicted.	HUD/OIG
LA	DL	An individual falsely claimed her primary residence to be in an area damaged by Hurricane Katrina; fraudulently represented that building permits authorized repairs; and submitted fictitious repair receipts and fraudulent residential leases. She was approved for a home loan of \$125,600 and a business loan of \$291,600; however, only a total of \$60,000 was disbursed.	Individual sentenced to 5 years probation, 200 hours community service, a \$15,000 fine, and total restitution of \$61,960.	DHS/OIG

Appendices

Appendix X Legal Actions Summary October 1, 2008 through March 31, 2009

State	Program	Alleged Violation(s) Prosecuted	Legal Action	Investigated Jointly With
LA	DL	An individual applied for two SBA disaster loans to repair damages related to Hurricane Katrina: a home loan for her primary residence and a business loan for her rental properties. She only qualified for one of the loans and chose the loan for her primary residence because the interest rate was lower. She then used part of the \$150,000 home loan to make repairs to her rental properties.	Individual pled guilty and was sentenced to 2 years probation and restitution of \$67,597.	HUD/OIG
MD	GC	Multiple individuals conspired to violate SBA requirements relating to control and ownership of firms participating in the SBA 8(a) program. The owner of an 8(a) asbestos abatement company failed to disclose that two non-disadvantaged individuals were providing critical bonding, insurance, financial support, and control over the company.	The disadvantaged owner of one company was sentenced to 2 months in jail, 3 years probation, and a \$100,000 fine. One of the non-disadvantaged co-conspirators was sentenced to 18 months in prison, 3 years supervised release, a \$400,000 fine, and \$300,000 in restitution. The other was sentenced to 30 days in prison, 6 months home confinement, 18 months supervised release, and a \$20,000 fine. Another 8(a) company was sentenced to 3 years probation and a \$75,000 fine.	EPA/CID, NCIS, IRS/CID, FBI
MD	BL	The owner of a custom cycle shop submitted false documentation regarding the source of the \$30,000 cash injection required to support his application for a \$120,000 SBA-guaranteed loan.	Owner indicted and pled guilty.	None

Appendices

Appendix X Legal Actions Summary October 1, 2008 through March 31, 2009

State	Program	Alleged Violation(s) Prosecuted	Legal Action	Investigated Jointly With
MI	BL	A bank employee issued a \$1,680,000 cashier's check based on a non-sufficient funds credit card check written by a bank customer. This unfunded check was used by co-conspirators to close on the purchase of a house with the intent to promptly resell or "flip" the property to a straw buyer.	Bank employee sentenced to 9 months home confinement and 5 years probation.	USSS
MI	BL	A former executive vice president of an SBA non-bank lender conspired with loan brokers and others to fraudulently qualify loan applicants for SBA-guaranteed loans, primarily for the purchase of gas stations. At least 89 fraudulent loans, totaling approximately \$85 million, were issued before the fraud was discovered and the office closed. The scheme involved using false and counterfeit documents to verify the borrowers' required equity injections.	Former executive vice president sentenced to 10 years in prison, 2 years supervised release, and over \$33.7 million in restitution.	USSS
MI	BL	An individual falsely represented that he had paid \$510,000 as a cash injection for two SBA-guaranteed loans totaling \$1,350,000. The loans were being used for the purchase of two gas stations.	Individual pled guilty.	USSS
MI	BL	When applying for a \$80,070 SBA Express loan, an individual falsely indicated that she had never been arrested, charged, or convicted of any crime other than a minor motor vehicle violation. In reality, she had four prior drug convictions and had been arrested and charged with passing bad checks.	Individual pled guilty.	FBI
MS	DL	An individual caused physical damage to his own residence in order to fraudulently receive SBA disaster assistance of \$40,000.	Individual sentenced to 16 months incarceration, 36 months supervised release, and \$49,641 in restitution.	USPIS, FBI

Appendices

Appendix X Legal Actions Summary October 1, 2008 through March 31, 2009

State	Program	Alleged Violation(s) Prosecuted	Legal Action	Investigated Jointly With
MS	DL	A husband and wife received \$152,000 in SBA disaster relief funds based on a claim for Hurricane Katrina damages to a property they alleged to be their primary residence.	Couple indicted.	HUD/OIG, MSAO, DHS/OIG, HHS/OIG
MS	DL	An individual claimed her primary residence was in Bay St. Louis, MS, when she was actually living in Houston, TX. She and her husband received \$80,600 in Hurricane Katrina disaster assistance from the SBA and \$11,000 from FEMA.	Wife sentenced to 24 months in prison and 60 months supervised release. Husband sentenced to 4 months in prison, 4 months home confinement, and 36 months supervised release. Wife ordered to pay restitution of \$116,504; of that amount \$91,890 is to be paid jointly and severally with her husband.	DHS/OIG, HUD/OIG, USDA/OIG MSAO
NY	DL	An individual assisted the former owner of an automotive business to fraudulently negotiate an \$86,200 two-party check, which was intended to pay off creditors. The check was one of several payments from a \$646,900 SBA disaster loan that the owner received for economic injuries sustained after the 2001 terrorist attacks.	Individual sentenced to 3 months in prison and 5 years supervised release.	USPIS
NY	BL	An individual used a false Social Security number when applying for two SBA business loans totaling over \$1.6 million. He also failed to disclose his outstanding federal and state tax liens.	Individual sentenced to 37 months in prison and ordered to pay \$1,135,082 in restitution.	FBI
NY	BL	Members of an organized group of foreign nationals obtained credit cards and loans, including SBA loans totaling \$150,000, from various financial institutions using false identities, documents, and businesses.	Two individuals pled guilty.	USPIS

Appendices

Appendix X Legal Actions Summary October 1, 2008 through March 31, 2009

State	Program	Alleged Violation(s) Prosecuted	Legal Action	Investigated Jointly With
TX	BL	A loan broker, a corporation he created, and his business associate are charged with conspiring with two bank employees (a husband and wife) to influence the award of a \$980,000 SBA-guaranteed loan to purchase three convenience stores. The loan broker had wanted to buy only one of the stores, but they were not being sold individually. He recruited two additional borrowers to purchase the three stores under another name, allegedly knowing that the borrowers were not able to pay the required capital injection.	Four individuals and the corporation indicted.	FBI
TX	BL	The president of a slaughtering business used false representations and documents to convince numerous lenders that he had sufficient collateral and income to repay \$1,236,500 in SBA-guaranteed loans and \$1,712,000 in non-SBA loans.	President pled guilty and was sentenced to 37 months in prison, 5 years supervised release, a \$10,000 fine, and \$2,363,291 in restitution.	FBI
TX	BL	Four individuals conspired to receive a \$1 million SBA-guaranteed loan to finance the purchase of a convenience store. They allegedly represented that equity injection funds had been received at closing from the borrower when in fact they knew no money was exchanged.	Four individuals indicted.	FBI
TX	DL	An individual submitted a disaster loan application to SBA on behalf of a seafood company falsely claiming that the company had sustained \$2.8 million in disaster damage resulting from Hurricane Rita.	Individual pled guilty.	DHS/ATF, DHS/OIG
VA	BL	A former grocery store owner used her home to secure a \$690,000 SBA-guaranteed loan. After the loan was dispersed, she arranged for a fraudulent release of lien to be filed. She then refinanced her home and received a cash payout of approximately \$158,000.	Former owner pled guilty and was sentenced to 2 years probation and \$188,332 in restitution.	None

Appendices

Appendix X Legal Actions Summary October 1, 2008 through March 31, 2009

State	Program	Alleged Violation(s) Prosecuted	Legal Action	Investigated Jointly With
WA	SB	A now defunct construction company obtained SBA surety bonds in order to perform public works contracts for state agencies and city municipalities. The president of the company falsely stated that he had paid his subcontractors and suppliers and that his company was out of funds when, in fact, he was diverting contract proceeds of about \$87,000 to his personal use.	President sentenced to 30 days in a residential re-entry center, 90 days home confinement, 5 years supervised release, and restitution of \$197,566.	FBI, NICB

Program Codes: BL=Business Loans; DL=Disaster Loans; GC=Government Contracting and Section 8(a) Business Development; SB=Surety Bond Guarantee

Joint-investigation Federal Agency Acronyms: CDOI=California Department of Insurance; DCIS=Defense Criminal Investigative Service; DDAO=Denver District Attorney's Office; 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/Office of Inspector General; EPA/CID=Environmental Protection Agency/Criminal Investigations Division; FBI=Federal Bureau of Investigation; HHS/OIG=Health and Human Services/OIG; HUD/OIG=Housing and Urban Development/OIG; IRS/CID=Internal Revenue Service/CID; LAPD=Los Angeles Police Department; LASD=Los Angeles Sheriff's Department; MSAO=Mississippi State Auditor's Office; NCIS=Naval Criminal Investigative Service; NICB=National Insurance Crime Bureau; SSA/OIG=Social Security Administration/OIG; USDA/OIG=U.S. Department of Agriculture/OIG; USPIS=United States Postal Inspection Service; USSS=United States Secret Service; VA/OIG=Department of Veterans Affairs/OIG

Appendices

Appendix XI Small Business Administration Office of Inspector General

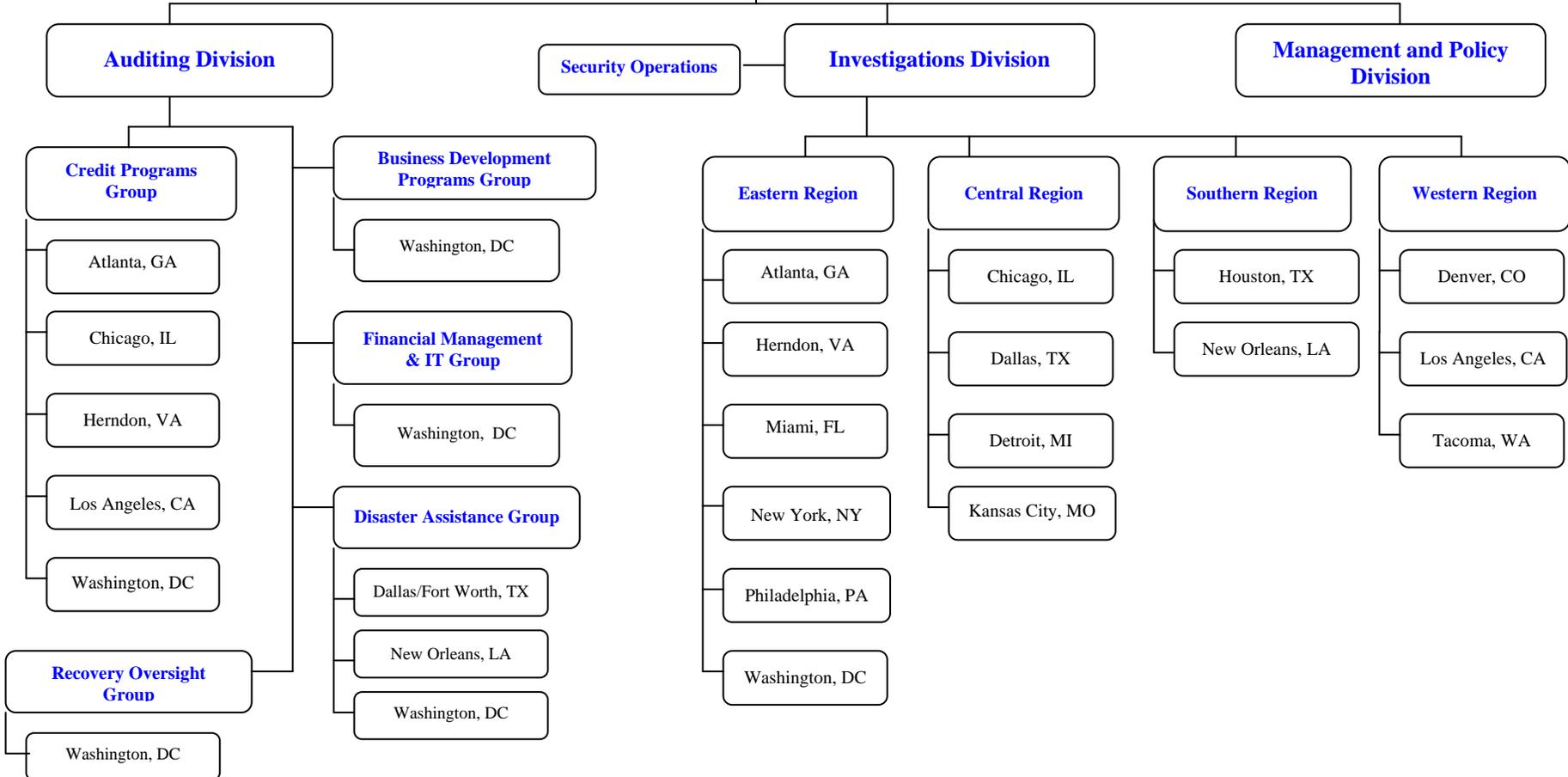
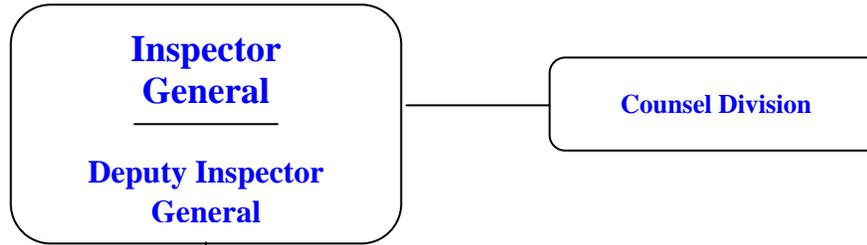
The OIG has four divisions that perform the key functions described.

- **The Auditing Division** performs financial, information technology and other mandated audits, program performance reviews, and internal control assessments, and oversees audits by contractors to promote the economical, efficient, and effective operation of SBA programs.
- **The Investigations Division** manages a program to detect and deter illegal and/or 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 all Agency employees have the appropriate background investigations and security clearances for their duties. They also conduct the name check program, which provides SBA officials with character-eligibility information on loan applicants and other potential program participants.
- **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 civil enforcement matters, processes subpoenas, responds to Freedom of Information and Privacy Act requests, and reviews and comments on proposed Agency policies, regulations, legislation, and procedures.
- **The Management and Policy Division** provides business support (e.g., budget/financial management, human resources, information technology, and procurement) for the various OIG functions, coordinates the preparation of the Semiannual Report to Congress and the Report on SBA's Management Challenges, and develops OIG strategic and performance plans.

The OIG is headquartered 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 can be found on the next page.

Appendix XI
Small Business Administration
Office of Inspector General



Make A Difference!

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

Online:

<http://www.sba.gov/ig/>

Call:

1-800-767-0385 (Toll Free)

Write or Visit:

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

*Upon request, your name will be held in confidence.