

U.S. Small Business Administration Office of Inspector General

Semiannual Report to Congress Spring 2010



October 1, 2009 – March 31, 2010

Inspector General Act Statutory Reporting Requirements

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

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

April 2010

I am pleased to present the U.S. Small Business Administration (SBA) Office of Inspector General (OIG) Spring 2010 Semiannual Report to Congress, which provides a summary of the OIG's activities from October 1, 2009 through March 31, 2010.

This semiannual period corresponded with my first six months as SBA Inspector General—having been sworn in on October 2, 2009. I have quickly come to appreciate the outstanding work of the OIG's management and staff in providing quality auditing, investigative, and other services to support and assist SBA in achieving its mission. During this reporting period, these efforts resulted in 22 reports containing 93 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, resulting in 53 indictments and 14 convictions. Overall, the OIG achieved monetary recoveries and savings of over \$33 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.

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. The OIG continued to work proactively with the Agency to identify risks and recommend cost effective controls to help prevent fraud, waste, and abuse, and ensure that program goals are achieved and stimulus funds are accurately tracked and reported. During this semiannual reporting period, the OIG issued 12 Recovery Oversight Memorandum (ROM) reports, which provided the Agency with notification of deficiencies as problems were identified during OIG audits and reviews.

Also during this reporting period, the OIG issued its Fiscal Year 2010 Report on the Most Serious Management and Performance Challenges Facing SBA. This year's report included two new challenges dealing with (1) the Agency's Loan Management and Accounting System (LMAS) project and (2) improper payments in the Disaster and 7(a) loan programs. While the Agency has made considerable progress in addressing its management challenges, much remains to be done.

I appreciate the cooperation and support provided by SBA's Administrator, Karen Mills, and the entire SBA leadership team, during my first six months as Inspector General. I look forward to continuing to work closely with SBA's leadership to promote economy, efficiency, effectiveness, and integrity in the Agency's programs and operation.

Peggy E. Gustafson
Inspector General

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Glossary of Abbreviations

ANC	Alaska Native Corporation
BD	Business Development
CDC	.....	Certified Development Company
CID	.....	Criminal Investigations Division
CIO	.....	Chief Information Officer
CMOP	.....	Consolidated Mail Outpatient Pharmacy
DO	.....	District Office
e200	.....	Emerging 200 Initiative
EIDL	.....	Economic Injury Disaster Loan
FAR	.....	Federal Acquisition Regulation
FBI	.....	Federal Bureau of Investigation
FPDS	.....	Federal Procurement Data System
GAO	.....	General Accountability Office
HUBZone	.....	Historically Underutilized Business Zone
HUD	.....	Department of Housing and Urban Development
IRS	.....	Internal Revenue Service
NCDF	.....	National Center for Disaster Fraud
NDI	.....	Non-Disadvantaged Individual
NFR	.....	Notice of Finding and Recommendation
ODA	.....	Office of Disaster Assistance
OIG	.....	Office of Inspector General
OMB	.....	Office of Management and Budget
ONDCP	.....	Office of National Drug Control Policy
PCL	.....	Premier Certified Lender
PII	.....	Personally Identifiable Information
QA	.....	Quality Assurance
IV&V	.....	Independent Verification and Validation
ROM	.....	Recovery Oversight Memorandum
SBA	.....	Small Business Administration
SBDC	.....	Small Business Development Center
SBIC	.....	Small Business Investment Company
SBIR	.....	Small Business Innovation Research
SCORE	.....	Service Corps of Retired Executives
SDB	.....	Small Disadvantaged Business
SDM	.....	Systems Development Methodology
SOP	.....	Standard Operating Procedures
STTR	.....	Small Business Technology Transfer
USSS	.....	United States Secret Service
WBC	.....	Women's Business Center
WVDA	.....	West Virginia Department of Administration

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, 2010, SBA had 5,148 employees, including 119 Office of Inspector General (OIG) personnel and 2,840 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 Fiscal Year 2010, 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.

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

Overview of SBA and the OIG

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(s). For each Management Challenge, the OIG provides the Agency with recommended remedial actions together with an assessment of Agency progress on each recommended action during the preceding fiscal year.

SBA's Top Management Challenges

The Management Challenges identified in the OIG's Fiscal Year 2010 report, issued on October 16, 2009, 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.
- Weaknesses in information systems security controls pose significant risks to the Agency.
- Effective human capital strategies are needed to enable SBA to successfully carry out its mission and become a high-performing organization.
- SBA needs better controls over loan purchase and liquidation processes.
- SBA needs to further strengthen its oversight of lending participants.
- The Section 8(a) Business Development program needs to be modified so more firms receive business development assistance, standards for determining economic disadvantage are clear and objective, and SBA ensures that firms follow 8(a) regulations when completing contracts.
- Insufficient and outdated SBA controls contribute to excessive risk of the SBIC program.
- Effective tracking and enforcement would reduce financial losses from loan agent fraud.
- SBA needs to modernize its Loan Accounting System and migrate it off the mainframe.
- SBA needs to accurately report, significantly reduce, and strengthen efforts to recover improper payments in the Disaster and 7(a) loan programs.

As in prior years, the Fiscal Year 2010 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 ten Management Challenges in the Fiscal Year 2010 report.

Agency Management Challenges

Summary of SBA's Fiscal Year 2010 Management Challenges						
	Topic	Status Score				Improved
		Green	Yellow	Orange	Red	
1	Small Business Contracts		2	1		1
2	IT Security		4			0
3	Human Capital		3			0
4	Loan Guaranty Purchase		1	1		0
5	Lender Oversight		2	4		0
6	8(a) BD Program	1	4			3
7	SBIC Program	2	2			2
8	Loan Agent Fraud			2		-- ¹
9	Loan Management and Accounting System					New
10	Improper Payments					New
	TOTAL	3	18	8	0	6
<div style="display: flex; justify-content: space-between; align-items: center;"> Green - Implemented Yellow - Substantial progress Orange - Limited Progress Red - No progress </div> <p style="text-align: center; margin-top: 5px;">“Improved” refers to an action item that showed progress this year over last year’s score.</p>						

¹ Management Challenge 8, Loan Agent Fraud, was revised in Fiscal Year 2009 to include two new recommended actions. Consequently, no color scores were shown for these two remaining recommended actions in last year’s report against which to measure progress.

Recovery Oversight

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 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. To enhance transparency and accountability, the Recovery Act and related guidance require increased reporting and oversight to deter and detect fraud, waste, and abuse and ensure that program goals are met.

The OIG has worked proactively with the Agency to identify risks and recommend cost effective controls to help prevent fraud, waste, and abuse, and ensure that program goals are achieved and stimulus funds are accurately tracked and reported. The OIG has focused on determining whether (1) Recovery Act loans approved by lenders or SBA personnel have complied with Agency underwriting standards and loan program policies and procedures, and (2) SBA has planned for and awarded Recovery Act contracts in compliance with Federal requirements, including the President's directive to promote competitive awards.

During this semiannual reporting period, the OIG issued 12 Recovery Oversight Memorandum (ROM) reports, which provided the Agency with notification of deficiencies as problems were identified during OIG audits and reviews. Areas assessed by the OIG included the Recovery Act's impact on SBA lending; controls over reporting of Recovery Act job creation and retention statistics; SBA's administration of the Microloan Program under the Recovery Act; origination and closing of Recovery Act loans; and SBA's readiness to review recipient reports on the use of Recovery Act funds. In addition, the scope of the audit of SBA's financial statements was expanded to include testing of certain transactions and system enhancements related to SBA's implementation of the Recovery Act.

The ROMs issues during this reporting period are listed separately in Appendix 1. OIG reports on SBA's implementation of the Recovery Act are summarized in the appropriate sections (i.e., Small Business Access to Capital, Small Business Development, Contracting, Education and Training, and Agency Management) of this semiannual report. Copies of the reports and other information regarding the OIG's Recovery Act oversight activities are on the OIG's website at www.sba.gov/ig/recovery.

Small Business Access to Capital

As of March 31, 2010, 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 relies on numerous outside parties (e.g., borrowers, loan agents, and lenders) to complete loan transactions, with approximately 80 percent of loans being made by lenders to whom 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 on, and given greater independence to, its lenders, the need for oversight has increased significantly. The OIG continues to identify weaknesses in SBA's lender oversight efforts.

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

The Microloan Program provides small (\$35,000 or less), short-term loans and technical assistance to small business concerns as well as non-profit child-care centers. The assistance is provided by SBA-funded, intermediary lenders, which are non-profit community-based organizations with experience in lending and providing businesses with management and technical assistance.

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

Recovery Act's Impact on SBA Lending

During an initial review of the Recovery Act's impact on SBA lending, the OIG determined that both 7(a) and 504 lending increased sharply under the Recovery Act—from March 2009 to July 2009, 7(a) and 504 loan approvals jumped 39 percent and 73 percent, respectively. While this improvement was significant, both 7(a) and 504 loan approvals remained below 2008 and 2007 levels. Small and medium-sized lenders in the 7(a) program recovered more quickly—with loan activity returning to previous-year levels—and took on a larger share of SBA lending. As a result, loan activity was more widely dispersed under the Recovery Act, with the top 20 lenders accounting for only 38 percent of all 7(a) loans (excluding loans made under the *SBAExpress* Program), as compared to 53 percent in 2007.

The OIG also found that a higher percentage of loans were made with SBA prior approval, rather than on a delegated basis, than in previous periods. This trend could strain Agency staffing resources and impact program risk. In the 7(a) program, the number of SBA-approved loans more than doubled from March to July. Without adequate training and supervision, the increased demands on SBA loan center staff could lessen the quality of Agency loan reviews. The shift towards SBA-approved loans was also substantial in the 504 program, with the share of Agency-approved loans jumping to 94 percent of total loan approvals, from 80 percent two years prior. Efficiency gains in Agency processing times, combined with weaker economic conditions, may have reduced the incentive for CDCs to use their delegated authority to approve loans.

Small Business Access to Capital

SBA management generally agreed with the report's findings and noted that, in anticipation of the increased loan transactions under the Recovery Act, the Agency recruited staff with previous lending experience and expertise that would be able to process loans faster than less experienced new hires. Additionally, the Agency noted that it would continue to actively monitor 504 program performance in light of increases in SBA-approved loans.

Controls over Reporting of Recovery Act Job Creation and Retention Statistics

The Recovery Act provided SBA with \$730 million to expand the Agency's lending and investment programs and create new programs to stimulate lending to small businesses. The additional funding was intended to stimulate the economy by promoting job creation and preserving existing jobs. SBA selected job creation and retention as one of its performance measures to assess the success of its Recovery Act programs.

Based on a review of the job creation and retention statistics for Recovery Act loans approved in July 2009, the OIG estimated that the SBA-reported number of jobs created and/or retained may have been overstated by at least 16 percent. Job data was self-reported by borrowers on SBA 7(a) loan applications and SBA did not require lenders to validate the borrower-reported information. The OIG's report included recommendations that SBA implement better controls to check the reasonableness of job data and a data quality review and testing process to determine if job data is properly recorded, classified, and reported.

SBA's Administration of the Microloan Program under the Recovery Act

Under the Recovery Act, SBA received \$6 million for direct loans and \$24 million for marketing, management, and technical assistance grants for the Microloan Program. These funds were in addition to the \$22.5 million that SBA was appropriated for the Microloan Program in Fiscal Year 2009. The OIG conducted an initial review of SBA's administration of the Microloan Program under the Recovery Act to determine the adequacy of the Agency's (1) oversight of intermediaries, (2) performance data, and (3) program metrics for managing the Recovery Act funds authorized for the Microloan Program. The OIG found that SBA had not conducted adequate program oversight, validated the reliability of program data, accurately reported program performance, or established meaningful outcome-oriented performance measures. The OIG made a number of recommendations to promote more effective monitoring of and performance measures for microloans made with Recovery Act funds.

Origination and Closing of Recovery Act Loans

The OIG reviewed a statistical sample of 30 SBA-approved and 30 lender-approved 7(a) loans that were made under the authority of the Recovery Act to (1) determine whether loans were originated and closed in compliance with SBA policies and procedures, and (2) identify any evidence of suspicious activity. In order to provide the Agency with early notification of deficiencies as problems were identified, the OIG issued four Notices of Finding and Recommendation (NFRs), which are summarized below.

- Recovery Act Loans Involving Change of Ownership Transactions. The OIG identified deficiencies in SBA's approval of four Recovery Act loans—totaling approximately \$2.1 million—that involved change of ownership transactions. One loan was not eligible for an SBA guaranty because it did not result in the borrower owning 100 percent of the business.

Small Business Access to Capital

Eligibility for the other three loans was questionable due to the excessive amount of goodwill financed in each transaction. Based on a statistical projection of these loans, the OIG estimated that the Agency inappropriately approved at least \$6.6 million in SBA loans between February 17, 2009 and May 31, 2009.

- Recovery Act Loans Disbursed Without Required Borrower Immigration Certifications. The OIG found that 14—or 47 percent—of lender-approved loans reviewed did not contain the SBA-required borrower immigration certifications. Based on a statistical projection of these loans, the OIG estimated that at least \$215 million in SBA Recovery Act loans were approved between February 17, 2009 and May 31, 2009, without obtaining the required borrower certifications of compliance with immigration laws.
- Ineligible Lender-Approved Recovery Act Loans. The OIG identified three lender-approved loans that were not eligible for SBA guaranties. One lender canceled a portion of an SBA-guaranteed loan approved prior to the Recovery Act and, without SBA approval, reissued it as a Recovery Act loan with a higher SBA guaranty. A second loan was ineligible for an SBA guaranty because (1) it resulted in the borrower's maximum outstanding loan balance exceeding the SBA limit, and (2) the interest rate on the loan was higher than allowed by SBA. Finally, a third loan was not eligible for an SBA guaranty because the lender did not comply with SBA's change of ownership requirements. Specifically, the lender did not (1) perform a business valuation, (2) conduct a site visit of the assets being purchased, or (3) verify the seller's financial information. Based on a statistical projection of these loans, the OIG estimated that lenders inappropriately approved at least 63 SBA-guaranteed loans between February 17, 2009 and May 31, 2009.
- Material Origination and Closing Deficiencies in Recovery Act Loans. The OIG identified miscellaneous material origination and closing deficiencies in three SBA-approved loans and one lender-approved loan. The inappropriate approval of these loans, which totaled \$2.4 million, both increased the risk of loss to SBA should the loans default and reduced the availability of SBA loans to other borrowers.

Underwriting Practices and Compliance of Premier Certified Lenders (PCL) in the CDC/504 Loan Program

As discussed previously, under the CDC/504 Loan Program, SBA relies on non-profit CDCs to facilitate long-term financing for small businesses to acquire or expand capital assets. Although most loans under this program are subject to prior SBA approval, SBA has delegated underwriting authority to certain CDCs known as Premier Certified Lenders (PCL). The OIG initiated a review of PCL underwriting practices and compliance based on concerns that certain CDCs were engaging in risky underwriting practices and that some CDCs were paying their executives excessive compensation.

The OIG reviewed a statistical sample of loans disbursed in Fiscal Year 2008 by three of the largest PCLs and found that the PCLs may not have used prudent practices in approving and disbursing 68 percent of the sampled loans—totaling nearly \$8.9 million—due to poor loan underwriting and eligibility or loan closing issues. Projecting the sample results to the universe of CDC/504 loans disbursed in Fiscal Year 2008 by the three PCLs, the OIG estimated that at least 572 loans—totaling nearly \$254.9 million in CDC/504 loan proceeds—had similar deficiencies. Of this amount, the OIG estimated that at least 183

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loans—totaling \$56.4 million or more—were made to borrowers based on faulty repayment analyses. Some of the poor underwriting and eligibility issues occurred because SBA’s guidance was unclear. The OIG also estimated that at least \$209 million in PCL loans involved borrower- eligibility issues and/or loan closing problems.

Regarding CDC executive compensation, the OIG found that eight CDCs paid more than 20 percent of their gross receipts towards executive compensation, and that one of these CDCs paid almost 44 percent. SBA regulations require that any excess funds remaining after payment of staff and overhead expenses be retained by the CDC as a reserve for future operations or for investment in other local economic activity. Therefore, high compensation expenditures reduce the amount of funds for the reserve or for economic development activity.

The OIG recommended several policy and procedural changes to address the deficiencies identified during the review.

Extensive Loan Fraud Investigation Results in More Convictions and Guilty Pleas

In 2007, the OIG and the U.S. Secret Service (USSS) agents arrested 18 individuals, including a lender’s former executive vice president, for conspiring to use fraudulent information to qualify loan applicants for SBA-guaranteed loans, mainly for the purchase of gas stations across several Midwestern states. The scheme involved at least 89 fraudulent loans—totaling about \$85 million—approved before the fraud was discovered. The investigation is continuing with more indictments expected, but thus far 37 individuals have been indicted or otherwise charged and 28 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 \$72 million.

The following cases demonstrate the scope of the criminal activity.

- A Michigan man pled guilty to conspiracy to commit wire fraud. He and a co-conspirator were previously charged with conspiracy, conspiracy to commit wire fraud, false statements, and aiding and abetting for falsifying equity injections and other documentation on twelve SBA-guaranteed loans. The man acted as a broker to recruit “straw buyers” to falsely obtain the loans, and the co-conspirator, an escrow agent, conducted the loan closings. Upon completion of the closings, the fraudulently obtained loan proceeds were wired from the lender to accounts held by the co-conspirator’s escrow companies. Prosecution of the co-conspirator is continuing, with additional indictments expected. SBA OIG is conducting this investigation jointly with the USSS.
- A Michigan man was sentenced to 24 months incarceration and ordered to pay an SBA lender and another financial institution \$4,572,929 and \$1,100,000, respectively, in restitution. The restitution is to be paid jointly with other co-conspirators charged in the case. The man previously pled guilty to two counts of conspiracy to defraud SBA and a Michigan financial institution. The first count involved false statements on SBA-guaranteed loans made by lenders in Michigan and Tennessee. The false statements included counterfeit bank documents and checks used to verify the equity injection on at least nine SBA-guaranteed loans. The second count related to a scheme to use a non-sufficient funds credit card convenience check to obtain an official check of \$1,680,000 from the financial institution. The official check was used to close

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on the purchase of a Michigan house with the intent to promptly resell or “flip” the property to a straw buyer who would use 100 percent financing to pay a substantially inflated price for the house.

- An Illinois man was sentenced to two years imprisonment, three years supervised release, and restitution of \$2,008,964. He had previously pled guilty to making a false statement in connection with a scheme to induce a lender to approve three separate loans (including an SBA-guaranteed loan) totaling more than \$4 million to purchase three Iowa gas stations. The investigation revealed that the individual and another man enlisted “front” borrowers and provided the lender with fraudulent documentation on behalf of the borrowers in order to influence the approval of the three loans. The second individual previously pled guilty after being charged in relation to this matter. The OIG is conducting this investigation jointly with the Federal Bureau of Investigation (FBI).
- The former owner of an Illinois finance company was sentenced to 135 months imprisonment, five years supervised release, and restitution of \$7.4 million. He previously pled guilty to providing false bank entries, reports, and transactions. Moreover, because he is not an American citizen, U.S. Immigration and Customs Enforcement planned to issue a “detainer” that would result in his deportation back to India after his imprisonment. The investigation revealed his involvement in a scheme to induce a lender and SBA to approve a \$1.35 million SBA-guaranteed loan to one of his companies. He provided a false bank account verification letter and fraudulent cashier’s checks at the loan closing. In addition to obtaining an SBA loan for himself, he brokered 46 SBA-guaranteed loans—totaling \$44,314,371—for others. He admitted that he provided false information to the lender on these loans. The OIG conducted this investigation jointly with the FBI.

Criminals Use a Range of Methods to Defraud Loan Guaranty Programs

Criminals use an array of methods to fraudulently obtain—or induce others to obtain—SBA-guaranteed loans. Such methods include submitting fraudulent documents; making fictitious asset claims; manipulating property values; using loan proceeds contrary to the terms of the loans; and failing to disclose debts or prior criminal records. The result is a greater likelihood of financial loss to SBA and its lenders. The following examples demonstrate some of these methods.

- The former owner of a defunct Washington State disaster restoration contractor was sentenced to 48 months in prison, 60 months supervised release, nearly \$4,936,000 in restitution, and 120 hours of community service after having pled guilty to mail fraud, bank fraud, money laundering, and criminal forfeiture charges. Over several years, he had submitted inflated and/or falsified invoices and false competitors’ estimates to an insurance company for disaster restoration work performed by his company. Consequently, the company received more than \$3 million in excess payments, and its financial statements reflected highly inflated profits. When the business was subsequently sold, the buyer obtained a \$1,999,800 SBA-guaranteed loan to fund part of the sale, and the inflated financial statements were submitted to support the value of the business and the purchase price. The former owner then used the fraudulently obtained loan proceeds to purchase a \$1.785 million home in Florida, which he has agreed to criminally forfeit. This investigation was conducted jointly with the Internal Revenue Service (IRS) Criminal Investigation Division (CID).

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- The part owner of a Colorado construction company was sentenced to 37 months in prison, 60 months supervised release, and \$975,424 in restitution after having pled guilty to submitting a false loan application. In order to receive two SBA-guaranteed loans totaling \$1.35 million, he hid his criminal history. However, criminal history records showed that he had pled guilty to embezzling over \$115,000 from a New Mexico industry group while serving as its executive director, and he also had pled guilty to a third-degree assault charge in 1994. The total estimated loss on the two loans was \$970,000. The OIG conducted this investigation jointly with the FBI, which made the initial referral.
- The president of a sports bar and mortgage brokerage firm in Georgia was indicted for bank fraud and for making false statements. The indictment alleges that, in conjunction with an application for a \$1.8 million SBA-guaranteed loan, he submitted falsified IRS and SBA documents showing (1) gross sales of approximately \$23 million for the mortgage brokerage firm, when actual reported sales were only about \$250,000, and (2) no previous criminal history, when in fact he had been arrested and convicted on numerous occasions.

Indictment Unsealed in Complex Loan Fraud Scheme

A previously sealed indictment in Texas was unsealed as it relates to 13 defendants. The indictment originally charged the individuals for their involvement in a complex loan fraud scheme. They allegedly obtained numerous loans by making false statements and submitting fraudulent documents to SBA-approved lending institutions. The defendants were charged with conspiracy to commit money laundering, conspiracy to commit wire fraud, and/or money laundering/aiding and abetting. The indictment also included a criminal forfeiture count of nearly \$7,081,000. One defendant, a loan broker, pled guilty to wire fraud. According to the investigation, he fraudulently represented himself as a licensed insurance agent by signing a letter to induce a lender to issue an \$870,000 SBA-guaranteed loan. The loan subsequently defaulted. He also made fraudulent representations that induced two other financial institutions to wire transfer funds related to residential mortgages. The OIG is conducting this investigation jointly with the FBI and IRS CID.

False Equity Injection Continues to Affect Loan Programs

Equity (or capital) injection is a borrower's own financial stake in a business. 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, a petroleum company (a Louisiana corporation) pled guilty in Texas to money laundering and was ordered to pay a \$200,000 fine for falsifying the true source of funds to support its required \$120,000 equity injection in order to secure a \$480,000 SBA-guaranteed loan to purchase property. Before receiving the loan, company representatives provided documentation purporting to show that the firm had met the condition of providing an equity injection with the company's own money. These representations were knowingly false, and the company never had the required funds. Instead, the \$120,000 was actually loaned to the company by the seller of the property. The OIG conducted this investigation jointly with the IRS CID.

Small Business Access to Capital

SBA Official, Bank Executive, and Others Conspire to Commit Fraud

Eleven individuals were charged in a 185-count indictment with various Federal crimes for their involvement in a scheme to defraud a bank and SBA. The charges involve at least 31 fraudulent business loans, totaling more than \$10 million, issued by a Missouri bank. The defendants were charged with various combinations of false entries in bank records, false statements to a bank, false statements to SBA, bank bribery, bank fraud, theft by a bank officer, and money laundering. Four of these individuals—a former executive vice president and chief lending officer of the bank, a former SBA branch manager, and two Missouri business consultants—were also charged with conspiracy for allegedly making false statements to the bank and SBA to induce them to approve loans and lines of credit under false pretenses, making false entries in the bank’s records and structuring loans to avoid scrutiny by the bank’s Board of Directors, and diverting loan proceeds. Six other individuals have been charged separately in this case, with two of them having pled guilty. The OIG is conducting this investigation jointly with the FBI.

Disaster Loan Program

The Disaster Loan Program plays a vital role in the aftermath of disasters by providing long-term, low-interest loans to affected homeowners, renters, businesses of all sizes, and non-profit organizations. 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. 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.

As of March 31, 2010, SBA had approved nearly 120,000 disaster loans—totaling almost \$6.8 billion—to assist victims of the Gulf Coast Hurricanes Katrina, Rita, Wilma in 2005, and nearly 24,000 disaster loans—totaling over \$1.2 billion—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.

Monitoring of Insurance Coverage for Disaster Loan Recipients

The National Flood Insurance Act of 1968, combined with the Flood Disaster Protection Act of 1973, provides that no Federal agency lender may extend a loan secured by real estate that is located in a Special Hazard Flood Area unless that real estate is covered for the term of the loan by flood insurance. The amount of coverage must be at least equal to the outstanding balance of the loan, or the maximum limit of coverage available, whichever is less. The 1973 Act further provides that if a Federal agency lender determines that a borrower has failed to maintain adequate flood insurance coverage, the agency must instruct the borrower to obtain the required coverage. If the borrower fails to purchase the required insurance coverage within 45 days of the notification, the agency must purchase the insurance on behalf of the borrower and charge the borrower for any associated costs. Although no applicable Federal requirements regarding hazard insurance exist, SBA’s standard operating procedures provide that borrowers must maintain hazard insurance coverage in accordance with their Loan Authorization and Agreements. In contrast to the procedures regarding flood insurance, as a general policy the Agency does not purchase or maintain hazard insurance on property securing a loan and the Agency’s procedures do not indicate what actions should be taken when a borrower fails to maintain the required hazard insurance.

To determine whether SBA’s disaster loan servicing centers adequately monitored required insurance coverage on properties collateralized by SBA disaster loans, the OIG reviewed a statistical sample of fully-disbursed disaster loans resulting from the Gulf Coast hurricanes in 2005, Hurricanes Ike and Gustav in 2008, and the Midwest floods in 2008, that required flood and hazard insurance coverage until maturity. The OIG found that SBA did not ensure that borrower insurance policies provided adequate coverage and were continuously reviewed, and the Agency did not comply with statutory requirements to purchase policies for borrowers who let their flood insurance policies lapse. As a result, \$3.8 million in outstanding loan balances for loans in the sample may not have been adequately protected. Projecting the

Disaster Loan Program

sample results to the universe of 23,068 fully-disbursed loans from the above disasters, the OIG estimated that at least 5,341 loans, with approximately \$510 million in outstanding loan balances, lacked evidence of adequate insurance coverage. Similar non-compliance rates could exist for loans associated with other major disasters.

The OIG recommended that SBA inform borrowers identified by the OIG as having lapsed policies or insufficient insurance coverage that they must provide evidence of adequate insurance coverage. The OIG also recommended that SBA determine what actions were needed to achieve compliance with statutory flood insurance requirements, as well as the cost implications of achieving compliance, and develop and execute a plan for achieving compliance on existing and future loans. If achieving compliance is determined not to be cost effective, the Agency should take steps to seek additional funding or a legislative change to this requirement.

Application of Insurance Offsets for Gulf Coast Disaster Loans

Under the Stafford Act, Federal agencies administering disaster benefits must ensure that individuals receiving assistance have not already been compensated for their losses from insurance or other sources. The OIG reviewed a statistical sample of 100 Gulf Coast hurricane loans—totaling nearly \$6 million—to determine whether SBA properly reduced loan balances to reflect flood and hazard insurance offsets. The OIG found that SBA did not correctly identify or offset insurance payments on 21 of these loans, resulting in \$385,610 of offset errors, primarily duplicate benefits. The majority of the errors occurred because SBA loan officers did not check with insurance companies prior to each disbursement to determine the amount of insurance that had been paid, as required. Based on the sample results, the OIG projected that SBA did not appropriately adjust loan eligibility by at least \$80.2 million in insurance recoveries, of which at least \$20.3 million were duplicate benefits, for 119,162 Gulf Coast hurricane loans disbursed between October 2005 and October 2007. In response to a prior OIG review, SBA agreed to revise its standard operating procedures to require confirmation of all insurance recovery amounts prior to loan approval and before each loan disbursement. As a result of this review, the OIG recommended that the Agency implement procedures to require timely re-verification of insurance recoveries during the servicing of loans.

Multi-Agency Initiative Fights Gulf Coast Hurricane Fraud

The OIG, along with other law enforcement organizations working with the National Center for Disaster Fraud (formerly the Hurricane Katrina Fraud Task Force), thus far has produced 63 arrests, 77 indictments, and 69 convictions related to wrongdoing in SBA's Disaster Loan Program. OIG Gulf Coast disaster loan investigations have yielded over \$3 million in court-ordered restitution and related recoveries, while assisting the Agency in proactively denying over \$2 million in loans to potentially fraudulent borrowers.

The following examples illustrate OIG cases associated with the Gulf Coast hurricanes.

- After a jury trial, a Louisiana woman was sentenced to 69 months in federal prison, 3 years of supervised release, and nearly \$157,000 in restitution for theft of government funds, making false statements, and wire fraud. She had submitted an application to SBA for a Hurricane Katrina disaster loan for property that she falsely claimed to have owned. She also submitted a fraudulent quitclaim deed stating that she had acquired the property from the City of New Orleans in

Disaster Loan Program

exchange for the back taxes owed on the property. In addition to receiving \$75,000 from SBA, she received \$132,000 from the Louisiana Road Home Program by using the same property address and quitclaim deed. The SBA OIG conducted this investigation jointly with the FBI and the Department of Housing and Urban Development (HUD) OIG.

- A Louisiana man was charged with theft of government funds. He allegedly filed an application for an SBA disaster assistance loan using an address that was not his primary residence when Hurricane Katrina struck New Orleans. He also allegedly submitted fraudulent receipts to induce SBA to approve the \$117,000 loan. Only \$50,000 was actually disbursed. The man also received \$56,000 in Louisiana Road Home Program grant funds by using the same address. The SBA OIG is conducting this investigation jointly with HUD OIG.
- A Louisiana man pled guilty to theft of government funds. The investigation disclosed that he made false statements and submitted altered and fictitious documents to SBA in order to receive a \$68,400 disaster home loan and a \$70,000 disaster business loan. After the loans were approved, he submitted altered and fictitious contracts and invoices for home repairs purporting to show that the work had been completed in order to obtain disbursement of the loan funds. He also misrepresented that his used car dealership was reopening in order to obtain disbursement of the disaster business loan funds. However, the investigation revealed that the State of Louisiana had revoked his auto dealership license. The OIG is conducting this investigation jointly with the FBI.
- The co-owner of a Louisiana day care business was sentenced to 36 months probation and a fine of \$1,500 after having pled guilty to wire fraud. She and her husband (who was previously sentenced) applied for and received a \$94,000 SBA disaster home loan and a \$125,500 SBA disaster business loan, claiming Hurricane Katrina damage to their residence and her business, which was located at the same address. Moreover, she transmitted via facsimile bogus inflated receipts to SBA as supporting documentation for repairs completed. Based upon these fraudulent receipts, SBA approved additional installment payments from the approved loans and transferred more funds into the couple's checking accounts. Nearly \$176,000 in disaster funds were recovered as a result of this investigation. The OIG conducted this investigation jointly with the National Center for Disaster Fraud.

Falsified Documents Allegedly Used in Disaster Loan Scheme

A Florida man was charged with making a false statement in connection with his application for a \$239,300 SBA disaster loan for his construction company. In the wake of Tropical Storm Fay, he allegedly misrepresented the status of several pending foreclosures to obtain loan approval and then provided SBA with altered title reports to hide those foreclosures and other adverse actions. He was able to obtain an initial \$50,000 loan disbursement. The OIG is conducting this investigation jointly with the FBI.

Small Business Development, Contracting, Education and Training

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.

Unconditional Ownership Requirements for Indian Tribes

During a review of a tribally-owned 8(a) firm, the OIG found that SBA's business development regulations do not clearly implement the Small Business Act's statutory requirement that the ownership of firms by Indian tribes be unconditional. In addition, SBA's regulatory definition of unconditional ownership appears to be inconsistent with restrictions discussed in the legislative history of the Act.

The Small Business Act requires that small business concerns be at least 51 percent unconditionally owned or controlled by a socially or economically disadvantaged individual or Indian tribe. The purpose of unconditional ownership is to ensure that disadvantaged owners are the primary beneficiaries of the 8(a) program. Under SBA's regulations, however, Indian tribes are not clearly subject to the unconditional ownership requirement.

The tribally-owned 8(a) firm reviewed by the OIG was started with self-valued goodwill representing the value of the expertise and contacts of a non-disadvantaged individual (NDI). The NDI contributed 49 percent of the goodwill to the 8(a) firm. The remaining goodwill was sold to the Indian tribe to be contributed to the formation of the 8(a) firm, and the tribe agreed to pay for the goodwill from its share of future profits from the firm. Although the NDI's company and the tribe agreed that the tribe would own 51 percent of the 8(a) firm, this seller-financed transaction effectively reduced the tribe's share of profits to 25 percent, while the NDI's company received 75 percent.

The OIG recommended that SBA revise its regulations to mandate that tribally-owned firms be unconditionally owned, as required by the Small Business Act. The OIG also recommended that SBA study the effect of allowing seller-financed transactions to encumber ownership shares and, if appropriate, revise its regulations to provide that stock or other ownership interest pledged or encumbered not qualify as unconditional ownership unless the pledge or encumbrance occurs as part of an arms-length transaction with a legitimate financial institution.

Small Business Development, Contracting, Education and Training

SBA's Accounting of Fiscal Year 2009 Drug Control Funds and Performance Summary Report

Agencies are required by the Office of National Drug Control Policy (ONDCP) Circular, Drug Control Accounting, to annually provide a detailed accounting of all funds expended on National Drug Control Program activities and the results associated with those activities. However, when drug-related obligations are less than \$50 million and a detailed accounting would constitute an unreasonable burden, agencies are permitted to submit an alternative report, as long as it is accompanied by agency and OIG statements that full compliance with the circular would constitute an unreasonable burden. Because SBA's Fiscal Year 2009 drug-related obligations were less than \$50 million, it submitted an alternative report for the year ended September 30, 2009. An OIG's review of the alternative report found nothing to indicate that it was not presented, in all material respects, in conformity with the ONDCP Circular, or that management's assertions were not fairly stated, in all material respects, based on the criteria set forth in the ONDCP Circular.

Official Sentenced for Crimes Related to Former 8(a) Firm Bid Manipulation

A former West Virginia Department of Administration (WVDA) occupational health and safety coordinator was sentenced to 12 months and one day incarceration, 6 months home confinement, 3 years supervised release, and a \$3,000 fine. He admitted that he caused a check to be mailed from the WVDA to a Maryland environmental and demolition services company (a former SBA 8(a) firm) as payment for lead abatement work on a West Virginia state contract with the intent of accepting a gratuity in violation of the West Virginia Bribery and Corrupt Practices Act. He also provided the company with confidential bid information, which enabled it to be the lowest bidder on contracts, and then awarded contracts to the company in return for money and other things of value. SBA OIG conducted this investigation jointly with the Environment Protection Agency CID, Naval Criminal Investigative Service, IRS CID, and the FBI.

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. In 2009, the Agency identified that it was conducting surveys of small businesses that had received assistance from SBDCs. The OIG advised that it had no objection to these surveys based upon the Agency's ability to demonstrate that it was taking steps to ensure that acquisition and use of information derived from these surveys met the requirements of section 21(a)(7). The Agency has also represented that it would issue regulations in the near future as required by the statute.

Agency Management

SBA's Efforts to Improve the Quality of Acquisition Data in the Federal Procurement Data System

In 2007, the Office of Management and Budget (OMB) issued a directive requiring Federal agencies to annually certify to the accuracy of the procurement data reports in the Federal Procurement Data System (FPDS). Data in FPDS must be accurate because it is used to report on Government contracting actions, procurement trends, achievement of small business goals, and to report contract activity under the Recovery Act. In 2008, OMB also required that agencies annually implement data quality plans.

The OIG found that SBA certified to the accuracy of its Fiscal Year 2008 contracting data even though 92 percent of a random sample of contract actions reviewed by the OIG contained one or more inaccurate or incomplete data elements in FPDS. Of 648 individual FPDS data elements reviewed, 156 (24.1 percent) did not agree with the contract file or the information was missing from the contract file. While SBA had developed a data quality plan for Fiscal Year 2008, it did not fully implement the plan, which contributed to the errors identified by the OIG. Further, due to the volume of errors identified in FPDS, it appears that contracting personnel did not review FPDS data inputs to ensure they reflected accurate information, as required by the Federal Acquisition Regulation (FAR). While the accuracy of some data elements improved in Fiscal Year 2009—of 630 individual FPDS data elements reviewed, 141 (22.4 percent) did not agree with the contract file or the information was missing from the contract file—overall there was a higher rate of error in the Fiscal Year 2009 data. Approximately 97 percent of the contract actions in an OIG sample contained one or more inaccurate or incomplete data elements, indicating again that SBA contracting personnel were not properly reviewing data entries.

The OIG recommended that SBA either update its Fiscal Year 2008 data quality plan or revise applicable procedures to include explicit steps to be taken to ensure data is reviewed for accuracy and completeness; conduct an independent review to ensure that the data quality plan or procedural requirements have been fully implemented; and ensure that contracting personnel are held accountable for the accuracy of FPDS data. In response to the OIG's recommendations, the Agency stated that it would revise the data quality plan to further delineate specific steps that must be taken to ensure data is properly reviewed for accuracy and completeness, and would provide training to contracting specialists/officers to reinforce this effort. In addition, the Agency awarded a contract to conduct an independent review of the FPDS data.

Audit of SBA's Fiscal Year 2009 Financial Statements

Pursuant to the Chief Financial Officer's Act of 1990, the audit of SBA's Fiscal Year 2009 financial statements was performed by KPMG LLP under a contract with the OIG. The scope of the audit was expanded to include testing of certain transactions and system enhancements related to SBA's implementation of the Recovery Act. The audit found that SBA's consolidated financial statements presented fairly, in all material respects, the financial position of the Agency as of and for the years ending September 30, 2009 and 2008. The financial statements also presented fairly, in all material respects, SBA's net costs, changes in net position, budgetary resources, and combined statements of budgetary resources for the years then ended. With respect to internal control over financial reporting, the independent auditors reported a material weakness over financial reporting, and continued to report a significant deficiency related to information technology security controls. KPMG's test for compliance with certain laws, regulations, contracts, and grant agreements determined that SBA did not fully comply with the Debt Collection Improvement Act of 1996 because the Agency did not consistently follow Treasury guidelines for referring delinquent debts for collection.

Agency Management

SBA's Readiness to Review Recipient Reports on the Use of Recovery Act Funds

Section 1512 of the Recovery Act requires recipients of assistance under the statute to provide certain reports. Guidance issued by OMB requires Federal agencies to perform limited data quality reviews of recipient reports and notify the recipients of two key data problems – material omissions and significant reporting errors. For SBA, OMB has determined that Section 1512 reporting requirements apply only to the Agency's contract awards, the Microloan Program, and the 7(a) Broker/Dealer Direct Loan Program (which, at the time of the OIG review, SBA had not yet implemented). As of September 30, 2009, SBA had issued 15 Recovery Act-related contracts totaling \$5.8 million and had obligated \$15 million in Recovery Act funds for the Microloan Program.

An OIG review of SBA's plans for ensuring that recipients of Recovery Act funds submit accurate, complete, and timely data on the use of the funds found that the Agency had established processes for performing data quality reviews for contract and Microloan recipient data and for notifying recipients of the need to make appropriate and timely changes. However, the Agency had not adequately defined the review process it would use to identify material omissions and/or significant reporting errors in contract recipient data, and had not yet drafted a policy for reviewing Microloan recipient data. The OIG recommended that SBA issue detailed procedures for performing data quality reviews over contract recipient reports and define its process for reviewing Microloan intermediary reports.

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. The Agency's response becomes a management decision when the OIG agrees that the proposed action(s) will implement the audit recommendation. During this reporting period, management decisions were made for 83—or 89 percent—of the 93 recommendations that were issued. At the end of the semi-annual reporting period, SBA had not made decisions on 2 recommendations that were made in prior reporting periods.

During this reporting period, the OIG received revised management decisions for two recommendations.

- Audit Report 9-10, SBA's Fiscal Year 2007 Improper Payment Rate for the Disaster Loan Program. The OIG recommended that SBA report to OMB the improper payment rate calculated by the OIG for Fiscal Year 2007. The Agency concurred with the recommendation when the report was issued; however, since that time, the Chief Financial Officer has decided not to take the action outlined in the management decision.
- Audit Report 9-15, Participation in the 8(a) Program by Firms Owned by Alaska Native Corporations. SBA agreed to conduct a program review to evaluate whether the growth in Alaska Native Corporation (ANC) 8(a) obligations has adversely impacted, or will adversely impact, other 8(a) firms and the overall effectiveness of the 8(a) program. While the Agency conducted a review, it was not sufficiently thorough to address the intent of the recommendation. The review focused only on dollar increases in awards to 8(a) participant groups and small businesses, and did not address whether ANCs were getting a disproportionate share of 8(a) contracts and the impact this was having on other 8(a) firms as a whole and by industry group.

Agency Management

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, 2009 and March 31, 2010, there were 83 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 1,933 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 39 applications totaling over \$12.5 million, and disaster loan program officials declined 12 applications totaling nearly \$1.4 million. In addition, the Section 8(a) program declined 11 applications for admission.

During this reporting period, the OIG also initiated 186 background investigations and issued 12 security clearances for Agency employees and contractors. The OIG also adjudicated 165 background investigative reports and coordinated with SBA's Office of Disaster Assistance (ODA) to adjudicate 85 derogatory background investigation reports. Finally, the OIG processed 1,712 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 continues to promote debarment as a means to protect Federal agencies from program participants that have engaged in fraud or otherwise exhibited a lack of business integrity. The OIG regularly identifies candidates for debarment and submits detailed recommendations with supporting documents to SBA debarment officials.

During this reporting period, SBA issued 19 proposed debarments based upon OIG recommendations, and continues to consider 20 others for possible debarment. Among these, the OIG recommended, and SBA issued, five proposed debarments based upon improper conduct in SBA's HUBZone programs. The facts underlying those proposed debarments were discovered as a result of a GAO audit and joint OIG and Department of Justice investigation. The OIG also recommended debarment of an individual and company the OIG believes took advantage of the Service-Disabled Veteran-Owned Small Business Program, as well as an individual who made false statements in order to obtain waivers necessary to participate in the 8(a) Business Development Program. Additionally, in response to OIG recommendations, SBA issued several proposed debarments based upon fraudulent conduct in SBA loan programs, such as asset overvaluation, falsified equity injections, and improper use of funds. Finally, the OIG has recommended debarment of an SBIC manager who falsified documents to disguise the fact that SBIC funds had been converted for personal use. Debarment statistics for the reporting period are in the Statistical Highlights section later in this report.

Additionally, the OIG working with SBA so the Agency can develop a more robust debarment and suspension program. The OIG believes the Agency needs to be more aggressive in pursuing debarments and other enforcement activity against companies that wrongfully obtain preferential contracting benefits. In addition to its work on suspension and debarment issues, the OIG has continued working with SBA to develop a comprehensive set of procedures for administrative enforcement actions against loan agents and

Other Significant OIG Activities

packagers who commit fraud or other wrongdoing. These procedures would effectively implement SBA's regulations at 13 C.F.R. Part 103, which authorize the Agency to suspend or revoke a loan agent's privilege to conduct business with SBA. SBA has prepared draft internal guidance based upon the OIG recommendations and is continuing to work with OIG on refinements to those procedures.

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

As part of the OIG's proactive efforts to promote accountability and integrity and reduce inefficiencies in SBA programs and operations, the OIG reviews Agency-proposed changes to program management directives such as regulations and internal operating procedures, forms that SBA asks program applicants and other members of the public to complete, and proposed agency reorganizations. Frequently, the OIG identifies material weaknesses in these initiatives and recommends revisions to the Agency to promote more effective controls. During this reporting period, the OIG reviewed 35 proposed revisions of program management or Agency reorganization documents and provided comments on 15 of these initiatives.

The OIG provided comments on a wide variety of SBA initiatives and, through Agency adoption of OIG recommendations, prompted more robust controls in and enhancements to these documents. For example, the Agency agreed to make changes to its regulations governing the women-owned small business contracting program to reduce the potential for fraud and to promote accountability in the program. The OIG also reviewed and commented on material weaknesses on regulations pertaining to the 8(a) Business Development program, for which the Agency has historically experienced weaknesses in its oversight capabilities. Additional recommendations were made to improve internal operating procedures for an SBA business loan program and various forms used in financial assistance programs.

Fraud Awareness Briefings

During this reporting period, the OIG conducted 4 fraud awareness presentations for approximately 115 representatives of lending institutions, government agencies, and law enforcement organizations. Topics included fraud associated with government contracting as well as with other SBA programs.

Statistical Highlights

6-Month Productivity Statistics October 1, 2009 through March 31, 2010

Summary of Office-Wide Dollar Accomplishments

Totals

A. Potential Investigative Recoveries and Fines	\$18,037,642*
B. Loans/Contracts Not Approved or Canceled as Result of Investigations.....	\$553,800
C. Loans Not Made as a Result of Name Checks	\$13,943,422
D. Disallowed Costs Agreed to by Management	\$1,060,470
E. Recommendations that Funds Be Put to Better Use Agreed to by Management	\$0
Total	\$33,595,334*

Efficiency and Effectiveness Activities Related to Audit and Other Reports

A. Reports Issued	22
B. Recommendations Issued	93
C. Dollar Value of Costs Questioned.....	\$314,363
D. Dollar Value of Recommendations that Funds Be Put to Better Use	\$0
E. Collections as a Result of Questioned Costs	\$269,882

Audit and Report Follow-up Activities

A. Recommendations for which Management Decisions were made During the Reporting Period	90
B. Disallowed Costs Agreed to by Management	\$1,060,470
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	12

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

A. Legislation, Regulations, Standard Operating Procedures, and Other Issuances ** Reviewed	35
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* May include actions from earlier reporting periods.

** This category includes policy notices, procedural notices, Administrator's action memoranda, and other Agency initiatives, which frequently involve the implementation of new programs and policies.

Statistical Highlights

6-Month Productivity Statistics October 1, 2009 through March 31, 2010

Indictments, Convictions, and Case Activity

A. Indictments from OIG Cases	53*
B. Convictions from OIG Cases.....	14
C. Cases Opened	35
D. Cases Closed.....	39

Recoveries and Management Avoidances as a Result of Investigations and Related Activities

A. Potential Recoveries and Fines as a Result of OIG Investigations	\$18,037,642*
B. Loans/Contracts Not Approved or Canceled as Result of Investigations.....	\$553,800
C. Loans Not Approved as a Result of the Name Check Program.....	\$13,943,422
Total.....	\$32,534,864*

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

Debarment and Suspension Actions

A. Debarments Recommended to the Agency	19
B. Debarments Pending at the Agency	20
C. Proposed Debarments Issued by the Agency	16
D. Final Debarments Issued by the Agency	3
E. Proposed Debarments Declined by the Agency	3
F. Suspension/Debarment Actions by Other Agencies Resulting from Investigations in which the OIG Participated.....	31

OIG Hotline Operation Activities

A. Total Fraud Line Complaints.....	247
B. Total Complaints Referred to Investigations Division.....	132
C. Total Complaints Referred to SBA or Other Federal Investigative Agencies.....	1
D. Total Complaints Referred to Other Entities.....	1
E. Total Complaints Needing No Action.....	113

* May include actions from earlier reporting periods.

Appendices

Appendix I OIG Reports Issued October 1, 2009 through March 31, 2010

Title	Report Number	Issue Date	Questioned Costs	Funds for Better Use
<i>Recovery Act</i>				
SBA Readiness for Reviewing Recipient Reports on the Use of Recovery Act Funds	ROM 10-01	10/30/2009	\$0	\$0
Review of Recovery Act's Impact on SBA Lending	ROM 10-02	11/25/2009	\$0	\$0
Recovery Act Loans Involving Change of Ownership Transactions	ROM 10-03	12/2/2009	\$0	\$0
Review of Controls over Job Creation and Retention Statistics Reports by SBA Under the American Recovery and Reinvestment Act of 2009	ROM 10-04	12/4/2009	\$0	\$0
Notice of Finding and Recommendation on Recovery Act Loans Disbursed Without the Required Borrower Immigration Certifications	ROM 10-05	12/10/2009	\$0	\$0
Inadequate Documentation to Support a Loan Approved Under Section 504 of the Recovery Act	ROM 10-06	12/15/2009	\$0	\$0
Enhancements Needed in Processing Payroll Funded Under the Recovery Act	ROM 10-07	12/15/2009	\$0	\$0
Lack of Controls to Ensure Recovery Act Payroll is Complete and Accurate	ROM 10-08	12/15/2009	\$0	\$0
Lack of Approval for a Recovery Act Surety Bid Bond Guarantee	ROM 10-09	12/15/2009	\$0	\$0
SBA's Administration of the Microloan Program under the Recovery Act	ROM 10-10	12/28/2009	\$0	\$0
Notice of Finding and Recommendation on Ineligible Lender-Approved Recovery Act Loans	ROM 10-11	1/22/2010	\$0	\$0
Notice of Finding and Recommendation on Material Origination and Closing Deficiencies Identified in SBA and Lender-Approved Recovery Act Loans	ROM 10-12	3/31/2010	\$0	\$0
Program Subtotal	12		\$0	\$0
<i>Small Business Access to Capital</i>				
Audit of Premier Certified Lenders in the Section 504 Loan Program	10-10	3/23/2010	\$0	\$0
Program Subtotal	1		\$0	\$0

Appendices

Appendix I OIG Reports Issued October 1, 2009 through March 31, 2010

Title	Report Number	Issue Date	Questioned Costs	Funds for Better Use
<i>Disaster Loans</i>				
Monitoring of Insurance Coverage for Disaster Loan Recipients	10-01	10/20/2009	\$0	\$0
Review of Borrower Eligibility for Gulf Coast Disaster Loans	10-03	10/21/2009	\$314,363	\$0
Program Subtotal	2		\$314,363	\$0
<i>Small Business Development, Contracting, Education, and Training</i>				
SBA Regulations Relating to Unconditional Ownership Requirements for Indian Tribes	10-07	1/25/2010	\$0	\$0
Review of SBA's Accounting of Fiscal Year 2009 Drug Control Funds and Performance Summary Report	10-09	2/26/2010	\$0	\$0
Program Subtotal	2		\$0	\$0
<i>Agency Management</i>				
Fiscal Year 2010 Report on the Most Serious Management and Performance Challenges Facing the Small Business Administration	10-02	10/16/2009	\$0	\$0
Audit of SBA's Fiscal Year 2009 Financial Statements	10-04	11/13/2009	\$0	\$0
GFRS for Fiscal Year 2009	10-05	11/13/2009	\$0	\$0
Audit of SBA's Fiscal Year 2009 Financial Statements – Management Letter	10-06	12/15/2009	\$0	\$0
SBA's Efforts to Improve the Quality of Acquisition Data in the Federal Procurement Data System	10-08	2/26/2010	\$0	\$0
Program Subtotal	5		\$0	\$0
TOTALS (all programs)	22		\$314,363	\$0

Appendices

Appendix II OIG Reports with Questioned Costs

		Reports	Recommendations*	Questioned Costs**	Unsupported Costs**
A.	No management decision made by September 30, 2009	2	2	\$339,643	\$1,250,088
B.	Issued during this reporting period	1	1	\$0	\$314,363
	Universe from which management decisions could be made in this reporting period – Subtotals	3	3	\$339,643	\$1,564,451
C.	Management decision(s) made during this reporting period	3	3	\$339,643	\$1,564,451
	(i) Disallowed costs	2	2	\$0	\$1,060,470
	(ii) Costs not disallowed	3	3	\$339,643	\$503,981
D.	No management decision made by March 31, 2010	0	0	\$0	\$0

* 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, 2009	0	0	\$0
B.	Issued during this reporting period	0	0	\$0
	Universe from which management decisions could be made in this reporting period – Subtotals	0	0	\$0
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, 2010	0	0	\$0

* Reports may have more than one recommendation.

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

Appendices

Appendix IV OIG Reports with Non-Monetary Recommendations

		Reports	Recommendations
A.	No management decision made by September 30, 2009	4	7
B.	Issued during this reporting period	22	92
	Universe from which management decisions could be made in this reporting period – Subtotals	26	99
C.	Management decision(s) made (for at least one recommendation in the report) during this reporting period	22	87
D.	No management decision made by March 31, 2010*	5	12

* 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, 2010

Title	Report Number	Date Issued	Status
SBA's Fiscal Year 2008 Improper Payment Rate for the 7(a) Guaranty Loan Program	9-16	7/10/2009	The Agency has not responded to two 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, 2010

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	3/31/09
3-08	SBA's Oversight of the Fiscal Transfer Agent for the 7(a) Loan Program	1/30/03	4/15/07	3/31/10
3-26	Microloan Program	5/12/03	*	12/31/07
4-34	Audit of SBA's Process for Complying with the Federal Managers' Financial Integrity Act Reporting Requirements	7/29/04	9/9/04	3/31/09
6-10	Fiscal Year 2005 Financial Statements - Management Letter	1/18/06	3/3/06	3/31/10
7-03	Audit of SBA's Fiscal Year 2006 Financial Statements	11/15/06	12/20/06	10/30/09
7-21	SBA's Use of the Loan and Lender Monitoring System	5/2/2007	9/5/08	12/31/09
7-28	SBA's Oversight Of Business Loan Center, LLC	7/11/07	9/27/07	12/31/09
7-29	Quality Assurance Reviews of Loss Verification	07/23/07	8/30/08	9/30/10
8-06	Audit of SBA's Fiscal Year 2007 Financial Statements - Management Letter	12/14/07	*	6/30/10
8-09	Loan Classification and Overpayments of Secondary Loans	3/26/08	*	**
8-12	Oversight of SBA Supervised Lenders	5/9/08	*	**
8-13	Planning for the Loan Management and Accounting System Modernization and Development Effort	5/14/08	*	**
8-16	Acceptance of VBP Group into the 8(a) Program and Subsequent Contract Award by SBA	7/18/08	8/11/08	8/30/09
9-03	Audit of SBA's Fiscal Year 2008 Financial Statements	11/14/08	*	**
9-05	Audit of SBA's Fiscal Year 2008 Financial Statements – Management Letter	12/17/08	*	6/30/10
9-10	Improper Payment Rate for the Disaster Loan Program	3/26/09	5/20/09	11/30/09
9-12	Review of SBA National Guaranty Purchase Center Furniture Contract	3/31/09	3/31/09	10/15/09
9-14	Office of Business Operations Contracting Personnel Qualifications and Warrant Authority	7/6/09	6/15/09	8/1/10

* Management decision dates vary with different recommendations.

** Target dates vary with different recommendations.

Appendices

Appendix VI

OIG Reports Without Final Action as of March 31, 2010

Report Number	Title	Date Issued	Date of Management Decision	Final Action Target Date
9-15	Participation in the 8(A) Program by Firms Owned by Alaska Native Corporations	7/10/09	8/02/09	**
9-16	SBA's Fiscal Year 2008 Improper Payment Rate for the 7(A) Guaranty Loan Program	7/10/09	*	**
9-17	Review of Allegations Concerning How the Loan Management and Accounting System Modernization Project is Being Managed	7/30/09	*	**
9-18	SBA's Management of the Backlog of Post-Purchase Reviews at the National Guaranty Purchase Center	8/25/09	*	**
10-01	Monitoring of Insurance Coverage for Disaster Loan Recipients	10/20/09	11/6/09	**
10-03	Application of Insurance Offsets for Gulf Coast Disaster Loans	10/21/09	1/20/10	3/31/10
10-04	Audit of SBA's Fiscal Year 2009 Financial Statements	11/13/09	*	**
10-06	Audit of SBA's Fiscal Year 2009 Financial Statements - Management Letter	12/15/09	*	**
10-07	SBA Regulations Relating to Unconditional Ownership Requirements for Indian Tribes	1/25/10	3/12/10	10/31/10
10-08	SBA's Efforts to Improve the Quality of Acquisition Data in the Federal Procurement Data System	2/26/10	3/29/10	**
ROM 10-03	Recovery Act Loans Involving Change of Ownership Transactions	12/2/09	11/24/09	3/31/10
ROM 10-04	Review of Controls Over Job Creation and Retention Statistics Reports by SBA Under the American Recovery and Reinvestment Act of 2009	12/4/09	*	**
ROM 10-05	Recovery Act Loans Disbursed Without Required Borrower Immigration Certifications	12/10/09	1/19/10	5/31/10
ROM 10-10	SBA's Administration of the Microloan Program Under the Recovery Act	12/28/09	*	**
ROM 10-11	NFR on Ineligible Lender-Approved Recovery Act Loans	1/22/10	1/26/10	5/31/10

* Management decision dates vary with different recommendations.

** Target dates vary with different recommendations.

Appendices

Appendix VII Summary of Significant Recommendations From Prior Semiannual Reporting Periods Without Final Action as of March 31, 2010*

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	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	9/30/09
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
9-10	3/26/09	Report the improper rate calculated by the OIG for Fiscal Year 2007 to OMB.	5/20/09	11/30/09
9-10	3/26/09	Ensure the correct Fiscal Year 2008 improper payment estimate is reported to OMB.	5/20/09	11/30/09
9-12	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.	3/31/09	10/15/09
9-14	7/6/09	Update official designation of the Acquisition Career Manager and seek administrative rights to ACMIS for the position from the Federal Acquisition Institute.	6/15/09	8/1/10
9-15	7/10/09	Conduct a program review to evaluate whether the growth in ANC 8(a) obligations has adversely impacted, or will adversely impact, other 8(a) firms and the overall effectiveness of the 8(a) program and, if so, make programmatic revisions to minimize the adverse impact.	8/4/09	9/4/09
9-15	7/10/09	Determine whether 8(a) firms owned by ANCs and tribes should continue to be exempt from the cap on total sole source awards in CFR 124.519 and, if not; remove the exemption from this regulation.	8/2/09	10/31/10
9-16	7/10/09	Seek recovery of \$2.3 million from lenders on the loans listed in Appendices III and IV of the report.	8/27/09	10/31/09

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

Appendices

Appendix VII Summary of Significant Recommendations From Prior Semiannual Reporting Periods Without Final Action as of March 31, 2010*

Report Number	Date Issued	Recommendation	Date of Management Decision	Final Action Target Date
9-16	7/10/09	Fully implement the corrective action plan reported in SBA's Fiscal Year 2008 <i>Performance and Accountability Report</i> to reduce improper payments in the 7(a) Guaranty Loan Programs.	7/28/09	9/30/10
9-16	7/10/09	Report the revised improper payment rate calculated by the OIG for Fiscal Year 2008 to OMB.	9/26/09	11/15/09
9-17	7/30/09	Take steps to modify the contract to require the Quality Assurance/Independent Verification and Validation (QA/IV&V) contractor to report all findings and recommendations to the Program Manager and an independent Quality Assurance manager designated by the Chief Information Officer (CIO).	8/28/09	9/30/09
9-17	7/30/09	Establish a process for reviewing and accepting LMAS deliverables that complies with Systems Development Methodology (SDM) requirements.	8/28/09	9/30/09
9-17	7/30/09	Immediately establish an enterprise-wide QA function that is compliant with SBA's SDM QA policy.	9/3/09	10/30/09
9-17	7/30/09	Take steps to ensure that a well-defined deliverable acceptance process is established for the LMAS project in accordance with SBA's <i>Enterprise Quality Assurance Plan</i> .	9/3/09	12/31/09
9-18	8/25/09	Seek recovery of \$1,250,088 on the guaranties paid on the 6 loans listed in Appendix IV of the report.	10/21/09	12/31/09
9-18	8/25/09	Include detailed scopes of work, measurable performance metrics, deliverables, and adequate acceptance criteria in service contracts to assist the contractor staff in performing the reviews and the Center in supervising them.	9/11/09	3/31/10
9-18	8/25/09	Take timely action to perform adequate post-purchase and charge-off reviews to ensure the recovery of improper payments.	9/3/09	12/31/09

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

Appendices

Appendix VIII Summary of Significant Recommendations October 1, 2009 through March 31, 2010

Report Number	Title	Date Issued	Recommendation
10-01	Monitoring of Insurance Coverage for Disaster Loan Recipients	10/20/09	Have the Director of the Office of Financial Program Operations inform borrowers on the 36 loans with lapsed policies or insufficient coverage that they must provide evidence of adequate insurance coverage.
10-01	Monitoring of Insurance Coverage for Disaster Loan Recipients	10/20/09	Determine the actions needed to achieve compliance with statutory flood insurance monitoring requirements and the cost implications of achieving compliance.
10-01	Monitoring of Insurance Coverage for Disaster Loan Recipients	10/20/09	Develop and execute a plan for achieving compliance on existing and future loans. Alternatively, if achieving compliance is determined to be not cost effective, seek additional funding or legislative change to the statutory flood insurance requirement.
10-01	Monitoring of Insurance Coverage for Disaster Loan Recipients	10/20/09	Revise SOP 50-52 to clarify what action(s) servicing center personnel should take when borrowers refuse to obtain required hazard insurance.
10-03	Application of Insurance Offsets for Gulf Coast Disaster Loans	10/21/09	Work with the Office of Financial Assistance to resolve the two over-disbursements totaling \$44,481, of the \$314,363 in over-disbursements identified in this audit, that occurred after the loans were transferred to the servicing centers.
10-03	Application of Insurance Offsets for Gulf Coast Disaster Loans	10/21/09	Develop a plan to identify and address duplicate benefits present in the remaining universe of Gulf Coast Hurricane Disaster Loans. At a minimum, the plan should include steps to identify and review loans that have the greatest chance of unidentified duplicate payments.
10-03	Application of Insurance Offsets for Gulf Coast Disaster Loans	10/21/09	Implement procedures at the servicing centers that require a timely re-verification of insurance recoveries during the servicing of loans, preferably between 6-months to 1 year after the file is transferred to servicing.
10-04	Audit of SBA's Fiscal Year 2009 Financial Statements	11/13/09	Implement a reconciliation procedure in which a staff member traces and agrees the Net Present Value in the Return on Assets calculation to the outputs generated by the Credit Subsidy Calculator 2 prior to posting the alignment entry in the general ledger.

Appendices

Appendix VIII Summary of Significant Recommendations October 1, 2009 through March 31, 2010

Report Number	Title	Date Issued	Recommendation
10-04	Audit of SBA's Fiscal Year 2009 Financial Statements	11/13/09	Develop policies and procedures to ensure the Return on Assets alignment entry is made after all credit reform loan guaranty activity has been posted to the general ledger.
10-04	Audit of SBA's Fiscal Year 2009 Financial Statements	11/13/09	Enhance SBA's procedures related to its in-depth analysis of the valuation of the liability for loan guaranties and defaulted loan guaranty receivable balances to ensure the balances are properly presented at the NPV in accordance with SFFAS No. 2.
10-04	Audit of SBA's Fiscal Year 2009 Financial Statements	11/13/09	Improve the vulnerability tracking and monitoring process to include unresolved high and medium vulnerabilities in the JAAMS POA&M.
10-04	Audit of SBA's Fiscal Year 2009 Financial Statements	11/13/09	Ensure that the vulnerability reports are reviewed and analyzed on a regular basis. Periodically monitor the existence of necessary services and protocols running on servers and network devices.
10-04	Audit of SBA's Fiscal Year 2009 Financial Statements	11/13/09	Develop a more thorough approach to track and mitigate patch management and configuration management vulnerabilities identified during monthly scans.
10-04	Audit of SBA's Fiscal Year 2009 Financial Statements	11/13/09	Prevent users from connecting unauthorized devices to the GSS network anonymously by developing and implementing procedures for ensuring mandatory domain authentication for IP address issuance.
10-04	Audit of SBA's Fiscal Year 2009 Financial Statements	11/13/09	Implement controls regarding the validation of physical access to the data center.
10-04	Audit of SBA's Fiscal Year 2009 Financial Statements	11/13/09	Implement procedures to control the process for requesting and granting access to the E-Tran system, and implement procedures to retain the appropriate approval evidence for tracking and validation.
10-04	Audit of SBA's Fiscal Year 2009 Financial Statements	11/13/09	Implement a process to monitor the audit logs of all financial applications on a regular basis.
10-04	Audit of SBA's Fiscal Year 2009 Financial Statements	11/13/09	Implement procedures for documenting operating system, software and emergency change testing results, testing approvals, and final approvals. Specifically, such procedures and controls need to be applied for the LAN\WAN.

Appendices

Appendix VIII Summary of Significant Recommendations October 1, 2009 through March 31, 2010

Report Number	Title	Date Issued	Recommendation
10-04	Audit of SBA's Fiscal Year 2009 Financial Statements	11/13/09	The Senior Policy Analyst in the Office of the Administrator should coordinate with program offices using end-user programs containing sensitive data, such as Personally Identifiable Information (PII) and financial data, to implement end-user computing procedures in accordance with the guidance provided by the Office of the Chief Information Officer.
10-06	Audit of SBA's Fiscal Year 2009 Financial Statements – Management Letter	12/15/09	Develop a tracking mechanism to ensure loans awaiting charge-off for an extensive period are quickly identified and processed.
10-06	Audit of SBA's Fiscal Year 2009 Financial Statements – Management Letter	12/15/09	Oversee and enforce the authorization and document retention of the clearance documents for all employees and contractors.
10-06	Audit of SBA's Fiscal Year 2009 Financial Statements – Management Letter	12/15/09	Require effective training programs for IT security personnel.
10-06	Audit of SBA's Fiscal Year 2009 Financial Statements – Management Letter	12/15/09	Develop a method of monitoring the training program to ensure compliance by all personnel with IT security roles and responsibilities.
10-07	SBA Regulations Relating to Unconditional Ownership Requirements for Indian Tribes	1/25/10	Revise Title 13 CFR, Part 124 to mandate that tribally-owned firms be unconditionally owned as required by the Small Business Act.
10-07	SBA Regulations Relating to Unconditional Ownership Requirements for Indian Tribes	1/25/10	Study the effect of allowing seller-financed transactions to encumber ownership shares, and if appropriate, revise Title 13 CFR, Part 124 to provide that a stock or other ownership interest that is pledged or encumbered is not unconditionally owned unless the pledge or encumbrance occurs within an arms-length transaction with a legitimate financial institution.
10-08	SBA's Efforts to Improve the Quality of Acquisition Data in the Federal Procurement Data System	2/26/10	Either update the Fiscal Year 2008 Data Quality Plan or revise the information notice to include explicit steps that will be taken to ensure data is reviewed for accuracy and completeness.
10-08	SBA's Efforts to Improve the Quality of Acquisition Data in the Federal Procurement Data System	2/26/10	Conduct an independent review to ensure that the Data Quality Plan or information notice requirements have been fully implemented.
10-08	SBA's Efforts to Improve the Quality of Acquisition Data in the Federal Procurement Data System	2/26/10	Ensure that Office of Business Operations contracting personnel are held accountable for the accuracy of Federal Procurement Data System data.

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Appendix VIII Summary of Significant Recommendations October 1, 2009 through March 31, 2010

Report Number	Title	Date Issued	Recommendation
10-10	Audit of Premier Certified Lenders in the Section 504 Loan Program	3/23/10	Have the Associate Administrator for Capital Access revise SOP 50 10, <i>Lender Development Company Loan Programs</i> , to require that lenders use, among other things, (a) the actual cash flow method to determine borrower repayment ability for businesses using accrual accounting, (b) historical salary levels to estimate officer salary, and (c) historical sales data to make sales projections.
10-10	Audit of Premier Certified Lenders in the Section 504 Loan Program	3/23/10	Have the Associate Administrator for Capital Access develop a process to ensure that corrective actions are taken in response to Office of Credit Risk Management onsite reviews, and/or modify guidance for these reviews, as appropriate, to ensure that reviewers properly assess lender determination of borrower repayment ability and eligibility; including lender validation of financial information used by borrowers to demonstrate repayment ability and assessment of eligibility based on achievement of public policy goals.
10-10	Audit of Premier Certified Lenders in the Section 504 Loan Program	3/23/10	Have the Associate Administrator for Capital Access revise current guidance to clarify how eligibility should be evaluated in order to ensure the intent of the CDC/504 Loan Program is met when the Federal budget reduction public policy goal is used to qualify a borrower for a CDC loan.
10-10	Audit of Premier Certified Lenders in the Section 504 Loan Program	3/23/10	Evaluate the need to establish monetary or other guidelines on the level of excess funds that CDCs should retain as a reserve for future operations and/or invest in other local economic development activities.
ROM 10-01	SBA Readiness for Reviewing Recipient Reports on the Use of Recovery Act Funds	10/30/09	Issue a Procedural Notice for performing data quality reviews over contract recipient reports, which incorporates specific, detailed instructions for using FederalReporting.gov, and other relevant instructions provided in the OFPP Memorandum.
ROM 10-01	SBA Readiness for Reviewing Recipient Reports on the Use of Recovery Act Funds	10/30/09	Have the Associate Administrator for Management and Administration define its process for reviewing Microloan intermediary reports that incorporates specific, detailed instructions for using FederalReporting.gov, and other relevant instructions provided in the OMB M-09-21.

Appendices

Appendix VIII Summary of Significant Recommendations October 1, 2009 through March 31, 2010

Report Number	Title	Date Issued	Recommendation
ROM 10-03	Notice of Finding and Recommendation on Recovery Act Loans Involving Change of Ownership Transactions	12/2/09	Provide training to loan officers on (1) the calculation of goodwill and the importance of adjusting assets to their book values or appraised values in performing their calculations, and (2) applying change of ownership requirements to loans involving the refinancing of seller debt.
ROM 10-03	Notice of Finding and Recommendation on Recovery Act Loans Involving Change of Ownership Transactions	12/2/09	Establish a process for granting policy waivers approved by the Associate Administrator for Capital Access or higher official that provides the necessary independence and is supported by risk-based justifications.
ROM 10-04	Review of Controls Over Job Creation and Retention Statistics Reported by SBA under the American Recovery and Reinvestment Act of 2009	12/4/09	Implement a data quality review and testing process to determine if job data is properly recorded, classified, and reported.
ROM 10-04	Review of Controls Over Job Creation and Retention Statistics Reported by SBA under the American Recovery and Reinvestment Act of 2009	12/4/09	Improve the transparency and accountability of the reported data by disclosing the number of jobs associated with disbursed loans in the monthly Recovery Act Program Performance Reports.
ROM 10-04	Review of Controls Over Job Creation and Retention Statistics Reported by SBA under the American Recovery and Reinvestment Act of 2009	12/4/09	Establish adequate guidance on how lenders should report jobs created and retained for 7(a) loans.
ROM 10-05	Notice of Finding and Recommendation on Recovery Act Loans Disbursed Without the Required Borrower Immigration Certifications	12/10/09	Remind lenders of the SBA requirement to obtain borrower certification of compliance with immigration laws prior to loan disbursement.
ROM 10-05	Notice of Finding and Recommendation on Recovery Act Loans Disbursed Without the Required Borrower Immigration Certifications	12/10/09	Upon request for guaranty purchase of SBA Recovery Act loans that received increased SBA guaranties, require lenders to submit borrower certifications of compliance with immigration laws, and cancel or reduce the SBA guaranty for any loan made for which the lender cannot furnish the required certification.
ROM 10-08	Lack of Controls to Ensure Recovery Act Payroll is Complete and Accurate	12/15/09	Have the Chief Financial Officer post the correcting entry to the general ledger to reverse the American Recovery and Reinvestment Act of 2009 Salary & Expense correcting Journal Voucher in the amount of \$5,283.95.

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Appendix VIII Summary of Significant Recommendations October 1, 2009 through March 31, 2010

Report Number	Title	Date Issued	Recommendation
ROM 10-08	Lack of Controls to Ensure Recovery Act Payroll is Complete and Accurate	12/15/09	Have the Chief Financial Officer ensure the correct parameters are used to generate the payroll Journal Voucher report so that the report is inclusive of all payroll activity.
ROM 10-09	Lack of Approval for a Recovery Act Surety Bid Bond Guarantee	12/15/09	Develop and implement policies and procedures to monitor aged outstanding Preferred Surety Bond bid bond approvals.
ROM 10-10	SBA's Administration of the Microloan Program under the Recovery Act.	12/28/09	Require intermediaries to provide 3 months worth of bank statements with each quarterly financial report submitted to SBA and revise the review process to include an analysis of the sources and uses of MRF and LLRF funds. This process should assist in detecting inappropriate fund transfers between the intermediaries' accounts, which are indications of program weaknesses and misuses of funds.
ROM 10-10	SBA's Administration of the Microloan Program under the Recovery Act.	12/28/09	Develop a staffing plan and hire and train the additional staff required to provide an adequate level of program oversight.
ROM 10-10	SBA's Administration of the Microloan Program under the Recovery Act.	12/28/09	Examine, verify, and test microloan data reported by the intermediaries in Microloan Program Electronic Reporting System to ensure loan defaults are accurately reported and that obvious inaccuracies and questionable transactions reported by intermediaries are identified and resolved.
ROM 10-10	SBA's Administration of the Microloan Program under the Recovery Act.	12/28/09	Develop additional performance metrics to measure the program's achievement in assisting microloan borrowers in establishing and maintaining successful small businesses.
ROM 10-10	SBA's Administration of the Microloan Program under the Recovery Act.	12/28/09	Require intermediaries to report in MPERS the technical assistance provided in relation to each microloan made and use this data to analyze the effect technical assistance may have on the success of microloan borrowers and their ability to repay microloans.
ROM 10-11	Notice of Finding and Recommendation on Ineligible Lender-Approved Recovery Act Loans	1/22/10	Have the Associate Administrator for Capital Access require the lenders to bring each of the loans listed in Appendix I (Ineligible Lender Approved Loans) into compliance, or, if not possible, cancel or adjust the SBA guaranties accordingly.

Appendices

Appendix VIII
Summary of Significant Recommendations
October 1, 2009 through March 31, 2010

Report Number	Title	Date Issued	Recommendation
ROM 10-12	Notice of Finding and Recommendation on Material Origination and Closing Deficiencies Identified in SBA and Lender-Approved Recovery Act Loans	3/31/2010	Implement the appropriate system controls to automatically identify the outstanding balances of all SBA loans made to a borrower to ensure SBA lending limits will not be exceeded upon the approval of a subsequent loan.
ROM 10-12	Notice of Finding and Recommendation on Material Origination and Closing Deficiencies Identified in SBA and Lender-Approved Recovery Act Loans	3/31/2010	Require Wachovia SBA Lending, Inc. to bring loan number 3406815002 into compliance with SBA requirements, or, if not possible, flag the loan as having an equity injection deficiency for consideration during the purchase review should the loan default and purchase be requested.

Appendices

Appendix IX

Events/Activities Where SBA Used its Cosponsorship Authority* Small Business Act, Section 4(h) October 1, 2009 through March 31, 2010

Name/Subject of Event	Name of Cosponsor(s)	Date(s) of Event	Location of Event
Discussion and Informational Seminar for Small Businesses in Virginia	The Commonwealth of Virginia - Office of the Governor	November 17, 2009	Richmond, VA
New York DO Annual Lender Awards for Fiscal Year 2009	New York Business Development Corporation	November 17, 2009	Jamaica, NY
Selling to the Government Webinars	Regional Contracting Assistance Center, Charleston WV SCORE Chapter #256	January 22, February 26, March 26, 2010	World Wide Web
2009 Mid-Atlantic SBIR/STTR Conference	INNOVA Commercialization Group, WVHTC Foundation, WVU Research Corporation, Higher Education Policy Commission, Division of Science and Research, Dinsmore & Shohl LLC, Steptoe & Johnson, PLLC	November 30, December 1, December 2, 2009	Morgantown, WV
Business Workshop and Matchmaking Event	Business Diversity Institute, Kaiser Permanente	November 12, 2009	Portland, OR
6th Annual "Connecting Business with Contracts" Procurement Conference	Southern University and A&M College Center for Rural and Small Business Development and Louisiana Procurement Technical Assistance Center	March 23, 2010	Baton Rouge, LA
Small Business Week 2010	Connecticut Small Business-Key to the Future, Hartford Business Journal	Late May, Early June	TBD
I-FEM Network and Training Event	View From the Top, A&M Montoya, Inc.	October 2009 - October 2010	El Paso County Area
Financing Your Small Business Growth Workshop	United Way of Delaware, State of Delaware, Office of Lt. Governor Matthew Denn	November 24, 2009	Wilmington, DE
Series: Women Business Workshop: "Marketing Strategies in a Struggling Economy"	Business and Professional Women	March 10, 2009	Towson, MD
2010 SBA Maryland Small Business Week Awards Breakfast	Maryland Small Business Week Awards Program, Inc.	May 21, 2010	Woodlawn, MD

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Name/Subject of Event	Name of Cosponsor(s)	Date(s) of Event	Location of Event
SBA/KIP Entrepreneurial Potential Workshop Series	The Kip Business Report	December 17, 2009, January 13, February 17, March 18, April 15, May 13, June 17, July 15, August 12, September 16, 2010	New York, NY
Export Trade Assistance Partnership - Breaking into the Trade Game	Morgan State University Entrepreneurial Development Center, Greater Baltimore SCORE Chapter #3, Department of Commerce/US Commercial Services	TBD/2010	TBD/MD
Conference for Latino Entrepreneurs - Conference Empresarios Latinos	The Central America Chamber of Commerce of Southern California	January 30, 2009	Santa Ana, CA
Series of informational and educational videos	Google, Inc.	December 2009 - December 2011	World Wide Web
Annual Celebration of Small Business in Virginia	Small Business Awards Foundation, Inc.	June 3, 2010	Richmond, VA
Federal Contracting Workshops & Training Seminars North Dakota	Impact Foundation Procurement Assistance Center	January 2010 - December 2010	North Dakota
e200	Memphis & Shelby County Office of Economic Development, Office of the Mayor of the City of Memphis and Office of the Mayor of Shelby County	April 2010 - November 2010	Memphis, TN
Financial Resources for Small Business/Small Business Resource Forum & Expo	Coachella Valley Women's Business Center, Coachella Valley Economic Partnership	February 3, 2010	Rancho Mirage, CA
OPERATION: Start Up and Grow	New York Business Development Corporation, M&T Bank, Onondaga Community College, Onondaga Small Business Development Center, Anaren, Inc.	March 18, 2010	Syracuse, NY

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Events/Activities Where SBA Used its Cosponsorship Authority*
Small Business Act, Section 4(h)
October 1, 2009 through March 31, 2010

Name/Subject of Event	Name of Cosponsor(s)	Date(s) of Event	Location of Event
Small Business Excellence Award Recognition	New York Business Development Corporation	May 7; May 10, 2010	Syracuse; Albany, NY
Winter Business Fair	City of Burlington - Community & Economic Development Office, Champlain Valley Office of Economic Opportunity - Micro Business Development Program	February 11, 2010	Burlington, VT
Cleveland Business to Business Matchmaker 2010	The Council of Smaller Enterprises, Group Services, Inc.	May 11-12, 2010	Cleveland, OH
Small Business Week 2010	Small Business Week of Eastern Missouri, Inc.	May 10-15, 2010	St. Louis, MA
Veterans Small Business Conference	North Carolina- North Carolina Small Business & Technology Development Center, North Carolina Military Business Center, Cary Chamber of Commerce	April 28, 2010	Cary, NC
Six video segments targeting SBA Hall of Fame members, a printed and online workbook/guide supplement provided by the Hall of Fame members with content on SBA programs and services	Automatic Data Processing, Inc.	January 2010 - January 15, 2013	World Wide Web
Salute to Small Business	South Carolina Chamber of Commerce, University of South Carolina thru Small Business Development Center of South Carolina, South Carolina Department of Commerce, ECI/Find New Markets, Midlands SC SCORE Chapter, South Carolina Manufacturing Extension Partnership, U.S. Department of Agriculture - Rural Development Administration, U.S. Department of Commerce - U.S. Export Assistance Center, SC Launch!	May 12, 2010	Columbia, SC

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Name/Subject of Event	Name of Cosponsor(s)	Date(s) of Event	Location of Event
Cosponsorship Brand, Website, Preparedness Webinars and Business Preparedness Planning Guide	Agility Recovery Solutions	February 1, 2010 - January 30, 2012	World Wide Web
e200	North Texas Small Business Development Center Network, Dallas Black Chamber of Commerce, Greater Dallas Asian American Chamber of Commerce, Minority Business Development Agency, US Department of Commerce, Greater Dallas Hispanic Chamber of Commerce, Dallas SCORE Chapter 22, City of Dallas-Office of Economic Development, State of Texas	April 2010 - November 2010	Dallas, TX
e200	AMEC Earth & Environmental, Inc., The City of Philadelphia City Hall, Delaware Valley Industrial Resource Center, The Greater Philadelphia Chamber of Commerce, Hispanic Association of Contractors and Enterprises, PNC Bank, SCORE, Philadelphia Chapter #, Urban League of Philadelphia, Inc., Women's Business Enterprise Council of PA-DE-NJ/WBC, Asian American Chamber of Commerce of Greater Philadelphia, Continental Bank	April 2010 - November 2010	Philadelphia, PA

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Name/Subject of Event	Name of Cosponsor(s)	Date(s) of Event	Location of Event
e200	Bankers Trust, Business Innovation Zone, City of Des Moines, Corporation for Economic Development, Des Moines SCORE, Greater Des Moines Partnership, Iowa Department of Economic Development, Iowa State Bank, ISED Ventures, Neighborhood Development Corporation, State Public Policy Group, United Way of Central Iowa, US Bank, Wells Fargo, Des Moines Area Community College, Venturennet Iowa, Iowa SBDC	April 2010 - November 2010	Des Moines, IA
e200	Jacksonville Regional Chamber of Commerce, Jacksonville Women's Business Center, Jacksonville SCORE #86, Small Business Development Center at the University of North Florida, Beaver Street Enterprise Center, Jacksonville Economic Development Commission	April 2010 - November 2010	Jacksonville, FL
e200	The Atlanta Development Authority, The Atlanta Workforce Development, Agency, Atlanta SCORE Chapter 4	April 2010 - November 2010	Atlanta, GA
e200	Detroit Economic Growth Corporation, Detroit Regional Chamber, Mayor's Office of Targeted Business Development, Michigan Economic Development Corporation, Michigan Minority Business Development Council, Michigan Small Business and Technology Development Center, TechTown	April 2010 - November 2010	Detroit, MI

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Name/Subject of Event	Name of Cosponsor(s)	Date(s) of Event	Location of Event
e200	Hispanic American Chamber of Commerce, City of Boston - Department of Neighborhood Development, University of Massachusetts - Massachusetts Small Business Development Centers, Boston SCORE Chapter 20, Center for Women and Enterprise, Massachusetts State Office of Women and Minority Business Assistance, Boston Private Bank & Trust, Century Bank, Mercantile Bank & Trust, First Trade Union Bank, Webster Bank	April 2010 - November 2010	Boston, MA
e200	Maryland SBDC – Central Region, Greater Baltimore SCORE # 3, Baltimore City Small Business Resource Center, Women Entrepreneurs of Baltimore, Inc., Maryland Department of Business and Economic Development, Greater Baltimore Committee, Baltimore City Chamber, University of Baltimore-Entrepreneurial Opportunity Center, Morgan State University – Entrepreneurial Development & Assistance, Greater Baltimore Black Chamber of Commerce, Baltimore City Hispanic Chamber of Commerce, Greater Baltimore Urban League	April 2010 - November 2010	Baltimore, MD
24th Annual Reservation Economic Summit & American Indian Business Trade Fair	National Center for American Indian Enterprises Development	February 22-24, 2010	Las Vegas, NV
Small Business Workshops	Dutchess County Regional Chamber of Commerce	February 18, March 18, April 15, May 20, June 17, September 16, October 21, 2010	Poughkeepsie, NY

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Name/Subject of Event	Name of Cosponsor(s)	Date(s) of Event	Location of Event
New Mexico Small Business Week Awards Event 2010	Santa Fe Community College through New Mexico SBDC	June 3, 2010	Albuquerque, NM
Small Business Development & Contracting Expo	Louisville Urban League	June 23, 2010	Louisville, KY
Native American e200	ACCION New Mexico, Albuquerque Hispano Chamber of Commerce, Albuquerque SCORE Chapter 67, Central New Mexico Community College - Albuquerque Small Business Development Center, American Indian Chamber of Commerce of New Mexico, Inc., City of Albuquerque, Economic Development Department , City of Gallup, Greater Albuquerque Chamber of Commerce , NAWBO-Northern New Mexico , New Mexico 8(a) & Minority Business Association, New Mexico Department of Veterans Services, New Mexico Manufacturing Extension Partnership, New Mexico Rural Entrepreneur Institute, University of New Mexico - Gallup Small Business Development Center , South Valley Economic Development Center, Northern New Mexico College - South Valley Small Business Development Center, The Loan Fund, WESST, Zia Pueblo, Zuni Entrepreneurial Enterprises Inc., Gallup – McKinley County Chamber of Commerce	April 2010 - November 2010	Albuquerque and Gallup, NM
Native American e200	National Center for American Indian Enterprise Development, American Indian Chamber of Commerce of Arizona, American Indian Chamber Education Fund – PTAC	April 2010 - November 2010	Phoenix and Tucson, AZ

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Native American e200	Rural Enterprises of Oklahoma, Inc.	April 2010 - November 2010	Oklahoma City and Tulsa, OK
The Black Business Conference 2010	Chase, Alpha Phi Alpha Fraternity, Inc.	March 31, 2010	Detroit, MI
2010 National Microenterprise Conference and Training Institute	Association for Enterprise Opportunity (AEO)	May 10-13, 2010	Crystal City, VA
EDGE: Educate to Drive and Grow the Economy of Seal Beach	Seal Beach Chamber of Commerce, Boeing Company	February 25, March 11, March 25, April 8, April 22, May 6, May 20, June 3, 2010	Seal Beach, CA
2010 Ohio Business Matchmaker	Ohio Department of Development, Ohio Business Connection, Southern Ohio Procurement Outreach Center, Aeronautical Systems Center Small Business Office, Defense Logistics Agency, Edison Materials Technology Center	March 23-24, 2010	Dayton, OH
How to Make It Work for You and Your Business	SCORE Columbus Chapter #27, Economic & Community Development Institute	February 20, 2010	Columbus, OH
La Dinamica de los Contratos Federales (Federal Contracting Matchmaking Event)	Colegio de Ingenieros y Agrimensores de Puerto Rico	April 16, 2010	San Juan, PR
Export Trade Assistance Program	Irvine Chamber of Commerce, U.S. Commercial Service	March 12, 26, April 9, 23, May 14, 28, 2010	Irvine, CA
Connecticut Expo for Business	Hartford Business Journal, Metro Hartford Alliance	June 10, 2010	Hartford, CT
STEP Stimulate the Economy of Perris	City of Parris California	April 14, 2010	Perris, CA
Future of Small Business Workshop	Brookings Institution	March 15, 2010	Washington, DC

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Name/Subject of Event	Name of Cosponsor(s)	Date(s) of Event	Location of Event
Native American e200	CA Native American Chamber, National Center for American Indian Enterprise Development, University of Redlands - The Redlands Institute, American Indian Chamber of Commerce of California	April 2010 - November 2010	Santa Ana, CA
Native American e200	City of Milwaukee - Milwaukee Economic Development Corporation, Milwaukee SCORE Chapter 28, Wisconsin Women's Business Initiative Corp , Manpower, Inc, Greater Milwaukee Committee, Small Business Development Center Milwaukee, Potawatomi Business Development Corporation, Oneida Tribe of Indians , American Indian Chamber of Commerce, Metropolitan Milwaukee Sewerage District, WI Department of Commerce	April 2010 - November 2010	Milwaukee, WI
Train Your People-Grow Your Business Seminar Series	West Hartford Chamber of Commerce	September 2010 - June 2011	West Hartford, CT
Series GC/BD Workshops and Matchmaker Events	Rhode Island Procurement Technical Assistance Center	March 1, 2010 - December 31, 2011	Area wide RI
Women's Business Roundtables	First National Bank	September 9, 2010 - May 12, 2011	Buffalo, WY
22nd Annual High-Tech Conference for Small Business	Jet Propulsion Laboratory/NASA	March 1-3, 2010	Los Angeles, CA
Business Women's Forum	Waterbury Regional Chamber of Commerce	TBA 2010	Waterbury, CT
Women's Business Roundtables	First State Bank of Newcastle	September 1, 2010 - May 5, 2011	Newcastle, WY
Native American e200	Jefferson Chamber of Commerce, Louisiana Minority Business Council, University of Louisiana at Monroe, SCORE, State of Louisiana - Department of Economic Development, Urban League of Greater New Orleans and Urban League's Women's Business Center	April 2010 - December 2010	New Orleans, LA

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Name/Subject of Event	Name of Cosponsor(s)	Date(s) of Event	Location of Event
Native American e200	Oregon Native American Chamber of Commerce, ONABEN, A Native American Business Network, City of Portland, Bureau of Development Services, Portland Community College - Small Business Development Center, Port of Portland	April 2010 - November 2010	Portland, OR
Native American e200	Rocky Mountain Indian Chamber of Commerce, Native American Bank, Rocky Mountain Minority Supplier Development Council, City of Aurora - Aurora Business Development Center, Colorado SBDC, Denver Metro Chamber of Commerce, SCORE Denver Chapter and Denver Business Journal	April 2010 - December 2010	Denver, CO
Rhode Island Minority Enterprise Development Week	Hispanic American Chamber of Commerce	October 12-15, 2010	Warwick, RI
e200	Illinois Department of Commerce and Economic Opportunity Illinois Entrepreneurship Network Small Business Development Centers, Office of the Illinois State Treasurer	April 2010 - November 2010	Chicago, IL
Seven Facets of Business Ownership	Fayette County Public Library	April 29, 2010	Fayetteville, GA
From Planning to Funding: Learn All the Options to Fund Your Business	Ohio Department of Development, thru, Entrepreneurship and Small Business Division, Minority Business Enterprise Division, Small Business Development Center, Minority Contractor Business Assistance Program, Procurement Technical Assistance Center, Columbus SCORE Chapter 27, Ohio SBDC - The Entrepreneurs Center, Dayton SCORE Chapter # 107	March 11, 2010	Dayton, OH

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Name/Subject of Event	Name of Cosponsor(s)	Date(s) of Event	Location of Event
Small Business Financing 2010	Empire State Economic Development, Long Island Development Corporation, Long Island Small Business Assistance Corporation, New York State University at Farmingdale through Small Business Development Center	April 9, 2010	Farmingdale, NY
B2G Matchmaking Opportunities 2010	Business Development Assistance Group	June 16, 2010	Washington, DC
Business for Breakfast	The State Journal, Huddleston Bolen, LLP, SCORE Charleston Chapter 0256	April 23, June 25, August 27, October 22, December TBD, 2010	Charleston, WV
American Recovery Act Event: Meet the Lenders & Meet the Buyers	ASTRA, Women's Business Alliance, Business Diversity Institute, Hispanic Metropolitan Chamber of Commerce, Business Oregon – State of Oregon Economic Development Department, Kaiser Permanente, Bank of America	April 21, 2010	Portland, OR
Oklahoma Small Business Awards Program	Rose State College through Small Business Development Center, The Journal Record Publishing Company, Oklahoma Center for Advancement of Science and Technology, Oklahoma Department of Commerce, Bullet Productions	April 6, 2010	Midwest City, OK
Small Business Week Awards Breakfast - Recognition Event	Worcester Business Development Corporation	June 8, 2010	Worcester, MA
Native American e200	Antioch University - Seattle, United Indians of All Tribes Foundation	April 2010 - December 2010	Seattle, WA
Dynamic Contracting for Small Business	U.S. Army Corps of Engineers	April 21, 2010	Fairmont, WV
4th Annual Heritage & Cultural Tourism Conference	Sitka Tribe of Alaska	March 30 - April 1, 2010	Sitka, AK
Small Business Week Breakfast & Awards Ceremony	Puerto Rico Bankers Association	May 20, 2010	San Juan, PR

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Name/Subject of Event	Name of Cosponsor(s)	Date(s) of Event	Location of Event
Tax Workshop Webinars	NC Department of Revenue, Internal Revenue Service, NC Department of Community Colleges Small Business Centers, Charlotte SCORE	June 23, 24, 25, 2010	World Wide Web
Entrepreneurship & Job Fair 2010	New York State Department of Labor, Division of Employment and Workforce Solutions, Office of New York State Assemblywoman Grace Meng, Office of New York City Council Member Peter, Koo, F & T Group	April 7, 2010	Flushing, NY
Philadelphia Economic Recover Procurement Summit	The Enterprise Center, City of Philadelphia City Hall, Pennsylvania Convention Center Authority	April 6, 2010	Philadelphia, PA
Veterans Small Business Conference	North Carolina Small Business & Technology Development Center, North Carolina Military Business Center, City of Jacksonville, North Carolina, Coastal Carolina Community College	August 5, 2010	Jacksonville, NC
25th Anniversary Business Plan Competition	University of Hartford through The Entrepreneurial Center, Women's Business Center	May 11, 2010 - June 15, 2010	Hartford, CT

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Appendix X Legal Actions Summary October 1, 2009 through March 31, 2010

State	Program	Alleged Violation(s) Prosecuted	Legal Action	Investigated Jointly With
CO	BL	The part-owner of a construction company received two SBA-guaranteed loans totaling \$1.35 million. In order to obtain the SBA loans, he hid his criminal history, which would have precluded him from receiving the loans.	Part-owner pled guilty and was sentenced to 37 months in prison, 60 months supervised release, and \$975,424 in restitution.	FBI
FL	DL	An individual used her sister's Social Security account number without her authorization to secure a \$41,700 SBA disaster business loan, a \$25,000 SBAExpress loan, and a \$30,000 business line of credit. The SBA disaster business loan was obtained to alleviate economic injury caused by Hurricane Wilma to a women's apparel store that the individual owned.	Individual pled guilty and was sentenced to 15 months in prison, 5 years supervised release, and \$97,008 in restitution.	SSA/OIG, NFPD, USPIS
FL	DL	The manager of a construction company applied for a \$239,300 SBA economic injury disaster loan (EIDL) for his company after Tropical Storm Fay hit in August 2008. It is alleged that he misrepresented the status of several pending foreclosures in order to get approved for the EIDL and then provided SBA with altered title reports to hide those foreclosures, as well as other undisclosed adverse items.	Charged via criminal information.	FBI
GA	BL	An individual is alleged to have falsely represented his company's gross sales and falsely indicated that he had no previous criminal history when applying for a \$1.8 million SBA-guaranteed loan.	Individual indicted.	None
IA	BL	An individual enlisted "front" borrowers and provided a non-bank lender with false and fraudulent documentation in order to get an SBA-guaranteed loan and two other loans approved. The three loans, totaling over \$4 million, were to be used for the purchase of three gas stations in Iowa.	Individual sentenced to 2 years in prison, 3 years supervised release, and \$2,008,964 in restitution.	FBI

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Appendix X Legal Actions Summary October 1, 2009 through March 31, 2010

State	Program	Alleged Violation(s) Prosecuted	Legal Action	Investigated Jointly With
IL	BL	The former owner of a finance company provided fraudulent equity injection documentation to a non-bank lender in order to influence the approval of a \$1.35 million SBA-guaranteed loan for one of his companies. He also brokered 46 other loans, totaling \$44,314,371, mostly for the purchase of gas stations and convenience stores, and provided false information to the same lender for the majority of these loans.	Former owner sentenced to 135 months in prison, 5 years supervised release, and \$7,412,884 in restitution. After his prison term, he will be deported to India.	FBI
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. The couple claimed damages from Hurricane Katrina to their residence and to the wife's day care business, which was located at the same address.	Wife sentenced to 36 months probation and a \$1,500 fine. Husband previously sentenced. Restitution of \$119,728 paid to SBA prior to sentencing.	DHS/OIG, HUD/OIG
LA	DL	An individual allegedly submitted misleading documentation which caused SBA to believe that he had contracted for repairs to his residence; in reality, he had only received an estimate for these repairs. Based on the misleading information, SBA approved a loan of \$106,300 for damages caused by Hurricane Katrina.	Individual pled guilty to a criminal information and was sentenced to 36 months probation, restitution to the SBA in the amount of \$57,777, and a fine of \$2,000.	USDA/OIG
LA	DL	An individual received \$50,000 in SBA disaster loan funds by allegedly using an address on his application that was not his primary residence at the time Katrina struck. It is also alleged that he submitted fraudulent receipts to induce SBA to approve the loan.	Individual charged via criminal information.	HUD/OIG
LA	DL	An individual applied for an SBA physical disaster loan for property that she did not own at the time Hurricane Katrina hit New Orleans. She received \$75,000 in SBA disaster loan funds.	Individual sentenced to 69 months in federal prison, 3 years supervised release, and restitution of \$156,761.	HUD/OIG
LA	DL	An individual submitted false construction contracts, fraudulent purchase receipts, and altered quotes in order to obtain an SBA disaster home loan of \$77,200.	Individual sentenced to 3 years probation and restitution of \$16,730.	None

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Appendix X Legal Actions Summary October 1, 2009 through March 31, 2010

State	Program	Alleged Violation(s) Prosecuted	Legal Action	Investigated Jointly With
LA	DL	A borrower submitted altered and fictitious documents to SBA in order to receive a \$68,400 disaster home loan and a \$70,000 disaster business loan. After the loans were approved, he submitted altered and fictitious contracts and invoices for home repairs purporting the work was complete in order to mislead SBA and influence disbursement of funds. The borrower also falsely represented that his used auto dealership was reopening in order to entice SBA to disburse disaster business loan funds.	Individual pled guilty to a criminal information.	FBI
LA	DL	An individual made false statements and submitted false documents to SBA in order to receive a physical disaster loan of \$38,800 for Hurricane Katrina damages. Instead of using the SBA loan to repair the family home, the individual and her husband used the SBA disaster relief funds, as well as \$150,000 in Louisiana Road Home funds, to open a pizza restaurant.	Individual pled guilty to a criminal information. Husband pled guilty to misprision of a felony for concealing knowledge of his wife's felony.	HUD/OIG
MD	GC	A former West Virginia state employee provided confidential bid information to a contractor allowing the company to come in as the lowest bidder on state contracts. The individual awarded the contracts to the company and in return received money and other things of value from the company.	Individual sentenced to 12 months and one day incarceration, 6 months home confinement, 3 years supervised release, and a \$3,000 fine.	EPA/CID, NCIS, IRS/CID, FBI
MD	BL	The owner of a restaurant equipment outlet entered into an agreement with the vice president of a restaurant to perform construction/renovation work and provide equipment at a cost of \$145,000. The two allegedly conspired to falsely inflate the total cost of the project in order to obtain a \$417,000 SBA-guaranteed loan. The contractor returned \$97,000 of the loan proceeds back to the borrower.	Owner of equipment outlet pled guilty to a criminal information. Prosecution of restaurant vice president continues.	None

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Appendix X Legal Actions Summary October 1, 2009 through March 31, 2010

State	Program	Alleged Violation(s) Prosecuted	Legal Action	Investigated Jointly With
MD	BL	An accountant embezzled over \$125,000 from her employer, a former 8(a) certified firm, and omitted the amount as taxable income on her income tax return.	Accountant sentenced to 30 days in jail, 5 months home confinement, 1 year probation, and restitution of \$33,624.	EPA/CID, NCIS, IRS/CID, FBI.
MI	BL	An individual and his co-conspirators used counterfeit bank documents and checks to verify the required borrower equity injections on at least nine SBA-guaranteed loans. In addition, he used a fraudulently obtained check in the amount of \$1,680,000 to purchase a house with the intent to promptly resell or “flip” the property to a straw buyer who would use 100% financing to pay a substantially inflated price for the house.	Individual sentenced to 24 months incarceration and ordered to pay \$5,672,929 in restitution jointly with other co-conspirators.	USSS
MI	BL	An individual acted as a broker and recruited “straw buyers” to fraudulently obtain 12 SBA-guaranteed loans by falsifying equity injections and loan disbursements on HUD settlement statements.	Individual pled guilty.	USSS
MO	BL	Two bank officers, an SBA branch manager, two business consultants, and numerous borrowers are alleged to be involved in a complex bank fraud scheme involving fraudulent loans totaling over \$10 million. The scheme used nominee borrowers to falsely obtain SBA-guaranteed loans and involved making false entries in bank records and structuring loans to avoid scrutiny by bank personnel.	Seventeen individuals have been charged. To date, two have pled guilty.	FBI
NY	BL	An individual defrauded a number of federal and state grant, loan, and subsidy programs, including an SBA program designed to provide venture capital to small, minority-owned businesses.	Individual fled to Israel prior to the unsealing of the original indictment in 1997. He was arrested in the United Kingdom in 2008 and extradited to the U.S. where he pled guilty in March 2010.	ED/OIG, IRS/CID, FBI, HUD/OIG, SSA/OIG

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Appendix X Legal Actions Summary October 1, 2009 through March 31, 2010

State	Program	Alleged Violation(s) Prosecuted	Legal Action	Investigated Jointly With
NY	BL	A member of an organized group of foreign nationals obtained six SBAExpress loans totaling \$290,000 using false identities, documents, and businesses.	Individual pled guilty.	USPIS
TX	BL	A Louisiana petroleum corporation falsified the true source of funds to support its required \$120,000 equity injection in order to secure a \$480,000 SBA-guaranteed loan.	Company pled guilty and was ordered to pay a fine of \$200,000	IRS/CID
TX	BL	Thirteen individuals allegedly conspired to submit fraudulent loan applications in order to secure loan proceeds from various lenders, most of them SBA-certified. The complex loan fraud scheme also involves money laundering of the ill-gotten gains. The fraudulent loan requests exceed \$8 million.	Loan broker indicted and pled guilty. Twelve others indicted.	FBI, IRS/CID
WA	BL	The owner of a now-defunct disaster restoration business submitted inflated invoices for work performed, which resulted in the company receiving over \$3 million more in insurance payments than it was entitled. The owner sold the business to a buyer who obtained a \$1,999,800 SBA-guaranteed loan to fund a portion of the sale. The inflated financial statements were submitted to the lender to support the value of the business and the purchase price. The owner then used the fraudulently obtained loan proceeds to purchase a \$1.785 million home in Florida.	Owner pled guilty to a criminal information and was sentenced to 48 months in prison, 60 months supervised release, \$4,935,974 in restitution, and 120 hours of community service.	IRS/CID

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

Joint-investigation Federal Agency Acronyms: DHS/OIG=Department of Homeland Security/Office of Inspector General; ED/OIG=Department of Education/OIG; EPA/CID=Environmental Protection Agency/Criminal Investigations Division; FBI=Federal Bureau of Investigation; HUD/OIG=Housing and Urban Development/OIG; IRS/CID=Internal Revenue Service/CID; NCIS= Naval Criminal Investigative Service; NFPD=Naples Florida Police Department; 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

Appendices

Appendix XI Small Business Administration Office of Inspector General

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

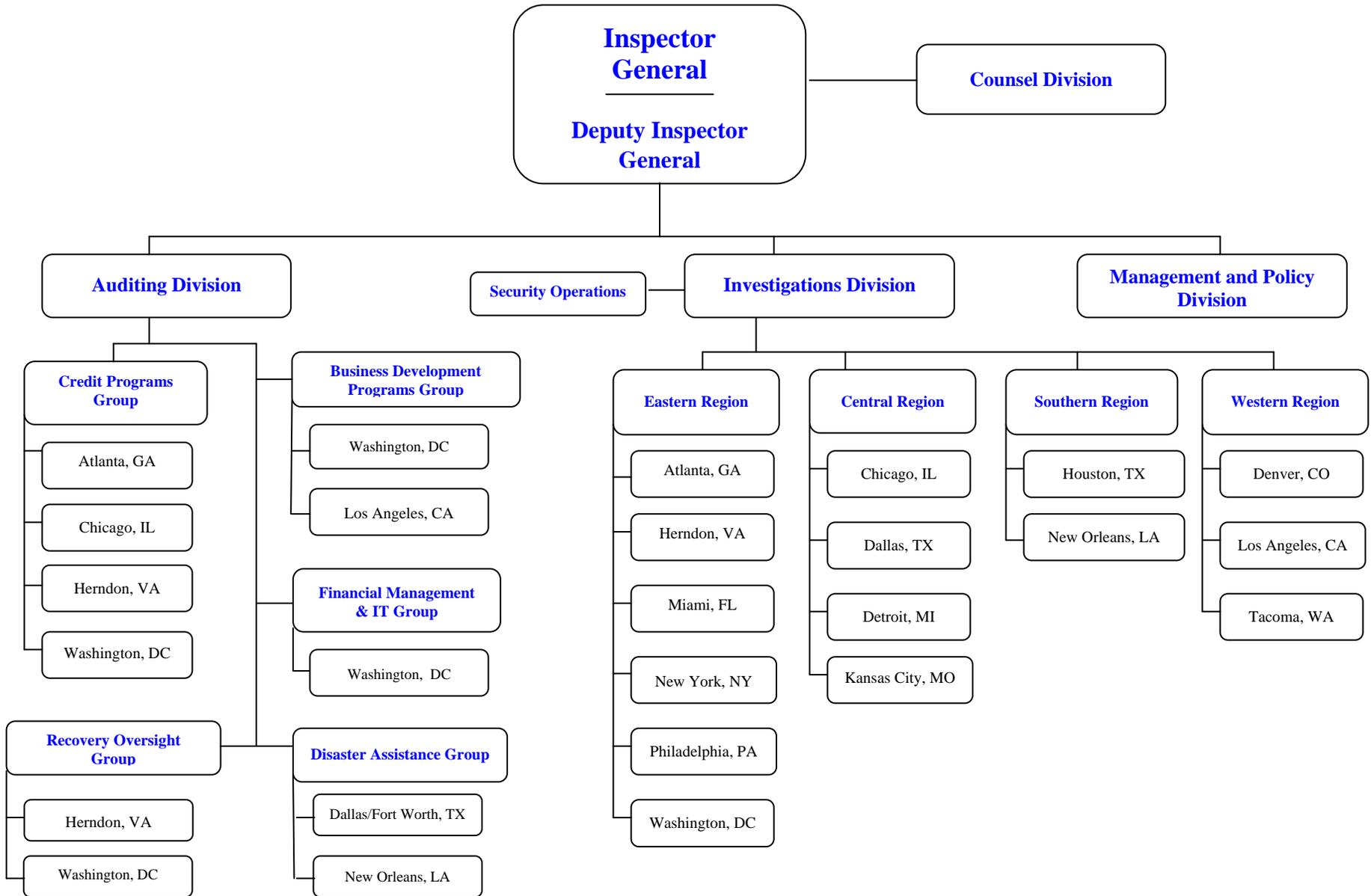
- **The Auditing Division** performs financial, information technology and other mandated audits, program performance reviews, and internal control assessments, and oversees audits by contractors to promote the economical, efficient, and effective operation of SBA programs.
- **The Investigations Division** 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 is shown on page 59.

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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:

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[1-800-767-0385 \(Toll Free\)](tel:1-800-767-0385)

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.