

U.S. Small Business Administration Office of Inspector General

Semiannual Report to Congress Fall 2006



April 1, 2006 – September 30, 2006

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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Sections 5(a)(5) and 6(b)(2)	Summary of Instances Where Information Was Refused	None
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Section 5(a)(10)	Summary of Reports From Prior Semiannual Reports Where No Management Decision Was Made	33-34
Section 5(a)(11)	Significant Revised Management Decisions	None
Section 5(a)(12)	Significant Management Decisions with Which the OIG Disagreed	None
Section 5(a)(13)	Information Described Under Section 05(b) of the Federal Financial Management Improvement Act of 1996	N/A

A Message From The Inspector General

I am pleased to present the Small Business Administration (SBA), Office of Inspector General (OIG), Semiannual Report summarizing activities from April 1, 2006, through September 30, 2006.

As an independent, objective reviewer of SBA's operations and programs, the OIG seeks to target potential financial vulnerabilities and fraud, promote effective program management, ensure complete and accurate financial reporting, and improve information security. During this reporting period, we issued 15 reports with recommendations for improving Agency operations, reducing fraud and unnecessary losses, and recovering funds. OIG investigations led to 32 indictments and 19 convictions of subjects who defrauded the Federal Government. Also, the OIG collectively reviewed 83 legislative, regulatory, policy, procedural, and other proposals concerning the SBA and Government-wide programs. With a staff of about 100, the OIG continues to produce sizeable savings and important program improvements.

This reporting period, we continued to direct efforts toward the 2005 Gulf Coast hurricanes. As of September 30, 2006, SBA approved over \$10 billion in Gulf Coast disaster loans. To provide proper oversight, we opened an office in New Orleans and developed a 5-year work plan to focus available resources on programs, operations, and activities that expose SBA to significant risks in providing Gulf Coast assistance. We also issued reports on loan disbursements, controls relating to duplication of benefits, SBA's Disaster Credit Management System (DCMS), and SBA staffing during times of emergencies or catastrophes. Our investigators continue to work with the multi-agency Hurricane Katrina Fraud Task Force to target individuals who have made false claims to obtain hurricane-related government benefits. Allegations to date have included unauthorized use of loan proceeds, overstatement of financial loss, and false statements regarding prior criminal records and financial liabilities.

This summer, I testified before the Senate Committee on Small Business and Entrepreneurship regarding problems with governmental procurement activity intended for small businesses. The Small Business Act provides that annually 23 percent of all government contracts be awarded to small businesses. To meet this goal, SBA negotiates annual goals for small business contracts with other Federal agencies. However, a number of Federal reports have shown that many contracts counted towards these small business goals are actually being performed by firms that do not meet SBA's criteria to be considered small. This was due to three factors: (1) regulatory loopholes that allow this miscounting; (2) errors by government contracting personnel; and (3) fraud or negligence by companies in attempting to obtain small business set aside contracts. My testimony also focused on the need for regulatory and legislative changes to address these challenges, and the need for SBA to take a more aggressive approach towards working with other agencies to eliminate these flaws. Lastly, OIG has initiated a task force to focus on the issues of integrity in small business contracting and accuracy of reporting by Federal agencies on small business procurement activity.

I would like to thank SBA's new Administrator, Steven Preston, for the support he has shown for the OIG's work in his short time with the Agency. I look forward to continuing to work with the Administrator and his leadership team in carrying out the OIG's mission to fight waste, fraud, and abuse and promote greater government efficiency.

Eric M. Thorson
Inspector General

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Overview of SBA and the OIG

The Small Business Administration

The mission of the SBA pursuant to the Small Business Act is to maintain and strengthen the Nation's economy by enabling the establishment and viability of small businesses and by assisting in the economic recovery of communities after disasters. The SBA has three programmatic strategic goals that broadly define what the Agency and its programs are trying to accomplish: (1) improve the economic environment for small businesses; (2) increase small business success by bridging competitive opportunity gaps facing entrepreneurs; and (3) restore homes and businesses affected by disaster. SBA is organized around four key functional areas: capital access, government procurement opportunities, management and business skills development, and small business and homeowner 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 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. SBA's appropriation for Fiscal Year (FY) 2006 was \$533 million, plus an additional \$1,700 million from supplemental appropriations for disaster relief. As of September 30, 2006, SBA had 2,156 employees (including Office of Inspector General (OIG) personnel but excluding disaster-funded employees). There were 4,184 temporary and permanent disaster employees, excluding contractors.

The Office of Inspector General

Under the authority and in fulfillment of the Inspector General Act of 1978, as amended, the SBA OIG adds value to Agency programs and operations by providing auditing, investigative, and other services to support and assist SBA in achieving its statutory mission. We strive to identify significant issues and offer recommendations to correct or eliminate problems and fraudulent schemes that adversely impact the efficiency, effectiveness, or integrity of SBA's programs and operations.

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

- **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, and conducts 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.

Overview of SBA and the OIG

- **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's headquarters is located in Washington, DC. Field staff are located in the following locations: Atlanta, GA; Chicago, IL; Dallas, 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.

Appendix XI contains an organization chart for the OIG.

OIG Work During This Reporting Period

As of September 30, 2006, the OIG had 100 staff on-board. The OIG's FY 2006 appropriation was \$13.7 million, including a \$1.5 million transfer for disaster assistance oversight activities (net of rescissions). In addition, a supplemental appropriation during FY 2006 provided the OIG with \$5 million in "no-year" funds for Gulf Coast hurricane disaster oversight.

During this reporting period, OIG work focused on the two strategic goals in the OIG's FY 2006-2011 Strategic Plan: (1) improving the economy, efficiency, and effectiveness of SBA programs and operations; and (2) promoting and fostering integrity in SBA programs and operations. Using this framework, the OIG concentrated on critical risks facing SBA, which include: (1) risks of financial losses due to SBA's downsizing, centralization, and limited oversight and controls; (2) risks to SBA's performance of its statutory mission to promote small business development and Government contracting; and (3) risks associated with SBA's information technology and financial management systems, and other internal operations.

The challenges and risks facing the Agency increased significantly with the devastation from the Gulf Coast hurricanes during 2005. The OIG has begun a series of reviews of the management of SBA's disaster assistance process, the loan application approval process, loan disbursement activities, use of proceeds, and SBA's Disaster Credit Management System (DCMS). The OIG is also directing investigative efforts toward detecting and deterring fraud related to the SBA Disaster Loan program.

OIG efforts and accomplishments during the second half of FY 2006 are summarized in this document. Audits and related activity during this reporting period are listed in Appendix I. Investigative actions are summarized in Appendix X. OIG reports and other work products are available on the OIG's website at <http://www.sba.gov/ig/igreadingroom.html>.

Agency Management Challenges

In accordance with the Reports Consolidation Act of 2000, each fiscal year the OIG identifies the most important management and performance challenges facing the Agency for inclusion in SBA's Performance and Accountability Report (PAR). The Management Challenges represent areas that the OIG considers to be particularly vulnerable to fraud, waste, abuse, or mismanagement, or that otherwise pose significant risk to the Agency, its operations, or its credibility. Each Management Challenge generally has originated from one or more OIG or Government Accountability Office (GAO) report. For each Management Challenge, we provide the Agency with recommended remedial actions together with our assessment of Agency progress on each recommended action during the preceding fiscal year.

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The SBA's most serious Management Challenges for FY 2006 were as follows:

- Flaws in the Federal procurement process allow large firms to receive small business awards and agencies to receive small business credit for contracts performed by large firms.
- SBA faces significant challenges in financial management and reporting that affect its ability to provide reliable, timely and accurate financial information.
- Information systems security needs improvement.
- Maximizing program performance requires that SBA fully develop, communicate, and implement a human capital management/transformation strategy.
- The Guaranty Purchase Center needs better controls over the business loan purchase process.
- SBA needs to continue improving lender/participant oversight.
- The Section 8(a) Business Development program needs to be modified so more participating companies receive access to business development, standards for determining economic disadvantage are clear and objective, and more eligible companies receive contracts.
- The current practices of the SBIC program place too much risk on taxpayer money.
- Preventing loan agent fraud requires additional measures.
- SBA needs to update its system of directives to provide proper guidance and control over its operations.

The OIG updates the Management Challenges each year to accurately reflect the current challenges facing the Agency. During this reporting period, the OIG continued to evaluate the Management Challenges to assess Agency progress in resolving them and identify revisions needed to keep them forward-looking. The results of this process will be reflected in the FY 2007 Management Challenges to be included in the Agency's FY 2006 PAR.

By their nature, these Challenges require continued long-term commitment and effort by the Agency.

While Agency progress on a number of the Management Challenges has been encouraging, much more remains to be done. By their nature, these Challenges require continued long-term commitment and effort by the Agency.

Significant OIG Activities

Disaster Loans

The Disaster Loan program, a major SBA lending program, is designed to respond to the long-term recovery needs of disaster victims. By law, SBA is authorized to make two types of disaster assistance loans: (1) physical disaster loans, which are a primary source of funding for permanent rebuilding and replacement of uninsured real and personal property belonging to homeowners, renters, businesses of all sizes, and nonprofit organizations; and (2) economic injury disaster loans, which provide necessary working capital to small businesses until normal operations can be resumed after a disaster. This highly visible program is vulnerable to fraud and unnecessary losses because loan transactions are expedited in order to provide quick relief to disaster victims. It is also an area susceptible to improper payments as disaster loans may duplicate benefits provided to disaster victims by other Federal agencies.

On August 29, 2005, Hurricane Katrina devastated the Gulf Coast regions of Louisiana, Mississippi, and Alabama. Katrina was the third most intense hurricane to hit the United States in recorded history, and the sixth strongest recorded in the Atlantic Basin. It was quickly followed by Hurricanes Rita and Wilma, creating further loss of lives and property in Florida and Texas. As of September 30, 2006, SBA had approved over \$10 billion in low-interest, taxpayer-backed disaster loans to homeowners, renters, and businesses affected by the Gulf Coast hurricanes.

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OIG Emphasizes Oversight of SBA Disaster Assistance

In December 2005, Congress appropriated \$5 million for necessary expenses of the OIG related to the consequences of the 2005 Gulf Coast hurricanes. With these funds, the OIG has established a new office in New Orleans and has dedicated additional audit and investigative personnel to provide oversight of SBA disaster assistance efforts related to the Gulf Coast hurricanes. Given the scope of SBA's hurricane disaster response efforts, and the fact that many borrowers will not have to begin repaying disaster loans until 2007, we anticipate a considerable amount of work for years to come. Therefore, as discussed below, the OIG has developed a 5-year work plan

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which identifies anticipated reviews of SBA's programs and operations and other OIG projects related to the Gulf Coast hurricanes.

Inspector General Testifies on SBA's Efforts to Assist Hurricane Victims

On May 10, 2006, the Inspector General testified before the House Committee on Government Reform, Subcommittee on Government Management, Finance, and Accountability, on SBA's efforts to assist victims of the Gulf Coast hurricanes. At that time, SBA had approved over \$9 billion in disaster relief loans to hurricane victims. The Inspector General told the Members of the Subcommittee that, given the considerable potential for program inefficiencies and fraudulent attempts to obtain Federal assistance, oversight of the Agency's relief efforts was a top OIG priority. The OIG had already issued several reports, including an analysis of problems with SBA's disaster loan computer system and incompatibilities between the SBA and Federal Emergency Management Agency (FEMA) computer

Significant OIG Activities

systems. The Inspector General also discussed proactive and aggressive approaches being taken by OIG investigators to identify instances of fraud in obtaining disaster loans, as well as the OIG's participation in various government-wide initiatives to provide oversight of the Federal Government's response to the Gulf Coast hurricanes.

OIG Develops Comprehensive Disaster Assistance Work Plan

The size and magnitude of SBA's Gulf Coast hurricane disaster relief effort require that the OIG provide proactive and substantive oversight of hurricane disaster loans to minimize potential fraud, waste and

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abuse. In June 2006, the OIG issued a "Work Plan for 2005 Gulf Coast Hurricane Disasters" to focus available resources on issues, programs, operations, and activities that expose SBA to significant risks in providing assistance to victims of the Gulf Coast hurricanes. This work plan summarizes anticipated projects based on risks identified in past disasters and our current understanding of specific risks arising from the unique

aspects of the 2005 hurricanes. For example, SBA's practice of attempting to process disaster loans quickly, using significant numbers of newly-hired employees, places the Disaster Loan program at risk. The timing and severity of the 2005 Gulf Coast hurricanes, together with operational changes in SBA's Office of Disaster Assistance that occurred just prior to, or concurrently with, the relief effort, presented additional risks.

The OIG has already completed a number of audits and reviews covering loan disbursements, controls relating to duplication of benefits, SBA's Disaster Credit Management System (DCMS), and SBA staffing during times of emergencies or catastrophes. On-going and planned reviews conducted throughout the loan cycle (i.e., origination, disbursement, use of proceeds, servicing, and liquidation) will focus on prevention of problems, including reviewing internal controls, monitoring and advising agency officials on precedent-setting decisions, and assessing the quality of loans.

The unprecedented volume of SBA disaster loans, coupled with the external pressure on the Agency to make loans quickly, also opens the door to potential widespread fraud in obtaining benefits. The OIG has undertaken a number of proactive investigative efforts, including fraud awareness briefings, and has a number of ongoing investigations.

Delays in Disaster Loan Disbursements Primarily Borrower Driven

Although, as of May 27, 2006, SBA had approved over \$9 billion in disaster loans for victims of the Gulf Coast hurricanes, SBA reported that it had disbursed only \$1.4 billion (14 percent) of the loans approved.

To determine the reasons for this low rate of disbursement, and to identify any impediments in the loan closing and disbursement processes that were affecting SBA's ability to provide timely assistance to disaster victims, we reviewed 220 approved loans – totaling \$16.1 million – that were in various stages of closing and disbursement. Our review revealed that no problems were encountered for 81 (37 percent) of the loans. The remaining 139 loans (63 percent) experienced processing issues that were primarily attributed to the borrowers. These issues included: delays by the borrowers in filing loan

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Significant OIG Activities

closing documents (49 loans); indecision or reluctance on the part of the borrowers to proceed with the loans (47 loans); and delays by SBA in processing loan modifications filed by borrowers to change the terms and conditions of the loans or to update borrower information, because SBA was processing new loan requests ahead of modifications (40 loans). Because disbursement delays were largely borrower-driven, the OIG made no recommendations. However, the OIG has initiated an audit of SBA's loan modification process to determine whether improvements are needed to more expeditiously process such actions. In response to the OIG's report, the Agency stated that it had realigned work assignments to dedicate staff to the processing of loan modifications.

DCMS Upgrade Project Needs to Be Reaccredited

In December 2005, SBA initiated an upgrade of DCMS to expand user capacity, provide a more a reliable disaster recovery environment, and improve the test environment for fine tuning and upgrading application modules over the long-term. Because the upgrade involved significant changes to DCMS, the OIG reviewed the upgrade project to determine whether SBA had completed a security reaccreditation of the system as required by Federal Standards issued by the National Institute of Standards and Technology (NIST). The OIG determined that the project did not include a reaccreditation and recommended that a full reaccreditation of the DCMS upgrade project be made before placing the system upgrade into production. The Agency concurred and stated it would perform an interim accreditation before the system was deployed in June 2006 and a full accreditation no later than October 2006.

Changes Needed in DCMS Upgrade Project Performance Test Plan

The OIG also reviewed SBA's performance test plan for DCMS to identify any disparities between system requirements approved by the Agency's Business Technology Investment Council and the performance test success criteria in the DCMS Upgrade Performance Test Plan. The review disclosed that system acceptance was not based on testing for the maximum number of expected users – the Agency was only planning to test the system for a maximum of 2,000 concurrent users before accepting it, although the system was supposed to support 10,000 concurrent users. We recommended that the SBA modify its test plans and continue to improve and fine tune future system upgrades and enhancements.

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Flexible Staffing Could Aid Disaster Loan Processing

During catastrophic events, SBA should have the flexibility and capability to redeploy and expand personnel resources to ensure timely loan processing assistance is provided to disaster victims. However, SBA was not able to fully use its regional, district and branch offices to help process the large volume of Gulf Coast disaster loans because these offices did not have access to DCMS. DCMS also could not accommodate more than 1,500 concurrent users, and SBA personnel working outside of SBA's Forth Worth, Sacramento, and Buffalo facilities did not have access to the system. Given the planned increases in DCMS capacity, the OIG believes that SBA should further enhance DCMS capability to allow access to other SBA personnel and third-party contractors to provide disaster assistance and process disaster loans. Therefore, the OIG recommended that the Agency: (1) establish a catastrophic disaster plan that includes flexible staffing of

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SBA personnel assets Agency-wide, and (2) identify the infrastructure requirements that would be needed in the event of full activation of the flexible staffing catastrophic disaster plan. The Agency concurred with the recommendations.

Better Controls Needed to Prevent Duplication of Benefits

In September 2006, the OIG issued an advisory report on a preliminary assessment of controls to prevent the duplication of disaster assistance benefits being disbursed under a Department of Housing and Urban Development (HUD) program by the Mississippi Development Authority (MDA). Federal law mandates that recipients of Federal disaster assistance not receive overlapping or duplicative payments. Therefore, SBA must be able to identify disaster loans that may be impacted by grant assistance and take appropriate action to ensure that individuals do not receive assistance for losses for which they have been compensated by other programs or sources. MDA is distributing HUD grants of up to \$150,000 to Gulf Coast residents to rebuild their hurricane-damaged homes. Approximately \$500 million in SBA loans could be affected by the MDA grants, and similar grant distribution programs are planned by other Gulf Coast States.

...SBA must be able to identify disaster loans that may be impacted by grant assistance...

... controls are needed to ensure that material financial transactions are properly executed in accordance with Federal guidance and regulations.

The OIG found that SBA had not taken adequate steps to: (1) coordinate aid distribution efforts with MDA; (2) identify disaster loans to be impacted by the HUD grants; or (3) adequately test data transfer mechanisms to ensure that information shared between agencies is safeguarded and that duplicate benefit transactions are properly recorded for

financial reporting purposes. Consequently, controls are needed to ensure that material financial transactions are properly executed in accordance with Federal guidance and regulations.

The OIG recommended that SBA: (1) establish key tasks and time frames for coordinating disaster assistance; (2) ensure that a Memorandum of Understanding (MOU) is completed with all States planning to distribute HUD grants; (3) complete an assessment of SBA loans to be impacted by State-administered HUD grants; and (4) execute test plans and procedures to ensure that data transferred between agencies is processed correctly, loans are accurately adjusted before grant funds are disbursed, and financial transactions are properly initiated, recorded, processed, and reported in the Agency's financial statements.

The Agency generally agreed with the OIG's recommendations, but took the position that the entity providing the additional funding is responsible for assuring there is no duplication of benefits. SBA's Office of Disaster Assistance is also completing necessary MOUs with States receiving HUD grants to establish necessary data exchange protocols needed to determine the amount of any duplicate benefits, and issuing operational procedures for the processing of loan modifications resulting from State programs.

OIG Issues Small Business Contracting Review Guide

The Stafford Act recognizes that the local economy is stimulated when contracts are awarded to small, disadvantaged and local businesses. Also, the Small Business Act requires the President to establish annual government-wide goals where 23 percent of all Federal procurements are awarded to small businesses. Hence, the Federal Government is committed to providing preference to locally-owned

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businesses when agencies enter into contracts in response to a disaster. Following the 2005 Gulf Coast hurricanes, Members of the House and Senate Small Business Committees, Members of Congress from the Gulf Coast region, and Gulf area local leaders all expressed concern over whether small businesses were receiving a sufficient number of Federal disaster contracts, and whether agencies were accurately reporting on small business contract awards. To address these issues, the OIG, as part of the PCIE Contracting Subgroup, issued a

This guide...will help verify and validate compliance with small business requirements in the awarding of Gulf Coast Hurricane relief contracts.

“Small Business Review Guide” to aid other OIGs in reviewing small business contracts related to the Gulf Coast hurricanes. This guide, which is designed to supplement contract reviews conducted by agencies that are participating in the disaster recovery, will help verify and validate compliance with small business requirements in the awarding of Gulf Coast hurricane relief contracts.

Multi-Agency Effort Identifies Gulf Coast Hurricane Fraud

The OIG is participating in a multi-agency Hurricane Katrina Fraud Task Force, headed by the Department of Justice’s Criminal Division, which targets individuals who have made false claims to obtain hurricane-related government benefits. By identifying individuals who have defrauded even one government program, the task force is able to prevent fraud by the same individuals in other programs. In one case, a joint task force investigation resulted in the indictment of a Texas man for wire fraud, mail fraud, and identity theft. He had filed multiple applications for FEMA benefits as a result of Hurricanes Katrina and Rita, fraudulently claiming to have resided at multiple locations in the disaster areas when the hurricanes struck. In reality, he was residing in the Houston, Texas area. As a result of these false claims, he received approximately \$35,000 in cash benefits from FEMA. These false claims also caused the man to be eligible for SBA disaster loan benefits.

...a multi-agency Hurricane Katrina Fraud Task Force...targets individuals who have made false claims to obtain hurricane-related government benefits.

OIG Continues to Uncover Fraud in Disaster Loans made to Small Business Victims of the September 11th Terrorist Attacks

SBA disbursed over \$1.1 billion in disaster assistance loans in response to the September 11th terrorist attacks. As with other disasters, the need to disburse funds quickly to the victims of the September 11th attacks created opportunities for dishonest applicants to commit fraud. Because loan repayments are typically deferred, problems often do not emerge immediately.

The OIG has investigated and obtained the prosecution of numerous parties who took advantage of this national tragedy. For example, the owner of a manufactured home sales dealership obtained a \$487,600 SBA disaster loan for economic injury allegedly resulting from the September 11th terrorist attacks. He claimed that the finance company he used was located in New York and had stopped financing manufactured homes because of the tragedy. However, our investigation disclosed that the finance company was actually located in Vermont and that

The OIG has investigated and obtained the prosecution of numerous parties who took advantage of this national tragedy.

the company’s decision to stop financing manufactured homes in September 2001 had nothing to do with the terrorist attacks. Moreover, the investigation found that the business owner used the proceeds to pay

Significant OIG Activities

himself \$405,000 – allegedly as repayment for an officer loan. The owner was sentenced to 30 months imprisonment and 5 years probation, and was ordered to pay restitution of nearly \$835,000 as a result of his earlier guilty plea to mail fraud and bank fraud. The Federal Bureau of Investigation (FBI) handled the bank fraud charge, which involved defrauding a lender of more than \$347,000.

Inspector General Testifies About “Lessons Learned” from Response to the September 11th Terrorist Attacks

On July 13, 2006, the Inspector General testified before the House Committee on Homeland Security, Subcommittee on Management, Integration and Oversight, about (1) an OIG audit of a special SBA loan program intended to assist small businesses harmed by the 9-11 terrorist attacks, and (2) the OIG’s proactive efforts to detect and prosecute fraud by persons who wrongfully obtained financial assistance in connection with the terrorist attacks.

Under the Supplemental Terrorist Activity Relief (STAR) loan program, SBA guaranteed loans by private lenders to assist small businesses affected by the 9-11 attacks. The OIG’s audit of this program, which was issued in December 2005, found that the Agency did not implement adequate internal controls and oversight to ensure that only borrowers who had actually been harmed by the terrorist attacks obtained STAR loans. The OIG reviewed bank files for a sample of the STAR loans and could not determine from the lenders’ documentation for 85 percent of these loans whether the borrowers had actually been injured by the terrorist attacks. In addition, borrowers on many of these loans, when interviewed by the OIG, could not recall being asked whether they had ever been harmed by the terrorist attacks. The OIG audit recommended corrective measures to prevent similar problems in the event of a comparable program in the future.

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The Inspector General also testified about OIG efforts to investigate and prosecute loan fraud related to the terrorist attacks. The OIG opened 51 cases relating to 9-11 loan fraud. As of the date of the hearing, these investigations had resulted in 10 indictments, 10 convictions, and over \$1 million in restitution and settlements.

Significant OIG Activities

Small Business Access to Capital

SBA has a financial assistance portfolio of small business loans and financings exceeding \$58 billion. With more than 5,000 lenders authorized to make SBA loans, the Section 7(a) Loan Guaranty program is SBA's largest lending program and the principal vehicle for providing small businesses with access to credit they cannot obtain elsewhere. This program is vulnerable to fraud and unnecessary losses because it relies on numerous third parties (including borrowers, loan agents, and lenders) to complete loan transactions. Approximately 80 percent of loans guaranteed annually by SBA are made by lenders to whom SBA has delegated loan-making authority. Additionally, SBA has centralized many loan functions and reduced the number of staff performing these functions. As SBA has placed more responsibility and independence on its lenders, the importance of OIG oversight has increased significantly.

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The Small Business Investment Company (SBIC) program was established in 1958 to stimulate and supplement the flow of private equity capital and long-term debt to small business concerns using private venture capital firms and SBA-guaranteed funding. Small and emerging contractors who cannot obtain surety bonds through regular commercial channels can apply for SBA bonding assistance under the Surety Bond Guaranty program.

Quality Assurance Reviews of Guaranty Purchase Decisions Need Strengthening

In January 2004, SBA established the National Guaranty Purchase Center (NGPC) in Herndon, Virginia, to centralize the 7(a) loan guaranty purchase process. The guaranty purchase process involves an assessment of lender compliance with SBA loan requirements to determine whether payment of a guaranty on a defaulted loan is appropriate. Purchase reviews are intended to minimize erroneous payments by ensuring that SBA purchases only those loans which were originated, closed, serviced, and liquidated in accordance with loan authorizations, prudent lending standards, SBA regulations, and other requirements.

The NGPC's Quality Assurance Review (QAR) process is intended to provide SBA with additional assurance that guaranty purchase decisions made by the Center are consistent and accurate, thereby minimizing any losses the Agency might otherwise have experienced. An OIG review of the QAR process found that, while the NGPC was reviewing loan purchase decisions, it was not examining an adequate volume of loans in the high-risk categories identified in its Quality Assurance Plan. In addition, we found that only one senior staff member was assigned to the QAR process on a part-time basis, a checklist used in the QAR process was not complete, and procedures to address identified deficiencies had not been developed. The OIG made five recommendations to correct these problems. In response to the report, SBA agreed to take steps to strengthen the QAR process.

...the NGPC...was not examining an adequate volume of loans in the high-risk categories identified in its Quality Assurance Plan.

Significant OIG Activities

SBA's Purchase Review Process for Backlogged Loans Resulted in Improper Payments to Lenders

From the time the NGPC was established in January 2004, until it began processing lender purchase requests in March 2004, a backlog of 1,039 purchase requests accrued. In order to eliminate this backlog, the Agency detailed Headquarters personnel to the Center in April 2004 to perform purchase reviews of the backlogged purchase requests. The OIG reviewed 13 out of 115 backlogged loans that had been transferred to liquidation within 18 months of approval, and had a purchase review prior to August 31, 2004. The purpose of our audit was to evaluate the quality of the Agency's purchase review process to determine whether it was sufficient to reduce improper payments to lenders. We identified deficiencies in the purchase reviews of 9 of the 13 loans sampled, 2 of which had multiple deficiencies. Deficiencies included: failure to identify over-disbursements on 2 CAPLines loans and missing information needed to accurately determine the guaranty purchase amount on another CAPLines loan; inadequate support for equity injection on 4 loans; unsupported use of proceeds on 3 loans; and unsecured collateral and a lender's over-accrual of interest on 1 loan. While the problems identified by our audit were not reflective of the NGPC's current purchase review procedures, the significant number of deficiencies identified indicated that a high rate of improper payments may have occurred for the backlogged loans transferred to liquidation within 18 months of loan approval. Therefore, we recommended that SBA re-examine backlogged loans with a high risk of improper payments and develop a purchase review form for CAPLines loans to ensure these types of loans are adequately reviewed in the future.

We identified deficiencies in the purchase reviews of 9 of the 13 loans sampled...

We issued individual audit reports on 5 of the 13 loans, which we determined collectively had resulted in more than \$1 million in improper payments. One of these reports, which was issued during this reporting period, revealed that the lender did not disclose a material fact to SBA regarding the lack of independence of the company that performed the valuation of the assets purchased with the loan proceeds. The lender also made a false statement to SBA regarding the same company in connection with the asset injection valuation. These deficiencies were not detected during the guaranty purchase process. As a result, SBA erroneously paid \$373,258 on the loan guaranty, which we recommended be recovered from the lender.

...the lender did not disclose a material fact to SBA regarding the lack of independence of the company that performed the valuation of the assets...

OIG Identifies Problems with Policies and Procedures for SBA's Largest Guaranteed Loan Program

The OIG issued an advisory memorandum identifying concerns with the policies and procedures of the SBAExpress and CommunityExpress programs. The majority of SBA loans are made under the SBAExpress program (72 percent of 7(a) loans in FY 2005); therefore, the problems identified were significant. The report raised five concerns about the Express programs: (1) although the SBAExpress program has been in existence for over 11 years, SBA had not issued any regulations to govern the program; (2) the Agency's program guide contained provisions that conflicted with SBA regulations, and possibly the Small Business Act; (3) the program guide lacked sufficient criteria to allow SBA to identify whether an applicant lender presented an undue risk to the Agency, and appeared to impose more stringent requirements on lenders with previous SBA program experience; (4) certain

...although the SBAExpress program has been in existence for over 11 years, SBA had not issued any regulations to govern the program...

Significant OIG Activities

provisions in the program guide were ambiguous and did not provide sufficient guidance to lenders that SBA could rely on for enforcement actions; and (5) the Agency was relying on a program guide for the CommunityExpress program that was never officially cleared or issued by SBA, but that had been posted on the SBA lending website as official SBA policy.

Dishonest Loan Agents Continue to Exploit SBA Loan Programs

Applicants or lenders may employ loan agents to prepare SBA loan applications and/or refer applicants to lenders (or lenders to applicants). While honest loan agents can help small businesses gain access to capital, dishonest agents have perpetrated fraud involving hundreds of millions of dollars in loans. Loans involving loan agent fraud often default for non-payment. Unless a lender was aware of the fraud, SBA must then purchase the guaranteed portions of the loans. Unscrupulous loan agents can also conspire with others to commit crimes, sometimes for significant financial gain.

...dishonest agents have perpetrated fraud involving hundreds of millions of dollars...

In one case, a joint investigation with the FBA disclosed that a loan agent and several co-conspirators falsely obtained nine SBA-guaranteed loans totaling \$9.5 million for convenience stores in Texas. All of the loans subsequently defaulted, and SBA's guaranteed portion was nearly \$6.6 million. The investigation revealed a conspiracy in which borrowers would submit false and fraudulent documents, artificially inflate checking account deposits, and use loan proceeds to fund equity injections. The loan agent was sentenced to 6 months of home confinement, 200 hours of community service, and 5 years of supervised release, and was ordered to pay over \$7.3 million in restitution. He cooperated with investigators by providing information about additional SBA loan fraud and testified against other participants in the scheme.

...a loan agent and several co-conspirators falsely obtained nine SBA-guaranteed loans totaling \$9.5 million... All of the loans subsequently defaulted, and SBA's guaranteed portion was nearly \$6.6 million.

The OIG's "FY 2006 Report on the Most Serious Management Challenges Facing SBA" describes measures necessary to prevent loan agent fraud. Because SBA has little information about loan agent involvement with its loans, it simply does not know the magnitude of the loan agent problem. To remedy this, the Agency needs to systematically identify all loan agents and track their association with individual loans. This is particularly important as general oversight of loans shifts to lenders who may vary significantly in their due diligence, and because each loan agent has opportunities for contact with multiple lenders.

... the Agency needs to systematically identify all loan agents and track their association with individual loans.

Borrowers Conspire to Obtain SBA Loans

OIG investigations have found that borrowers sometimes work together to defraud both SBA and a participating lender. Most of the fraud involves providing false information when applying for a loan or misusing the proceeds of the loan. For example, as a result of a joint investigation with the Department of Homeland Security, three indictments were filed alleging that six individuals were involved in a conspiracy to provide false information when applying for SBA-guaranteed loans. The cases below, involving three different gas stations/convenience stores, illustrate the tactics used to defraud SBA and participating lenders.

Significant OIG Activities

- A part owner of a gas station/convenience store, his wife, and a loan broker were indicted on charges of conspiracy and false statements in order to obtain a \$1.35 million SBA-guaranteed loan. The owner and loan broker allegedly claimed that the owner made an equity injection of at least \$240,000 prior to loan disbursement. Moreover, his wife, a credit union employee, allegedly falsely reported that the company had a credit union account balance of over \$63,000. The loan defaulted, and SBA paid a claim of over \$1 million in June 2003. Arrest warrants have been issued, and all three defendants are fugitives. It is believed that the part owner and his wife have fled to Australia, and the loan broker has returned to his native Qatar.
- A part owner of a gas station/convenience store, his undisclosed partner, and the seller of the property were indicted on charges of conspiracy, false statements, and wire fraud in connection with a \$1.165 million SBA-guaranteed loan used to purchase the property. The three individuals allegedly conspired to falsely claim that the part owner was a U.S. citizen, a former gas station manager, and the business' sole owner. Two checks were allegedly altered to make it appear that he had made a \$250,000 down payment toward the purchase of the property. He defaulted on the loan, and SBA paid a claim of over \$1 million in November 2002.
- A company president and his brother, who was the president of a second company, were charged with false statements, conspiracy, and aiding and abetting in connection with a \$990,000 SBA-guaranteed loan made to the first company. The approved purpose of the loan was to assist in the purchase of a gasoline station/convenience store. However, the actual object of the alleged scheme was to merely refinance and consolidate delinquent debts owed by the seller using proceeds from the loan made to the "straw buyer." The loan defaulted and SBA purchased its guaranty for over \$719,000 in November 2003.

False Claims of Citizenship Continue in SBA Loan Programs

Borrowers and loan agents continue to use well-organized schemes in which prospective borrowers falsely claim to be U.S. citizens in order to obtain SBA-guaranteed loans. These loans often default quickly, with millions of dollars at risk (an individual loan can exceed \$1 million). In addition, loans to such ineligible borrowers can make financing unavailable to honest loan applicants.

These loans often default quickly, with millions of dollars at risk....

In one case, an investigation revealed that a business owner applied for a \$308,000 SBA-guaranteed loan to purchase a convenience store and falsely indicated that he was a U.S. citizen. He later applied for an additional \$870,000 SBA-guaranteed loan and failed to disclose the prior outstanding loan to the lender. The man pled guilty to making false statements. In another case, a businessman falsely reported that he was a U.S. citizen and made other misrepresentations in order to secure a \$1 million SBA-guaranteed loan. He and others, including a loan agent, submitted to the lender an inflated purchase contract falsely showing a price of \$1.32 million for a convenience store, when the true price was under \$789,000. The businessman agreed to inject \$150,000 cash into the business when, in fact, at least \$134,000 was not from him. Moreover, a bill of sale falsely showed that he had sold a New York gift shop for \$150,000. The businessman defaulted on the loan

...a businessman falsely reported that he was a U.S. citizen and made other misrepresentations in order to secure a \$1 million SBA-guaranteed loan.

Significant OIG Activities

within 1 year, and the lender lost over \$900,000. After paying its guaranty, SBA lost over \$686,000. In conjunction with pleading guilty to bank fraud, the businessman was sentenced to time served, followed by 3 years of supervised release, and was ordered to pay over \$624,000 in restitution. The OIG conducted this investigation jointly with the Texas Alcoholic Beverage Commission.

Fraudulent Schemes Used to Obtain SBA-Guaranteed Loans

Criminals use many different tactics to fraudulently obtain SBA-guaranteed loans, including false and fraudulent documents, fictitious asset claims, non-disclosure of prior criminal records or other SBA loans, misuse of loan proceeds, and manipulated property values. These tactics increase the likelihood of monetary losses to SBA and lenders. In addition to the cases previously discussed, the following examples illustrate the lengths to which prospective borrowers will go to fraudulently obtain SBA loans.

Criminals use many different tactics to fraudulently obtain SBA-guaranteed loans...

- The president of an electrical company pled guilty to a filing a false Federal income tax return that fraudulently represented \$430,500 as part of the company's cost of goods sold. The investigation disclosed that the man's cousin falsely represented to SBA that his business made \$430,500 in electrical supply sales to the electrical company, which then falsely claimed the purchases on the company's tax return. This scheme contributed to the approval of a \$1.1 million SBA loan to the purchasers of the cousin's business by making that business appear more profitable than it actually was. The cousin was charged with wire fraud.
- A part owner of a vitamin and herb company obtained a \$905,000 SBA-guaranteed loan by falsely representing that he had authorization and a guarantee from the Board of Directors. He used the loan to buy a building, represented to the Board of Directors that the company would be leasing the building from a disinterested third party, and collected excessive lease payments under a fabricated name. Moreover, the investigation determined that he diverted over \$1.5 million in company funds to purchase property and pay personal expenses. He pled guilty to forgery and money laundering and was sentenced to probation and community service and ordered to pay a fine and restitution.

OIG Issues Fraud Alert

The OIG proactively issued a notice alerting SBA employees and lenders about fraudulent schemes affecting the SBAExpress loan program. *Although an individual SBAExpress loan amount may be small, the total dollar value can be large when multiple borrowers are involved in the scheme.* Although an individual SBAExpress loan amount may be small, the total dollar value can be large when multiple borrowers are involved in a fraudulent scheme. In one case referred by a bank, the OIG is investigating a loan agent scheme involving 57 smaller loans (generally under \$50,000) in which the business applicants either did not exist or presented false business histories. The bank became aware of the fraud, so not all of the loans were made. Similar schemes are being perpetrated against other lenders. The OIG is working with lenders and will seek criminal prosecution where appropriate.

Significant OIG Activities

Small Business Development, Contracting, Education, and Training

Through its government contracting programs, SBA works to create an environment for maximum participation by small, disadvantaged, and women-owned businesses in Federal Government 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, small disadvantaged, women-owned, service-disabled-veteran-owned, and HUBZone small 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.

SBA also manages the Section 8(a) Business Development program. This program was established to provide business development assistance to small businesses owned by socially and economically disadvantaged individuals and to help them access the multi-billion dollar Federal procurement market.

In addition, SBA 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.

A High Percentage of Approved HUBZone Applicants Are Subsequently Decertified

The OIG continues to be concerned about SBA's efforts to ensure that only eligible firms participate in the HUBZone program. This program provides Federal contracting assistance to qualified small businesses located on Indian reservations and in areas where high unemployment rates or low-income levels predominate. In 2003, the OIG reviewed the program and found that controls were inadequate to ensure that only eligible firms were certified and remain certified. The OIG recommended that SBA implement a plan to ensure that an adequate number of participating companies are examined to ensure their eligibility. A program examination plan was subsequently developed and implemented, and the Agency reported that final action on the OIG's recommendation was completed in November 2004.

In 2003 the OIG reviewed the [HubZone] program and found that controls were inadequate to ensure that only eligible firms were certified and remain certified.

...while examination and recertification processes had been implemented, the results of those processes contrasted sharply with the relatively high 70 percent approval rate of initial applications.

During this reporting period, the OIG conducted a follow-up review and found that, while eligibility examination and recertification processes had been implemented, the results of those processes contrasted sharply with the relatively high 70 percent approval rate of initial applications. Specifically, we found that: (1) over 56 percent of firms were decertified or proposed for decertification as a result of program examinations; (2) over 81 percent of firms were decertified or proposed for decertification as a result of the 3-year recertification process; (3) firms proposed for decertification as a result of program examinations were not processed timely; (4) recordkeeping practices related to the program examination and recertification processes were lacking; (5) a request to the Federal Acquisition Regulation Council to revise HUBZone contract

Significant OIG Activities

certifications was not being processed in a timely manner; and (6) system modification requests in the Federal Procurement Data System-Next Generation (FPDS-NG) needed to measure HUBZone program performance were not implemented. While the implementation actions in findings 5 and 6 are outside of SBA's direct control, SBA needs to monitor progress to encourage timely implementation.

We recommended that SBA improve recordkeeping, management, and monitoring of the HUBZone program. The Associate Administrator for the HUBZone program expresses concerns about some of the OIG's conclusions, but generally agreed with the report's recommendations.

Loophole Allows Company Owned by Non-Disadvantaged Individual to Obtain 8(a) Contracts

The OIG received an anonymous complaint regarding the owner of a company in the 8(a) Business Development program. To be eligible for the program, participant owners need to be both socially and economically disadvantaged. An economically disadvantaged individual's ability to compete is impaired due to diminished capital and credit opportunities. Among other things, after admission to the program, the owner's net worth must be less than \$750,000 to be considered economically disadvantaged.

While researching this complaint, the OIG determined that the company's owner was the future beneficiary of a trust, a portion of which was valued at well over \$750,000. SBA was unaware of the trust's existence when making initial and continuing eligibility determinations for the company. The trust had provided the owner with \$100,000 in capital and the company with \$865,000 in credit. Despite the fact that capital and credit opportunities were available to the

Despite the fact that capital and credit opportunities were available to the owner, the trust was not considered a current asset...

This loophole allowed a company owned by...a non-disadvantaged person...to obtain 8(a) contracts.

owner, the trust was not considered a current asset since the company's owner did not have access to the funds without the trustees' authorization. A loophole exists in SBA's regulations because the trust was not considered an asset. This loophole allowed a company owned by an individual who had access to capital and credit (i.e., a non-disadvantaged person) to obtain 8(a) contracts. Participation by non-disadvantaged individuals reduces the opportunities available to those who are legitimately disadvantaged, diverts the energy and efforts of the SBA, and could undermine public support for the program.

The OIG recommended that the Agency perform a review to reassess the owner's economically disadvantaged status after he receives an upcoming payment from the trust, determine whether contingent assets such as trusts should be considered when assessing economic disadvantage, and determine whether any regulation changes are needed to address this issue. The Agency agreed to implement the recommendations.

Company Inappropriately Awarded 8(a) Contract

In response to another complaint, the OIG reviewed a sole source 8(a) set aside contract awarded to a dredging company to determine if the contract was awarded and performed in compliance with 8(a) Business Development program laws and regulations. The review disclosed that the company did not perform the required

...the company violated SBA's small business procurement requirements, failed to comply with the terms of its contract, and provided inaccurate information...

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percentage of work or meet the applicable size standard for the contract in question. Therefore, the company violated SBA's small business procurement requirements, failed to comply with the terms of its contract, and provided inaccurate information to the Federal Government in order to obtain the dredging contract. We recommended that SBA initiate termination proceedings and immediately suspend the company from the 8(a) Business Development program, which the Agency agreed to do.

Businesses Make Illegal Payments to Obtain 8(a) and Other Contracts

An advantage of being a Section 8(a) firm is the ability to receive sole source government contracts, i.e., contracts that are awarded without competition from other vendors. Unfortunately, bribery is sometimes used to obtain 8(a) and regular business contracts.

The SBA official was found guilty of illegally receiving bribes.

A joint SBA OIG, General Services Administration (GSA) OIG, and FBI investigation found that an 8(a) contractor and president of an engineering corporation made monthly cash payments totaling over \$30,000 to the head of the 8(a) division in an SBA district office from 2000 to 2003. In return, the SBA official used his authority to award over \$16 million in SBA 8(a) sole source contracts to the 8(a) firm. The SBA official was found guilty of illegally receiving bribes.

Moreover, a joint SBA OIG and GSA OIG investigation revealed that the same 8(a) contractor made approximately \$31,000 in illegal payments to a former manager of a firm operating restaurant franchises. The payments were made in exchange for the restaurant firm manager awarding the engineering corporation more than \$1 million in electrical contracts. In addition, the attorney for the engineering corporation's president interfered with and obstructed the investigation into illegal kickback payments made by his client.

The engineering corporation was sentenced to 4 years probation, a \$150,000 fine and a \$400 special assessment fee, and was ordered to initiate a compliance program and an audit. The president of the corporation was sentenced to 12 months home confinement with electronic monitoring, 4 years probation, 400 hours of community service, a \$150,000 fine, and a \$100 special assessment fee. The president's attorney was sentenced to 33 months in prison, 3 years supervised probation, 120 hours of community service, a \$300 special assessment fee, and the surrender of his law license. Finally, the former manager of the restaurant firm was sentenced to 1 year and 1 day imprisonment, 2 years of supervised release, and a \$100 special assessment fee.

Inspector General Testifies on Small Business Contracting

On July 12, 2006, the Inspector General testified before the Senate Committee on Small Business and Entrepreneurship regarding problems with governmental procurement activity intended for small businesses. The Small Business Act provides that 23 percent of all government contracts be awarded to small businesses every year. To meet this goal, every agency individually negotiates annual goals for small business contracts with SBA. However, a number of Federal reports have shown that many contracts that are counted towards these small business goals are actually being

...reports have shown that many contracts that are counted towards these small business goals are actually being performed by firms that do not meet SBA's criteria to be considered small.

Significant OIG Activities

performed by firms that do not meet SBA's criteria to be considered small. The Inspector General testified that this was due to three factors: (1) regulatory loopholes that allow this miscounting; (2) errors by government contracting personnel; and (3) fraud or negligence by companies in attempting to obtain small business set aside contracts. His testimony also focused on the need for regulatory and legislative changes to address these challenges, and the need for SBA to take a more aggressive approach towards working with other agencies to eliminate these flaws.

Multi-Agency Probe Examines Federal Contracting Abuse

Because some firms commit fraud to gain access to the lucrative Federal contracting market, ongoing investigations are being conducted by multiple Federal agencies. In one case, the president of two construction firms submitted false references to the U.S. Coast Guard to obtain a HUBZone contract for one of the firms, which was a HUBZone certified company at the time. He pled guilty to making a material false statement and was sentenced to 3 years probation and a \$5,000 fine.

OIG Establishes a Small Business Procurement Integrity Task Force

The OIG has established a task force made up of auditors, investigators and attorneys to focus on the issues of integrity in small business contracting and accuracy of reporting by Federal agencies on small business procurement activity. The Task Force, which is headed by the Deputy Inspector General, was formed, in part, in response to the numerous complaints that have been received over the years regarding ineligible businesses obtaining small business contracts. In addition, a significant number of large businesses were recently reported as receiving small business awards in the Federal Procurement Data System-Next Generation (FPDS-NG). The OIG Task Force will coordinate and focus audit and investigative efforts to identify reasons for, and taking appropriate actions to deter, agency misreporting and to identify fraud or lack of due diligence by contractors in bidding on small business contracts. This task force is reviewing complaints and past size determinations that found businesses to be other than small, and identifying issues for future audits.

OIG Requests Change in Federal Sentencing Guidelines

The Inspector General, joined by the SBA Associate Deputy Administrator for Government Contracting and Business Development, wrote to the United States Sentencing Commission requesting a change in the Federal Sentencing Guidelines. The letter asked the Commission to revise the sentencing guidelines to include provisions relating to the Government's loss when a contractor misrepresents either that it meets small business criteria or is disadvantaged in order to wrongfully obtain a set-aside government contract.

This initiative is an effort to address a longstanding problem in seeking prosecutions for such fraud. The sentencing guidelines provide that, in determining the extent of loss to the Government, the value of the goods or services the Government received must be subtracted from the amount the Government paid as a result of fraud. Unfortunately, in small or disadvantaged contract fraud cases, this analysis results in no governmental loss because the Government has obtained the goods or services that it contracted for. Accordingly, some prosecutors have been reluctant to prosecute these types of cases. The letter requested a revision to the sentencing guidelines so that, in such cases, the loss to the Government would be considered equal to the amount paid to the contractor. Similar provisions already exist to

This initiative is an effort to address a longstanding problem in seeking prosecutions for such fraud.

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address other criminal wrongdoing, such as violations of the Davis Bacon Act. Federal prosecutors have advised that this change would make it more likely that size and disadvantaged status fraud cases would be accepted for prosecution, thus deterring such fraudulent activity.

OIG Reports on SBA's Cosponsorships and Fee-Based Administration Sponsored Events

Section 4(h) of the Small Business Act 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 cosponsorships, and names of cosponsors. As shown in Appendix IX, between April 1 and September 30, 2006, there were 60 cosponsorships. SBA reported that it did not conduct any fee-based Administration-sponsored events during this period.

Legislation Requires Approval of SBDC Surveys

Section 21(a)(7) of the Small Business Act imposes restrictions on the disclosure of information regarding individuals or small businesses that have received assistance from an SBDC, and further restricts the Agency's use of such information. The provision also requires the Agency to issue regulations regarding disclosures of such information for use in conducting financial audits or SBDC client surveys. In 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 IG who shall include such approval in the OIG's Semiannual Report.

The Agency reported that there were no SBDC surveys requiring OIG approval during this reporting period. Although the statutory provision was enacted in December 2004, the Agency has not yet issued the required regulations regarding disclosures of client information. Agency officials advised that they continue to work on the regulations and expect to have them in clearance by the first quarter of FY 2007.

The Agency reported that there were no SBDC surveys requiring OIG approval during this reporting period.

Significant OIG Activities

Agency Management

The Chief Financial Officers Act of 1990 requires each Federal agency to have its financial statements audited annually. A key Office of Management and Budget (OMB) initiative is to have agencies improve their financial management activities, including providing financial statements and financial performance information in a more timely manner. For several years, the OIG, GAO, and external auditors all noted weaknesses in SBA's financial management and reporting controls that resulted in SBA being unable to produce reliable, timely, and accurate financial information. SBA has responded by making sound financial management and reporting a top priority, and has taken steps to make improvements. These efforts have focused primarily on improving SBA's models for estimating subsidy costs, improving controls over financial statement preparation, and correcting accounting errors in prior periods related to loan sales and subsidy cost allowances. SBA's financial management and reporting controls, however, continue to need improvement in the areas of funds management, financial accounting transactions, review of account balances, financial statement preparation, and quality assurance. The Agency must also ensure it complies with laws and regulations related to its financial management and reporting responsibilities, and ensure that it can implement new reporting and internal control requirements in an effective and timely manner.

SBA Lacks Consistent Method for Assessing the Risk of Improper Payments

The Improper Payments Act of 2002 requires Federal agencies to report on erroneous payments and the progress made in reducing them. The OIG examined the Agency's efforts to identify, correct, and report on erroneous payments and determined whether management could rely on the existing erroneous payment activities to provide several of the basic components of an effective internal control program required by OMB Circular A-123. We found that, although the Agency was performing improper payment reviews, it had not established uniform Agency-wide processes and procedures for the full range of erroneous payment risk assessment and reporting activities. For example, program offices did not consistently identify high-risk areas of vulnerability and did not maintain documentation to support whether their programs were susceptible to erroneous payments. We recommended, and the Agency agreed, to engage in more systematic risk assessments and to require program offices to submit complete improper payment estimates and status reports to improve Agency reporting.

...although the Agency was performing improper payment reviews, it had not established uniform Agency-wide processes and procedures for the full range of erroneous payment risk assessment and reporting activities.

SBA Made Limited Progress in Implementing a Strategy for Building a Skilled Acquisition Workforce

An OIG review of SBA's implementation of OMB policy directives pertaining to development of its acquisition workforce found that SBA had not completed the basic steps necessary to comply with OMB policy. SBA had not identified its acquisition workforce, collected experiential and training information on its workforce, or assessed workforce skill levels. Consequently, SBA's progress is behind that of other agencies. The OIG reported that SBA will have difficulty meeting the required deadline for having complete and current training, education, and

SBA had not identified its acquisition workforce, collected experiential and training information...or assessed workforce skill levels.

Significant OIG Activities

experience data on its employees in the Federal Acquisition Institute's database. Further, without a plan detailing how SBA will meet OMB's requirements, the Agency risks not having a highly-qualified and well-trained acquisition staff that possess the core competencies specified by OMB.

The OIG recommended, and the Agency agreed to develop a detailed plan to assist the Agency in ensuring compliance with OMB requirements.

Contract Awards for IT Services Were Not Properly Re-competed.

As a result of two anonymous complaints, the OIG conducted an audit of contract awards for IT services. We found that SBA did not properly plan for the re-competition of replacement contracts for IT services as the original contracts approached their expiration dates. As a result, the original contracts were extended beyond their performance periods.

...SBA did not properly plan for the re-competition of replacement contracts for IT services...

While this was not in violation of the Federal Acquisition Regulations or SBA policies because the services were deemed mission-critical, the extensions were clearly not the best option, nor a desirable contracting practice.

In addition, our audit report expressed concern that SBA would not complete the steps needed to re-compete the interim contracts before their expiration in March 2007. The OIG also found that the

...the awardees could have difficulty meeting certain 8(a) requirements...

awardees could have difficulty meeting certain 8(a) requirements related to the amount of work required to be performed due to their teaming relationships with much larger firms. Finally, the OIG found that SBA should have requested a current size certification for one firm prior to executing a task order for services as it appeared the

firm no longer met the applicable size standard.

The OIG recommended that SBA's Chief Operating Officer ensure that a plan is developed for re-competing the four interim replacement contracts prior to their expiration on March 31, 2007, and that increased scrutiny be provided over the awardees to ensure continued compliance with 8(a) regulations.

SBA Improperly Accepted Two Cash Gifts Prior to Obtaining a Conflict of Interest Determination

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. During this reporting period, SBA received six cash gifts totaling \$10,700 for a Small Business Week awards event. Contrary to SBA policy, two of the cash gifts were accepted by district offices without a conflict of interest determination being made by SBA's Office of General Counsel (OGC) for each donor. As of our reporting deadline, we had requested that OGC make a conflict of interest determination for the two donors and those determinations were still pending.

Number and Percentage of Overdue Management Decisions and Final Implemented Actions Have Decreased

The IG Act requires that Federal agencies make management decisions on all findings and recommendations within a maximum of 6 months of report issuance. Such decisions can take several

Significant OIG Activities

forms. Program officials may agree, disagree, or seek alternative actions to the recommendations. As of September 30, 2006, 25 management decisions on recommendations in OIG reports were overdue – approximately 41 percent of all pending management decisions. This represents a slight decrease since March 31, 2006 in the number and percentage of overdue management decisions. The Offices of Capital Access, Government Contracting and Business Development, Management and Administration, and Strategic Alliances were responsible for over half of the overdue management decisions.

A management decision includes a target date for implementing the agreed-to management decision. The number and percentage of recommendations with overdue final implemented actions has decreased – by 7 percent—since March 31, 2006. As of the end of this reporting period, 46 percent of all pending final actions were overdue. The Office of the Chief Information Officer and the Office of Management and Administration were responsible for almost half of the overdue final actions.

Significant OIG Activities

Other Significant OIG Activities

Character Screening Diminishes Potential Program Fraud

The OIG's Office of Security Operations ensures that participants in programs involving business loans, disaster assistance loans, Section 8(a) certifications, surety bond guarantees, SBICs, and certified development companies meet SBA character standards through name checks and, where appropriate, fingerprint checks. During this reporting period, the OIG processed 2,257 external name check requests for these programs.

Using data from its on-line connection with the FBI, the OIG also refers applicants who appear ineligible because of character issues to program officials for adjudication. During this reporting period, OIG

...OIG referrals resulted in SBA business loan program managers declining 36 applications totaling over \$12.6 million, and disaster loan program officials declining 140 applications totaling nearly \$8.1 million.

referrals resulted in SBA business loan program managers declining 36 applications totaling over \$12.6 million, and disaster loan program officials declining 140 applications totaling nearly \$8.1 million. Over \$280.5 million in loans have been declined during the last 10 years due to character eligibility issues, thus making credit available to other applicants who had no such issues.

In addition, based on OIG efforts during this semiannual period, the Section 8(a) program declined 5 applications for admission. The OIG also initiated 161 background investigations and issued 26 security clearances for Agency employees and contractor personnel required to have clearances, adjudicated 108 background investigative reports, and coordinated with SBA's Office of Disaster Assistance to adjudicate 334 derogatory background investigative reports. Finally, the OIG processed 1,654 internal name check requests for Agency activities such as success stories, Small Business Person of the Year nominees, and disaster assistance new hires.

OIG Recommends Debarments

The OIG believes that it is in the public interest to debar parties with a history of fraud or who otherwise lack business integrity from conducting business with the Federal Government. Accordingly, the OIG has adopted a proactive program to identify current SBA program participants for whom debarment would serve the public interest and make debarment recommendations to the SBA.

The OIG recommended that SBA debar two individuals for making false statements made in connection with an SBA-guaranteed loan in excess of three quarters of a million dollars. The OIG's investigation determined that the individuals failed to disclose that approximately 70 percent of the money they claimed they were injecting into the project from their own funds was borrowed and would have to be repaid. Use of borrowed

... individuals failed to disclose that approximately 70 percent of the money they claimed they were injecting into the project from their own funds was borrowed...

funds was prohibited by the loan documents. As a result of the excessive debt, the loan defaulted and the borrower filed for bankruptcy months after closing the loan, resulting in considerable losses of taxpayer dollars. The Agency agreed with the OIG recommendation and debarred both individuals for 3 years.

Significant OIG Activities

The OIG also recommended the debarment of a borrower who fraudulently obtained two SBA-guaranteed loans valued at over \$1.2 million. To support his loan applications, the individual submitted false information and fictitious documents to SBA lenders about his personal property value and net worth. The OIG's investigation resulted in the individual pleading guilty to multiple counts of bank fraud, submitting false loan applications, and money laundering in violation of 18 U.S.C. §§ 1344, 1014, and 1957. The Agency was considering the OIG's recommendation at the close of the reporting period.

OIG Reviews Agency Proposal to Centralize 7(a) Loan Processing

The OIG plays an important role in reviewing SBA's proposed regulations and initiatives. The OIG reviews proposals to, among other things, identify program inefficiencies and areas susceptible to fraud, waste, and abuse. The OIG's substantive comments frequently lead to marked improvement in legislation and regulations proposed by SBA or affecting SBA programs, new and revised Agency operating procedures, Agency reorganizations, and other matters requiring the Administrator's signature.

After reviewing an Agency proposal to centralize all 7(a) guaranty loan processing into two Loan Processing Centers, the OIG expressed concerns about the absence of adequate staffing analysis, and the

The OIG believed that the initial proposal did not adequately address review and processing of 7(a) loans with reduced staffing.

absence of important planning elements in the proposed centralization documents. The OIG believed that the initial proposal did not adequately address review and processing of 7(a) loans with reduced staffing. Furthermore, the OIG was concerned that reduced loan processing times could result in poor loan origination decisions and more defaulted

loans. In response to the OIG's initial concerns and comments, the Agency revised the proposal to provide clearer rationale and analysis for the planned changes.

Statistical Highlights

6-Month Productivity Statistics April 1, 2006, through September 30, 2006

Summary of Office-Wide Dollar Accomplishments

Totals

A. Potential Investigative Recoveries and Fines	\$9,993,916
B. Loans/Contracts Not Made as Result of Investigations.....	\$110,000
C. Loans Not Made as a Result of Name Checks	\$20,715,939
D. Disallowed Costs Agreed to by Management	\$107,261
E. Recommendations that Funds Be Put to Better Use Agreed to by Management.....	<u>\$0</u>
Total.....	\$30,927,116

Efficiency and Effectiveness Activities Related to Audits and Other Reports

A. Reports Issued	15
B. Recommendations Issued	48
C. Dollar Value of Costs Questioned.....	\$373,258
D. Dollar Value of Recommendations that Funds Be Put to Better Use.....	\$0
E. Collections as a Result of Questioned Costs	\$529,488

Audit and Report Follow-up Activities

A. Recommendations Closed	52
B. Disallowed Costs Agreed to by Management	\$107,261
C. Dollar Value of Recommendations that Funds Be Put to Better Use Agreed to by Management.....	\$0
D. Unresolved Recommendations.....	37

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

A. Legislation Reviewed	28
B. Regulations Reviewed	11
C. Standard Operating Procedures and Other Issuances* Reviewed	<u>44</u>
Total.....	83

* 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 April 1, 2006, through September 30, 2006

Indictments, Convictions, and Case Activity

A. Indictments from OIG Cases.....	32
B. Convictions from OIG Cases	19
C. Cases Opened	31
D. Cases Closed	24

Investigations Recoveries and Management Avoidances

A. Potential Recoveries and Fines as a Result of OIG Investigations.....	\$9,993,916
B. Loans/Contracts Not Approved as a Result of OIG Investigations.....	\$110,000
C. Loans Not Approved as a Result of the Name Check Program	<u>\$20,715,939</u>
Total.....	\$30,819,855

SBA Personnel Actions Taken as a Result of Investigations

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

Program Actions Taken as a Result of Investigations

A. Debarments Recommended to the Agency	3
B. Debarments Pending at the Agency	7
C. Proposed Debarments Issued by the Agency	7
D. Final Debarments Issued by the Agency.....	5

OIG Hotline Operation Activities

A. Total Fraud Line Calls/Letters	160
B. Total Calls/Letters Referred to Investigations Division.....	11
C. Total Calls/Letters Referred to SBA or Other Federal Investigative Agencies	4
D. Total Calls/Letters Referred to Other Entities.....	23
E. Total Calls/Letters Needing No Action	122

Statistical Highlights

Full Year Productivity Statistics October 1, 2005, through September 30, 2006

Office-wide Dollar Accomplishments	Totals
A. Potential Investigative Recoveries and Fines	\$29,665,125
B. Loans/Contracts Not Made as Result of OIG Investigations	\$116,200
C. Loans Not Made as Result of Name Checks	\$42,179,311
D. Disallowed Costs Agreed to by Management	\$563,463
E. Recommendations that Funds Be Put to Better Use Agreed to by Management.....	<u>\$25,000</u>
Total.....	\$72,549,099

Efficiency and Effectiveness Activities

A. Reports Issued	35
B. Recommendations Issued	108
C. Dollar Value of Costs Questioned.....	\$854,624
D. Dollar Value of Recommendations that Funds Be Put to Better Use.....	\$0
E. Collections as a Result of Questioned Costs	\$1,199,443

Follow-up Activities

A. Recommendations Closed	122
B. Disallowed Costs Agreed to by Management	562,463
C. Dollar Value of Recommendations that Funds Be Put to Better Use Agreed to by Management.....	\$25,000
D. Unresolved Recommendations.....	136

Legislation/Regulations/SOPs/Other Reviews

A. Legislation Reviewed	35
B. Regulations Reviewed	24
C. Standard Operating Procedures and Other Issuances* Reviewed	<u>102</u>
Total.....	161

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

Statistical Highlights

Full Year Productivity Statistics October 1, 2005, through September 30, 2006

Summary of Indictments, Convictions, and Case Activity

A. Indictments from OIG Cases.....	55**
B. Convictions from OIG Cases	32**
C. Cases Opened	59
D. Cases Closed	53

Summary of Recoveries and Management Avoidances

A. Potential Recoveries and Fines as a Result of OIG Investigations.....	\$29,665,125
B. Loans/Contracts Not Approved as a Result of OIG Investigations.....	\$116,200
C. Loans/Contracts Not Approved as a Result of the Name Check Program	<u>\$42,179,311</u>
Total.....	\$71,960,636

SBA Personnel Actions Taken as a Result of Investigations

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

Program Actions Taken as a Result of Investigations

A. Debarments Recommended to the Agency	11
B. Debarments Pending at the Agency	7
C. Proposed Debarments issued by the Agency.....	13
D. Final Debarments issued by the Agency	12

Summary of OIG Hotline Operation

A. Total Fraud Line Calls/Letters.....	408
B. Total Calls/Letters Referred to Investigations Division	39
C. Total Calls/Letters Referred to SBA or Other Federal Investigative Agencies.....	31
D. Total Calls/Letters Referred to Other Entities	54
E. Total Calls/Letters Needing No Action.....	284

** Includes four indictments/convictions that occurred in the prior fiscal year but were not previously reported.

Appendices

Appendix I OIG Reports Issued April 1, 2006, through September 30, 2006

Title	Report Number	Issue Date	Questioned Costs	Funds for Better Use
<i>Disaster Loans</i>				
DCMS Upgrade Needs a System Certification and Accreditation.	6-21	4/27/06	\$0	\$0
DCMS- Performance Test Plans	6-24	6/8/06	\$0	\$0
Preliminary Assessment of Controls over the Coordination of Disaster Assistance Benefits Distributed by Mississippi Development Authority's Grant Assistance Program	6-28	9/25/2006	\$0	\$0
Loan Disbursements Following the 2005 Gulf Coast Hurricanes	6-29	9/19/06	\$0	\$0
Flexible Staffing of SBA Personnel During Times of Emergencies or Catastrophes to Aid Disaster Loan Processing	6-31	9/25/06	\$0	\$0
Program Subtotal	5		\$0	\$0
<i>Small Business Access to Capital</i>				
Audit of an SBA Guarantied Loan	6-22	5/17/06	\$373,258	\$0
Survey of the Quality Assurance Review Process	6-26	7/12/06	\$0	\$0
Management Advisory Report- Policies and Procedures for the SBAExpress and Community Express Loan Programs	6-34	9/29/06	\$0	\$0
Audit of Deficiencies in OFA's Purchase Review Process for Backlog Loans	6-35	9/29/06	\$0	\$0
Program Subtotal	4		\$373,258	\$0
<i>Small Business Development, Contracting, Education, and Training</i>				
HUBZone Program Examination and Re-certification Processes	6-23	5/23/06	\$0	\$0
Concerns Related to a Company's Compliance with 8(a) Business Development Program Requirements	6-27	9/8/06	\$0	\$0
Economically Disadvantaged Status of an 8(a) Program Participant's Owner	6-32	9/25/06	\$0	\$0
SBA's Acquisition Personnel Education and Training	6-33	9/29/06	\$0	\$0
Program Subtotal	4		\$0	\$0

Appendices

Appendix I
OIG Reports Issued
April 1, 2006, through September 30, 2006

Title	Report Number	Issue Date	Questioned Costs	Funds for Better Use
<i>Agency Management</i>				
SBA'S Implementation of the Improper Payments Information Act	6-25	6/13/06	\$0	\$0
Office of the Chief Information Officer (OCIO) Contract Awards for Agency Mission-Critical Services	6-30	9/25/06	\$0	\$0
Program Subtotal	2		\$0	\$0
TOTALS (all programs)	15		\$ 373,258	\$0

Appendices

Appendix II OIG Reports with Questioned Costs

		Reports	Recommendations*	Questioned Costs**	Unsupported Costs**
A.	No management decision made by March 31, 2006	7	9	\$4,134,459	\$3,086,077
B.	Issued during this reporting period	1	1	\$373,258	\$0
	Universe from which management decisions could be made in this reporting period – Subtotals	8	10	\$4,507,717	\$3,086,077
C.	Management decision(s) made during this reporting period	3	3	\$2,288,386	\$2,181,125
	(i) Disallowed costs	2	2	\$107,261	\$0
	(ii) Costs not disallowed	1	1	\$0	\$2,181,125
D.	No management decision made by September 30, 2006	5	7	\$2,219,331	\$904,952

* 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 March 31, 2006	1	1	\$293,823
B.	Issued during this reporting period	0	0	\$0
	Universe from which management decisions could be made in this reporting period – Subtotals	1	1	\$293,823
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 September 30, 2006	1	1	\$293,823

*Reports may have more than one recommendation.

Appendices

Appendix IV OIG Reports with Non-Monetary Recommendations

		Reports	Recommendations
A.	No management decision made by September 30, 2005	26	83
B.	Issued during this reporting period	13	47
	Universe from which management decisions could be made in this reporting period – Subtotals	39	130
C.	Management decision(s) made (for at least one recommendation in the report) during this reporting period	17	55
D.	No management decision made (for at least one recommendation in the report) by March 31, 2006 *	29	75

*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.

Appendices

Appendix V OIG Reports From Prior Semiannual Periods with Overdue Management Decisions as of September 30, 2006

Title	Report Number	Date Issued	Status
Impact of Loan Splitting on Borrowers and SBA	2-31	9/30/02	Agency response does not fully address the recommendation.
Audit of SBA's Information Systems Controls FY 2003	4-19	4/29/04	Agency has not responded to one recommendation made in the report.
Audit of San Francisco District Office Administrative Activities Related to the Silicon Valley Small Business Development Center	4-27	6/29/04	Management has not responded to one recommendation made in the report.
Audit of an SBA-Guaranteed Loan to Elatec Technology Corporation and HK Equipment, Inc.	4-40	9/13/04	Agency response does not fully address the recommendation.
Audit of Early Defaulted Loan to Big Z Travel Center	4-43	9/17/04	Management has not responded to one recommendation made in the report.
Audit Report – Summary Audit of SBA-Sponsored and Cosponsored Events Conducted by District Offices	4-44	9/24/04	Management has not responded to two recommendations made in the report.
Review of Indirect Cost Rate of the Walsh Group, P.A.	5-03	10/25/04	Management has not responded to one recommendation made in the report.
Single Audit of the Mountain Made Foundation	5-08	1/6/05	Management has not responded to three recommendations made in the report.
Review of a Cooperative Agreement to HP Small Business Foundation	5-11	2/11/05	Agency has not responded to one recommendation made in the report.
Defaulted 9/11 Disaster Loan to CLB Publishers Inc.	CP 5-02	2/14/05	Agency response does not fully address the recommendation.
Audit of SBA's Information Systems Controls FY 2004	5-12	2/24/05	One recommendation is in management resolution.
SBA Small Business Procurement Awards are Not Always Going to Small Businesses	5-14	2/24/05	Agency has not responded to one recommendation made in the report.
Review of the Mentor-Protégé Program	5-18	4/18/05	Agency has not responded to four recommendations made in the report.
Audit of the Contract Bundling Process	5-20	5/20/05	Agency has not responded to four recommendations made in the report.
Audit of the SBIC Liquidation Process	5-22	7/28/05	Four recommendations are in management resolution.

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Appendix V OIG Reports From Prior Semiannual Periods with Overdue Management Decisions as of September 30, 2006

Title	Report Number	Date Issued	Status
Review of SBA Procedures for Cash Gifts	5-28	9/30/05	Agency has not responded to three recommendations made in the report.
Independent Evaluation of SBA's Information Security Program	6-01	10/7/05	Agency has not responded to one recommendation made in the report.
Single Audit of Greenpoint Manufacturing and Design Center	6-03	10/18/05	Agency has not responded to one recommendation made in the report.
Review of the 1502 Reporting Process	6-07	12/9/05	Two recommendations made in the report are in management resolution.
SBA's Information System Controls for FY 2005	6-08	12/22/05	One recommendation made in the report is in management resolution. Agency has not responded to one recommendation made in the report.
SBA's Administration of the Supplemental Terrorist Activity Relief (STAR) Loan Program	6-09	12/23/05	One recommendation made in the report is in management resolution.
SBA's FY 2005 Financial Statements Management Letter	6-10	1/18/05	Management has not responded to three recommendations made in the report.
Human Capital Planning in SBA's Office of Financial Assistance	6-13	3/02/06	Agency has not responded to one recommendation made in the report.
Improvement is needed in Interface Error Correction Between SBA's DCMS and FEMA's NEMIS	6-20	3/31/06	Management has not responded to one recommendation made in the report.

Appendices

Appendix VI OIG Reports Without Final Action as of September 30, 2006

Report Number	Title	Date Issued	Date of Management Decision	Final Action Target Date
43H0060	8(a) Continuing Eligibility Reviews	9/30/94	12/30/94	10/30/02
0-14	7(a) Service Fee Collections	3/30/00	8/22/00	12/31/04
0-19	SDB Certification Program Obligations and Expenditures	6/30/00	3/30/01	9/30/02
0-30	SBA's Administration of MBELEDF Cosponsorship	9/30/00	3/26/01	**
1-11	GPRA for the MSB & COD Program	3/27/01	9/28/01	7/31/03
1-16	SBA's Follow-up on SBLC Examinations	8/17/01	9/25/01	**
A1-06	Evaluation of SBA's Computer Security Program	9/28/01	1/9/02	**
2-17	SBA's FY 2001 Financial Statements – Management Letter	4/12/02	12/12/02	9/30/03
2-18	SBA's Information Systems Controls – FY 2001	5/6/02	***	**
3-08	SBA's Oversight of the Fiscal Transfer Agent for the 7(a) Loan Program	1/30/03	***	**
3-10	504 Loan Program Oversight	2/6/03	10/1/03	6/30/05
3-14	TEP Consulting, Inc.	3/14/03	4/10/03	12/31/03
3-20	SBA's Information System Controls for FY 2002	3/31/03	***	**
3-26	Microloan Program: Moving Toward Performance Management	5/13/03	***	**
3-30	Audit of an Early Defaulted Loan	6/19/03	12/21/04	9/30/06
3-33	SBIC Oversight	7/1/03	***	4/30/05
3-35	National Women's Business Council	7/28/03	***	**
4-09	Review of SBA Purchase Cards	1/26/04	8/24/04	3/31/05
4-13	Audit of an Early Defaulted Loan	3/2/04	4/6/04	1/31/05

** Target dates vary with different recommendations.

*** Management decision dates vary with different recommendations.

Appendices

Appendix VI OIG Reports Without Final Action as of September 30, 2006

Report Number	Title	Date Issued	Date of Management Decision	Final Action Target Date
4-15	SACS/MEDCOR: Ineffective and Inefficient	3/9/04	5/11/04	9/30/05
4-16	SBA's Administration of the Procurement Activities of Asset Sale Due Diligence Contracts and Task Orders	3/17/04	***	**
4-17	SBA's FY 2003 Financial Statements – Management Letter	3/23/04	5/14/04	**
4-19	SBA's Information Systems Controls – FY 2003	4/29/05	***	**
4-22	Business Development Provided by the 8(a) Business Development Program	6/2/04	7/14/04	**
4-27	Audit of San Francisco District Office Administrative Activities Related to the Silicon Valley Small Center	6/29/04	12/29/04	**
4-28	Audit of SBA-Guarantied Loan	7/9/04	10/6/04	3/31/05
4-29	Audit of an Early Defaulted Loan	7/12/04	10/6/04	4/26/06
4-32	Audit of SBA-Guarantied Loan	7/29/04	10/6/04	3/31/05
4-34	SBA's Process for Complying with the FMFIA Reporting Requirements	7/29/04	9/9/04	4/30/05
4-35	Single Audit of Federal Financial Assistance Program Service Corps of Retired Executives (SCORE)	8/03/04	1/12/05	6/30/05
4-36	Audit of an Early Defaulted Loan	8/10/04	10/6/04	3/31/05
4-39	Memorandum Advisory Report – the Transfer of Operations to the National Guaranty Purchase Center	8/31/04	***	9/30/05
4-41	Audit of Selected SBA General Support Systems	9/10/04	***	**
4-44	SBA-Sponsored and Cosponsored Events Conducted by District Offices	9/24/04	***	**

** Target dates vary with different recommendations.

*** Management decision dates vary with different recommendations.

Appendices

Appendix VI OIG Reports Without Final Action as of September 30, 2006

Report Number	Title	Date Issued	Date of Management Decision	Final Action Target Date
5-02	Advisory Memorandum Report- Independent Evaluation of SBA's Information Security Program	10/7/04	2/4/05	9/30/05
5-03	Review of Indirect Cost Rate of the Walsh Group, P.A.	10/25/04	1/12/05	6/30/05
5-04	Review of the Small Disadvantaged Business Certification Program	11/4/04	4/1/05	**
5-09	Memorandum Advisory Report – Pre-Demand and Demand Letters for Delinquent 9/11 Disaster Loans	1/11/05	3/8/05	7/10/05
5-12	Audit of SBA's Information Systems Controls – FY 2004	2/24/05	***	**
5-17	SBA's Continuity of Operations Planning Program	3/30/05	5/3/05	**
5-23	SBA's Administration of its Special Appropriation Grant	9/24/04	***	**
5-24	Criteria For Overcoming The Presumption of Social Disadvantage Is Needed	9/28/05	***	**
5-26	Audit of SBA-Guarantied Loan	9/25/05	2/6/06	5/31/06
5-28	Review of SBA Procedures For Cash Gifts	9/30/05	2/23/06	6/30/06
6-01	Independent Evaluation Of SBA's Information Security Program	10/7/05	***	**
6-07	Review of the 1502 Reporting Process	12/9/05	***	**
6-08	SBA's Information Systems Controls For FY 2005	12/22/05	8/14/06	9/29/06
6-14	Audit of SBA-Guarantied Loan	3/2/06	6/21/06	7/3/06
6-16	Audit of SBA-Guarantied Loan	3/20/06	4/24/06	6/30/06
6-17	Audit of SBA-Guarantied Loan	3/20/06	4/24/06	6/30/06

** Target dates vary with different recommendations.

*** Management decision dates vary with different recommendations.

Appendices

Appendix VII Significant Recommendations From Prior Semiannual Reporting Periods Without Final Action as of September 30, 2006*

Report Number	Date Issued	Recommendation	Management Decision Date	Final Action Target Date
43H006021	9/30/94	Establish procedures for determining whether Section 8(a) participants should no longer be considered economically disadvantaged based on their ownership interest in their 8(a) firm, the equity and market value of their primary residence, and the net worth of their spouses.	10/30/94	10/30/02
1-11	3/27/01	Ensure that 8(a) performance plans include indicators for determining how effectively and efficiently the Section 8(a) program is operating.	9/28/01	7/31/03
2-12	3/20/02	Develop a formal policy regarding effective supervisory and enforcement actions for Small Business Lending Companies.	8/27/02	3/31/07
2-18	5/6/02	Develop an Agency-wide information security plan to establish and implement the policies, procedures and practices for the following: (1) full integration of the information security approach and implementation process; (2) coordination among program offices to support their security needs; (3) guidance to the program office to implement information system security controls; and (4) methods to monitor the effectiveness of each part of information technology security.	6/28/02	3/1/05
3-08	1/30/03	Initiate a new procurement action for fiscal and transfer agent (FTA) activities and terminate the existing contract with the FTA when a new contract can be enacted.	12/10/03	3/31/06
3-08	1/30/03	Review FTA activities and identify contract costs for fees and services. Report these contract costs in proposed Master Reserve Fund (MRF) financial statements so future FTA contracts will have historical cost data for comparison purposes.	10/15/03	3/31/06

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

Appendices

Appendix VII Significant Recommendations From Prior Semiannual Reporting Periods Without Final Action as of September 30, 2006*

Report Number	Date Issued	Recommendation	Management Decision Date	Final Action Target Date
3-10	2/6/03	Design a review guide to incorporate performance aspects to address financial risk, address the specific requirements of the Section 504 loan program, and incorporate a performance-driven scoring system.	10/01/03	6/30/06
3-33	7/1/03	Revise SOP on SBICs to ensure it includes requirements to perform quarterly risk assessments for capitally impaired SBICs, include an analysis of potential for repayment of outstanding leverage, and determine what criteria should be used to recommend an SBIC be transferred to liquidation.	10/6/03	6/30/06
3-33	7/1/03	Revise SOP 10 06 to ensure that the implementation of restrictive operations addresses: (1) appropriate levels of impairment requiring restrictive operations; (2) time periods SBICs should remain in restrictive operations; (3) appropriateness of remedies or combination of remedies that should be used and under what circumstances; and (4) whether forbearance regulations preclude the application of restrictive operations.	10/20/04	6/30/06
4-28	7/9/04	Seek recovery of \$142,549 from the 7(a) lender.	10/6/04	3/31/05
4-36	8/10/04	That the Associate Administrator seek recovery of the SBA guaranty repair of \$740,000 from the 7(a) lender.	10/6/04	3/31/05

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

Appendices

Appendix VII
Significant Recommendations
From Prior Semiannual Reporting Periods
Without Final Action as of September 30, 2006*

Report Number	Date Issued	Recommendation	Management Decision Date	Final Action Target Date
4-39	8/31/04	Determine the appropriate number of loan officers, supervisors and attorneys to be assigned to the Herndon center by (1) establishing the elements of quality for the purchase and liquidation action review process; (2) determining how much time it takes to complete a quality review at each level (loan officer, supervisor, attorney); and (3) computing the staffing levels needed to complete the estimated annual purchase and liquidation action workloads at an acceptable level of quality.	4/13/05	9/30/05
5-04	11/4/04	That the Acting Associate Administrator for Business Development develop and implement procedures to ensure that Small Disadvantaged Business (SDB) reviewers properly apply all four criteria for determining economic disadvantage, per 13 CFR 124.104(c), using 8(a) Program thresholds for maximum income and total assets, and industry financial performance comparisons.	4/1/05	9/30/05
5-09	1/11/05	Revise SOP 50 51 2 to direct servicing centers to send timely pre-demand and demand letters to delinquent borrowers. Such letters should be maintained in the loan file.	3/8/05	7/10/05

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

Appendices

Appendix VII
Significant Recommendations
From Prior Semiannual Reporting Periods
Without Final Action as of September 30, 2006*

Report Number	Date Issued	Recommendation	Management Decision Date	Final Action Target Date
5-12	2/24/05	For all SBA internal and contractor supported general support systems and major applications, e.g., Egan Mainframe, SBA and Corio UNIX, Network and Windows 2000; Loan Accounting System, Sybase, Mainframe, JAAMS Oracle, and related application functions: (1) develop and document policies and procedures clearly outlining what activities should be logged, who should be responsible for reviewing logs, what the logs should be reviewed for, how often logs should be reviewed, and how long logs should be retained; (2) assign responsibility within the Office of the Chief Information Officer (OCIO) Security for the review of application and general support system security logs; and (3) retain audit logs for a sufficient period of time (at least 90 days).	4/18/05	4/15/06
5-17	3/30/05	That the Chief Operating Officer require that personnel named in the SBA COOP and BRP participate in plan testing so that they understand their duties if plan activation is needed.	5/3/05	12/31/05
5-22	7/28/05	Incorporate the goals and performance indicators into the Agency's annual performance plan and use them to monitor and assess the progress towards achieving SBIC liquidation goals.	7/19/06	9/30/06
5-22	7/28/05	Restructure contracts with SBIC receivership agents to include performance standards that will be used to assess performance.	7/19/06	9/30/06

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

Appendices

Appendix VII
Significant Recommendations
From Prior Semiannual Reporting Periods
Without Final Action as of September 30, 2006*

Report Number	Date Issued	Recommendation	Management Decision Date	Final Action Target Date
5-22	7/28/05	Revise SOP 10 07 to require periodic assessments of each SBIC receivership's progress and operations by comparing the monthly invoices and periodic status meeting results to pre-set performance standards.	7/19/06	10/31/06
5-22	7/28/05	Ensure that each case file includes documented evidence that OL staff considered all liquidation methods.	11/14/05	10/31/06
5-22	7/22/05	Revise SOP 10 07 to require OL staff to obtain, for the sale of portfolio assets by an SBIC, verification that the sale was made at commercially reasonable terms.	7/19/06	10/31/06

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

Appendices

Appendix VIII 6-Month Significant Recommendations Summary as of September 30, 2006

Report Number	Title	Date Issued	Recommendation
6-21	DCMS Upgrade Needs a System Certification and Accreditation	4/27/2006	That the Assistant Administrator for Disaster Assistance complete a full re-accreditation of the DCMS Upgrade Project before it is placed into production in accordance with NIST 800-37 and SBA SOP 90-47.2. Or, complete an Interim Authorization to Operate (IATO) accreditation of the DCMS Upgrade Project in accordance with NIST 800-37 and SBA SOP 90-47.2. The IATO will only be in use for a limited time frame while a full scope certification and accreditation of the DCMS Upgrade Project is performed at the new production location.
6-22	Audit of SBA Guaranteed Loan to RR Fox, Inc.	5/17/2006	That the Associate Administrator for Financial Assistance seek recovery of \$373,258 from Chase on the guaranty paid, less any subsequent recoveries, for loan number 589-029-4005.
6-23	HUBZone Program Examination and Re-certification Process	5/23/2006	That the Associate Administrator for the HUBZone set a maximum acceptable timeframe for decertifying firms and removing them from SBA's list once a decision has been made that such firms no longer meet the criteria for HUBZone participation.

Appendices

Appendix VIII 6-Month Significant Recommendations Summary as of September 30, 2006

Report Number	Title	Date Issued	Recommendation
6-24	The Disaster Credit Management System Performance Test Plan	6/8/2006	That the Associate Administrator for Disaster Assistance modify the DCMS Upgrade Performance Test Plan to add scenarios for 10,000 concurrent users and further test for a 22 percent reserve margin for the DCMS upgraded environment. Or, through additional analysis including projections of test results and extrapolation of test data collected; estimate the potential concurrent users with applicable reserve margins as a part of systems acceptance for the June 2006 Upgrade. The resulting information should be provided to the BTIC to determine the extent the DCMS Upgrade Project has met system requirements as identified in the "Needs Statement" approved by the BTIC in December 2005.
6-26	Survey of the Quality Assurance Review Process	7/12/2006	That the Associate Administrator for Financial Assistance consult a statistician to develop procedures for selecting samples of all loans purchased at the Center and specific loan categories to be tested in the Quality Assurance plan.
6-26	Survey of the Quality Assurance Review Process	7/12/2006	That the Associate Administrator for Financial Assistance develop procedures to be followed when a deficiency is identified during a quality assurance review to (1) notify purchase reviewers of the deficiency, (2) provide training, and (3) implement revisions to the guaranty purchase process as necessary.
6-28	Audit of Duplication of Benefits relating to the Mississippi Development Authority's Homeowner Grant Program	9/19/2006	That the Assistant Administrator for Disaster Assistance execute test plans and procedures with State agencies and HUD to ensure that data transferred electronically or entered manually into SBA's disaster loan systems are correctly processed and SBA disaster loans are accurately adjusted before grant funds are disbursed to disaster loan victims.

Appendices

Appendix VIII 6-Month Significant Recommendations Summary as of September 30, 2006

Report Number	Title	Date Issued	Recommendation
6-28	Audit of Duplication of Benefits relating to the Mississippi Development Authority's Homeowner Grant Program	9/19/2006	That the Assistant Administrator for Disaster Assistance define critical tasks, identify deliverables and responsible parties, and establish key project time frames for executing either system interface activities or processing manual transactions for each State which plans to participate in the HUD Community Development Block Grant program for Gulf Coast hurricanes.
6-28	Audit of Duplication of Benefits relating to the Mississippi Development Authority's Homeowner Grant Program	9/19/2006	That the Assistant Administrator for Disaster Assistance complete an assessment of SBA loans impacted by MDA and other State-administered HUD grants.
6-28	Audit of Duplication of Benefits relating to the Mississippi Development Authority's Homeowner Grant Program	9/19/2006	That the Assistant Administrator for Disaster Assistance ensure that a Memorandum of Understanding is completed for States planning to participate in the HUD Community Development Block Grant program for Gulf Coast hurricanes, before the grant funds are disbursed.
6-31	Flexible Staffing of SBA Personnel During Times of Emergencies or Catastrophes to Aid Disaster Loan Processing	9/25/2006	That the Chief Operating Officer extend the Disaster Credit Management System across to SBA staff and outside the Ft. Worth, Sacramento, and Buffalo facilities and to third-parties that SBA contracts with for supplemental disaster assistance.
6-31	Flexible Staffing of SBA Personnel During Times of Emergencies or Catastrophes to Aid Disaster Loan Processing	9/25/2006	That the Chief Operating Officer establish a Agency-wide flexible staffing plan to respond to increased loan processing needs from a catastrophic disaster. This plan should consider the cost and benefits of fully utilizing SBA personnel short term versus solely utilizing SBA's Office of Disaster Assistance when catastrophic disasters occur.

Appendices

Appendix VIII 6-Month Significant Recommendations Summary as of September 30, 2006

Report Number	Title	Date Issued	Recommendation
6-32	Economically Disadvantaged Status of an 8(a) Program Participant's Owner	9/25/2006	That the Associate Administrator for Business Development determine whether contingent assets such as trusts should be considered when assessing economic disadvantage and whether any regulation changes on this are needed.
6-33	SBA's Acquisition Personnel Education and Training	9/29/2006	That the Associate Deputy Administrator for Management and Administration, in his role as SBA's Chief Acquisition Officer develop a plan for meeting the requirements of Policy Letter 05-01 that assigns responsibility and establishes timeframes for identifying the workforce, assessing skill levels and training needs, and provides for the tracking and reporting of workforce data.
6-35	Deficiencies in OFA's Purchase Review Process for Backlogged Loans	9/29/2006	That the Associate Administrator for Financial Assistance perform a risk analysis of the backlog loan portfolio to identify loans with a high-risk of improper payment (for example, early defaulted loans with large purchase amounts) and perform thorough purchase reviews of these loans to identify improper purchases and seek recovery from the lenders as necessary.

Appendices

Appendix IX

List of Events/Activities Where SBA Used its Cosponsorship Authority*

Small Business Act, Section 4(h)

April 1, 2006, through September 30, 2006

Name/Subject of Event	Event Start Date	Event End Date	Location of Event	Name(s) of Cosponsor(s)
Santa Ana District Small Business Week Awards Ceremony	4/20/06	4/20/06	Anaheim, CA	California State University Fullerton, Comerica Bank, Southland EDC, CDC Small Business Finance Corporation and Advantage CDC
Public Workshop: Small Pharmaceutical Business Education Forum	4/25/06	5/24/06	Washington, DC	Food and Drug Administration for Drug and Evaluation and Research (FDA)
OC E-Biz 2006	4/28/06	4/28/06	Fullerton, CA	Asian Women in Business-Southern California Chapter
Small Business Person of the Year (SBPY) Newspaper Insert	5/06	6/30/06	Maine	The Bangor Daily News
Small Business Week 2006	5/8/06	5/11/06	St. Louis, MO	Small Business Week Of Eastern Missouri, Inc.
Series of (6) televised interviews (for cable) with SBA staff and Resource Partners and Success Stories	5/10/06	6/14/06	Chesterfield County, VA	Sharing It With Bee Bee, Inc.
SBA Expo, Business Matchmaker and Small Business Week Awards Luncheon Buffalo/Niagara	5/10/06	5/10/06	Buffalo, NY	SCORE Buffalo Niagara, Business First
Small Business Awards Luncheon	5/12/06	5/12/06	Richmond, VA	Small Business Awards Foundation, Inc.

* The Agency provided this information. It has not been verified by the OIG.

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Small Business Act, Section 4(h)

April 1, 2006, through September 30, 2006

Name/Subject of Event	Event Start Date	Event End Date	Location of Event	Name(s) of Cosponsor(s)
Small Business Week Proclamation and SBA's 50th Anniversary in Puerto Rico	5/15/06	5/15/06	San Juan, PR	Puerto Rico Chamber of Commerce
Port Washington Small Business Development Series	4/26/06 5/17/06	4/26/06 5/17/06	Port Washington, NY	The Greater Port Washington Business Improvement District, The Port Washington Chamber of Commerce, The Port Washington Public Library
Small Business Week Breakfast and Awards Ceremony	5/19/06	5/19/06	Hato Rey, PR	Puerto Rico Bankers Association
Hispanic Business Conference	5/20/06	6/20/06	Detroit, MI	Chase
Small Business Week Awards Dinner	5/24/06	6/24/06	Dover, DE	Delaware Economic Development Office
Small Business Week Awards Luncheon	5/31/06	6/16/06	Los Angeles, CA	Los Angeles Chamber of Commerce
4 th Annual Convention of Mexicans Abroad	5/31/06	6/2/06	Universal City, CA	The Asociacion Mundial de Mexicanos en el Exterior (AMME) (The Worldwide Association of Mexicans Abroad)
Dan River Region Veterans Conference	6/1/06	6/1/06	Danville, VA	Dan River Business Development Center, Dan River SBDC - Longwood University, Virginia Center for Innovative Technology
Connecticut XPO For Business	6/1/06	6/1/06	Hartford, CT	Connecticut Business & Industry Association, Connecticut Small Business Development Center

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Small Business Act, Section 4(h)

April 1, 2006, through September 30, 2006

Name/Subject of Event	Event Start Date	Event End Date	Location of Event	Name(s) of Cosponsor(s)
Small Business Week Recognition Program	6/15/06	6/15/06	New Haven, CT	Connecticut Small Business - Key to the Future
2nd Annual 2006 Statewide Small Business & Faith-Based & Community Initiatives Conference	6/15/06	6/16/06	Anchorage, AK	State of Alaska Department of Commerce, Community and Economic Development
Franchising Event	6/17/06	7/16/06	Columbus, OH	Business Development Finance Corporation, Ohio SBDC, Ohio Procurement Technical Assistance Centers, Ohio Minority Contractor's Business Assistance Program, Buckingham, Doolittle & Burroughs, LLP and City of Columbus
Training Workshops	6/20/06 6/27/06	8/26/06	Los Angeles, CA	Metropolitan Water District and Long Beach City College – Small Business Development Center
How to Start and Manage a Small Business	7/11/06	7/11/06	Baltimore, MD	Woodlawn Public Library, Central Region MD SBDC Subcenter
Internet Marketing Seminar	7/18/06	7/18/06	Columbus, OH	Thomas Industrial Network, Inc. and the Ohio Manufacturers' Association
SBA/VA Small Business Summit	7/26/06	7/30/06	Miami, FL	U.S. Department of Veterans Affairs
2006 PROCON-TECHCON	7/26/06	7/26/06	Fullerton, CA	The Asian Business Association of Orange County
SBA/HOBY International Business and Entrepreneurship Program	7/30/06	9/30/06	Washington, DC	Hugh O'Brian Youth Leadership (HOBY)

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Small Business Act, Section 4(h)

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Name/Subject of Event	Event Start Date	Event End Date	Location of Event	Name(s) of Cosponsor(s)
7 th Annual Business Resource Fair	8/17/06	9/16/06	Denver, CO	Denver Public Library, Minority/Women Chambers' Coalition, Colorado Small Business Development Center (through the State of Colorado) and Denver SCORE Chapter
Spirit of Small Business 2006 Awards Luncheon	8/18/06	9/18/06	Santa Barbara, CA	Pacific Coast Business Times
SBA Programs & Services and Federal Procurement and Legal and Tax Seminar	8/24/06	8/24/06	Honolulu, HI	Chaminade University Tax Foundation
Capital Access 2006	8/30/06	9/30/06	Columbus, OH	Office of Congressman Pat Tiberi, Columbus State Community College though Ohio SBDC, State of Ohio Department of Development through Minority Contractors Business Assistance Program
Online Training Module	8/31/06	8/31/06	World Wide Web	Image Publishing, Inc.
Small Business Video Success Stories	9/06	9/06	World Wide Web	U.S. Postal Service
Financial Communication for Small Business	9/06	9/08	Washington, DC	Accounting Comes Alive
Signage For Your Business	9/1/06	9/30/08	World Wide Web	The Signage Foundation for Communications Excellence/Website

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Small Business Act, Section 4(h)

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Gateway Community College Procurement Workshop Series and Matchmaker	9/8/06	6/8/07	New Haven, CT	Gateway Community College Business Resource Center and New Haven SCORE Chapter #66
Workshop: Publicity 101 – Meet the Press	9/20/06	10/20/06	Claymont, DE	National Association of Women Business Owners (NAWBO) Delaware Chapter
The Government Contractor Workshop Series: SBA Surety Bond Workshop, Contract Financing Workshop and the Government Cost Proposal Process Workshop	8/16/06 9/20/06	8/16/06 9/20/06	Baltimore, MD	Greater Baltimore Urban League
Business Women's Forum	9/21/06	10/21/06	Southbury, CT	Waterbury Regional Chamber of Commerce
Employee Stock Ownership Training Program (ESOP)	9/26/06	9/26/08	Washington, DC	The Society for Financial Awareness
Series of training initiatives targeting urban entrepreneurs	9/30/06	9/30/06	Kansas City, Cleveland, Jacksonville, Cincinnati, Atlanta, Baltimore, Milwaukee and Baton Rouge	Urban Entrepreneur Partnership, Inc.

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Small Business Act, Section 4(h)

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Name/Subject of Event	Event Start Date	Event End Date	Location of Event	Name(s) of Cosponsor(s)
Training and assistance to small business entrepreneurs in the Gulf Coast region of the U.S.	9/30/06	9/30/08	UEP Gulf Coast, Inc. Centers	UEP Gulf Coast, Inc.
Event Series: Webinars, CD-ROM and Managing Your Business Credit Brochure	10/1/06	9/30/09	Nationwide	Dun & Bradstreet, Inc. (D & B)
2006 National Signage Research Symposia	10/5/06	10/6/06	Las Vegas, NV	The Signage Foundation for Communications Excellence/Symposia
Capital Access Workshop – Where is the Money?	10/7/06	12/31/06	Granada Hills, CA	Valley Economic Development Corporation
Research & Development Grants, SBIR & SBA Financing Programs	10/12/06	10/12/06	New York, NY	Industrial & Technology Assistance Corporation
Matchmaker Primer Workshop and Mini-matchmaker	9/19/06 10/17/06	11/16/06	Wallingford, CT	Quinnipiac Chamber of Commerce
Women's Business Roundtable: Marketing on a Shoestring	10/19/06	10/19/06	Timonium, MD	Business and Professional Women of Maryland (BPW/MD)

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Small Business Act, Section 4(h)

April 1, 2006, through September 30, 2006

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MED Week Procurement Matchmaking Symposium and Awards Luncheon	10/26/06	10/26/06	El Paso, TX	El Paso Hispanic Chamber of Commerce and El Paso Community College
SBIR Conference	10/27/06	10/27/06	Garden Grove	Asian Women In Business, Southern California
Vermont's 10 th Annual Women's Economic Opportunity Conference	10/28/06	11/28/06	Randolph, VT	The Office of U.S. Senator Patrick Leahy, Vermont Small Business Development Center, U.S. Department of Labor – Women's Bureau, Vermont Agency of Transportation, Vermont Commission on Women, Women's Agricultural Network, Vermont Department of Economic Development, Vermont Women's Business Center, Central Vermont Community Action Council, Vermont Attorney General, Vermont Dept. of Labor, Vermont Manufacturing Extension Center, Vermont Works for Women, Vermont Business Education Corporation, Vermont Agency of Human Services Office of Economic Opportunity, Vermont Interactive Television and U.S. Dept. of Agriculture
NY XPO For Business Trade Show	11/29/06	11/29/06	New York, NY	Event Management
Business Start-up Workshop Series	10/4/06 11/8/06 12/6/06	10/4/06 11/8/06 12/6/06	Santa Ana, CA	Templo Calvario Community Development Corporation

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Small Business Act, Section 4(h)

April 1, 2006, through September 30, 2006

Name/Subject of Event	Event Start Date	Event End Date	Location of Event	Name(s) of Cosponsor(s)
SBA New York Monthly Small Business Success Series	10/19/06 11/16/06 12/14/06 1/18/07 2/15/07 3/15/07 4/19/07 5/17/07	10/19/06 11/16/06 12/14/06 1/18/07 2/15/07 3/15/07 4/19/07 5/17/07	New York, NY	KIP Business Report
Strategies for Winning Government Contracts: Practical Tips and Hands on Help for Small Business	2/1/07	3/1/07	Burlington, VT	Vermont Agency of Transportation, Vermont Department of Buildings and General Services, Vermont Department of Economic Development, Vermont Agency of Natural Resources, Vermont Manufacturing Extension Center, Vermont Small Business Development Center through the Vermont State Colleges Network and Federal Highway Administration
Colorado Women Business Owners Conference: In Good Company/Strategies & Tactics for Entrepreneurial Women	2/22/07	3/24/07	Denver, CO	National Association of Women Business Owners (NAWBO) Denver Chapter
Black Business Conference 2007	2/27/07	3/28/07	Detroit, MI	Chase Bank and Alpha Phi Alpha Fraternity, Inc.
Building a Better Small Business Climate: State Regulatory Flexibility Best Practices	3/28/07	3/28/07	Kansas City, MO	Ewing Marion Kauffman Foundation, Public Forum Institute

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Small Business Act, Section 4(h)

April 1, 2006, through September 30, 2006

Name/Subject of Event	Event Start Date	Event End Date	Location of Event	Name(s) of Cosponsor(s)
Michigan Celebrates Small Business	4/12/07	4/12/07	East Lansing, MI	Michigan Small Business & Technology Development, Small Business Assn of Michigan Foundation, Michigan Economic Development Corporation, Edward Lowe Foundation
E-Business Conference	4/27/07	4/27/07	Fullerton, CA	Asian Women In Business, Southern California
Small Business Awards Breakfast	5/24/07	5/22/08	Washington, DC	Creative Learning, Inc.

* The Agency provided this information. It has not been verified by the OIG.

Appendices

Appendix X Legal Actions Summary April 1, 2006, through September 30, 2006

State	Program	Alleged Violation(s) Prosecuted	Legal Action	Investigated Jointly With
AZ	GC	The owner of two construction companies submitted false references to the U.S. Coast Guard to obtain a Federal HUBZone contract.	Owner pled guilty and was sentenced to 3 years probation and a \$5,000 fine.	DHS/OIG, USDA/OIG, DOI/OIG, GSA/OIG, VA/OIG, DCIS, TIGTA
CA	BL	The owners of a trucking company allegedly failed to disclose a \$184,000 payroll tax liability when applying for a \$137,000 SBA-guaranteed loan.	Owners indicted and have formally agreed to repay the loan prior to sentencing.	None
IA	BL	Two individuals associated with an Iowa motel allegedly provided false account balance verification letters during the loan application process in order to induce a financial institution and the SBA to approve a \$1.2 million SBA-guaranteed loan.	Two individuals indicted.	FBI
IL	BL	Seven individuals were named in a civil complaint for their involvement in a fraud scheme relating to a \$1.25 million SBA guaranteed loan for the purchase of an Illinois restaurant. The individuals conspired to provide an unqualified borrower with the funds for the required capital injection.	Four individuals have settled their claims with the government resulting in a total settlement amount of \$235,000.	FBI, IRS
IL	BL	The president of an electrical supply company and his cousin allegedly conspired to make the business appear more profitable than it actually was by filing a false tax return. This scheme affected the approval of a \$1.1 million SBA loan to the purchasers of the business.	President pled guilty to criminal information. The president's cousin was previously charged.	FBI
MI	BL	The president of a gas station and convenience store falsely stated that he did not have a criminal record in order to assume an existing SBA guaranteed loan of \$640,000.	President pled guilty.	DHS/ICE

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Appendix X Legal Actions Summary April 1, 2006, through September 30, 2006

State	Program	Alleged Violation(s) Prosecuted	Legal Action	Investigated Jointly With
MI	BL	Six individuals obtained over \$3.5 million in SBA guaranteed loans to purchase gas stations/convenience stores. They have been charged for their roles in alleged schemes to defraud the SBA and a participating lender by providing false information relating to equity injections and misusing the proceeds of the loans.	Six individuals indicted.	DHS/ICE
MO	SBIC	A civil complaint alleged that the former CEO of an SBIC breached his fiduciary duty by improperly converting funds for his own personal benefit to the detriment of the SBIC.	The former CEO settled the government's claim against him in exchange for cash payments to the SBA totaling \$175,000.	None
NY	DL	Former co-owners of a New York financial firm falsely claimed physical damage and economic injury as a result of the September 11 th terrorist attacks when applying for a \$1 million SBA disaster loan as well as aid from charitable organizations. The SBA denied the loan request because one of the owners had never filed U.S. Federal tax returns.	Both owners pled guilty. They were each sentenced to 2 years in prison and order to pay combined restitution of over \$19,000 to the charitable organizations.	SSA/OIG
NY	DL	The owner of a motor vehicle and parts business obtained a \$646,900 SBA disaster loan for losses resulting from the September 11 th terrorists attacks. The owner forged the endorsements of vendors on SBA issued two-party checks totaling \$131,600 and used the funds for a new business.	Owner pled guilty.	USPIS

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Appendix X Legal Actions Summary April 1, 2006, through September 30, 2006

State	Program	Alleged Violation(s) Prosecuted	Legal Action	Investigated Jointly With
NY	BL	The owner of a now-defunct wholesale company obtained an SBA guaranteed loan in the amount of \$1,550,000 on behalf of his company. It is alleged that the owner failed to disclose this loan when he became a guarantor on another SBA loan and that he diverted cash from the company to himself and other entities that he owned or controlled.	Owner indicted.	FBI
PA	BL	A businessman fraudulently obtained a \$993,000 SBA-guaranteed loan by pledging collateral not belonging to him and falsely claiming he had made a \$250,000 cash injection.	Businessman charged by criminal information.	FBI
PA	BL	The SBA Early Fraud Detection Working Group discovered that an attorney had applied for three SBA Express Loans totaling \$115,000. One of the two loans that had already been dispersed was in default. One loan had not yet been disbursed.	Bank cancelled un-disbursed loan due to prior default.	None
PA	BL	An unknown individual delivered an SBA Express Loan application for a \$100,000 loan to a bank. The application contained false identifying information about the borrower, the owner of an auto body shop. The owner had never communicated with the bank.	The bank cancelled the loan resulting in a cost avoidance of \$100,000.	None
PR	IA	The head of the SBA's 8(a) division in Puerto Rico accepted monthly cash payments totaling over \$30,000 in exchange for awarding over \$16 million in SBA 8(a) sole source contracts to an engineering firm.	SBA official found guilty in a jury trial.	FBI, GSA/OIG

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Appendix X Legal Actions Summary April 1, 2006, through September 30, 2006

State	Program	Alleged Violation(s) Prosecuted	Legal Action	Investigated Jointly With
PR	BL	A Puerto Rican businessman, who had been denied an SBA Micro-loan because of a poor credit history, conspired with his brother and another co-conspirator to apply for and receive a \$25,000 SBA Micro-loan on his behalf. The applicants falsely stated how the loan proceeds were to be used.	The businessman was sentenced to 3 years probation and \$43,591 in restitution. Judicial proceedings against his brother are continuing. The other co-conspirator was sentenced to 2 years probation.	FBI
PR	GC	The president of an 8(a) engineering firm made illegal payments to a former restaurant manager in exchange for awarding over \$1 million in electrical contracts to his company. It was also determined that the president's attorney interfered with and obstructed the investigation into the illegal kickback payments.	The attorney was sentenced to 33 months in prison and was made to surrender his law license. The other defendants were sentenced to varying amounts of home confinement, probation, and community service. The company and its president were each fined \$250,000.	GSA/OIG
SC	DL	The owner of a manufactured home sales dealership obtained a disaster loan for \$487,600 for economic injuries resulting from the September 11 th terrorist attacks. The owner falsely represented that the finance company he used was located in New York City and had stopped financing manufactured homes due to the terrorist attacks.	Owner pled guilty and was sentenced to 30 months in prison, 5 years probation, and restitution of \$834,942.	FBI
SD	BL	A guarantor on a 504 loan to a marina submitted false Personal Financial Statements and false tax returns representing that he had filed tax returns and that he had no tax liability.	Guarantor indicted.	IRS

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Appendix X Legal Actions Summary April 1, 2006, through September 30, 2006

State	Program	Alleged Violation(s) Prosecuted	Legal Action	Investigated Jointly With
TN	BL	The president of a pager and cellular telephone retailer induced a bank and SBA to fund a \$100,000 SBA-guaranteed loan by submitting invoices that inflated the selling price of the business and the value of the equipment being purchased. She then pocketed the difference between the actual price and the reported sales price.	President sentenced to 6 months home confinement, 2 years probation, and restitution of \$90,421.	None
TX	DL	Seven individuals allegedly filed fraudulent applications for FEMA benefits claiming to have incurred damages as a result of the 2005 Gulf Coast hurricanes. These false claims resulted in the individuals being eligible for SBA disaster loan benefits.	Seven individuals have been indicted and two have pled guilty as a result of work done by the multi-agency task force.	DHS/OIG, SSA/OIG, USPIS, DOL/OIG, HUD/OIG
TX	BL	A borrower, along with a loan broker and three other individuals, participated in a fraudulent scheme to secure a \$1 million SBA-guaranteed loan to purchase a convenience store. The scheme involved the submission of an inflated purchase price contract to the lender.	Four defendants have pled guilty. One of the four has been sentenced to 10 months in prison, 3 years probation, and restitution of \$624,565. An arrest warrant remains outstanding for the fifth defendant.	None
TX	BL	A real estate broker/loan packager and several co-conspirators falsely obtained nine SBA-guaranteed loans totaling \$9.5 million for convenience stores. The borrowers submitted false documentation, artificially inflated account deposits, and used loan proceeds to fund equity injections.	The broker/loan packager pled guilty and was sentenced to 6 months home confinement, 5 years supervised release, 200 hours community service, and restitution of \$7,311,874.	FBI

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Appendix X Legal Actions Summary April 1, 2006, through September 30, 2006

State	Program	Alleged Violation(s) Prosecuted	Legal Action	Investigated Jointly With
TX	BL	A borrower falsely indicated he was a U.S. citizen when applying for a \$308,000 SBA-guaranteed loan to purchase a convenience store. He later applied for an additional \$870,000 SBA-guaranteed loan and falsely indicated that he had no previous SBA debt.	Borrower pled guilty.	DHS/ICE, TEXAS-ABC
TX	BL	An applicant misrepresented his educational background, provided fraudulent tax returns, and provided another person's social security number when applying for a \$150,000 SBA business loan.	Applicant charged by criminal information.	USPIS
TX	BL	Two brothers and their cousin allegedly conspired to falsely represent that the required equity injections had been made in order to obtain SBA-guaranteed loans for \$500,000 and \$1.1 million to purchase convenience stores.	Two brothers and cousin indicted.	FBI
UT	BL	The part owner of a vitamin and herb production company obtained a \$905,000 SBA loan in his company's name by falsely representing that he had authorization from the Board of Directors and that board members were guaranteeing the loan.	The part owner pled guilty and was sentenced to 2 years probation, 100 hours of community service, a \$1,160 fine, and \$36,866 in restitution.	UCSO
UT	BL	Three corporate officers of a landscape design firm submitted false loan documentation in order to obtain two separate SBA loans totaling \$470,100. The officers failed to disclose in their loan application that they owed delinquent payroll taxes.	Three corporate officers pled guilty	None

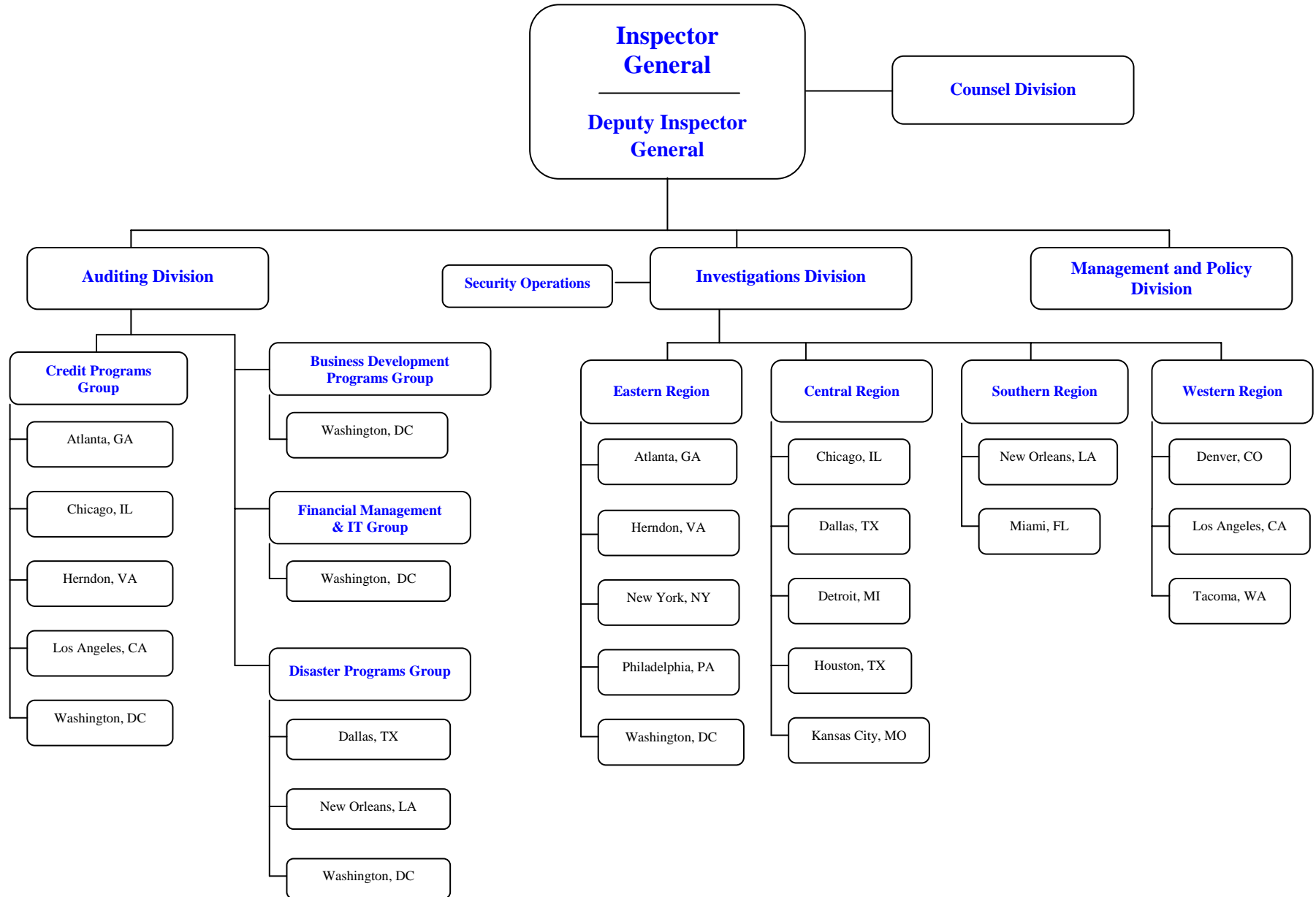
Appendices

Appendix X Legal Actions Summary April 1, 2006, through September 30, 2006

State	Program	Alleged Violation(s) Prosecuted	Legal Action	Investigated Jointly With
VI	DL	Co-owners of a house located in the Virgin Islands falsely represented to the SBA and other government and insurance entities that their house had sustained hurricane damage. In reality, the house had been damaged by a previous hurricane, and they had purchased it with such damage in “as is” condition.	Both owners were debarred by the SBA from participating in Federal financial and non-financial assistance programs.	DHS/OIG
WA	BL	The former owner of a cabinet making business inflated his Personal Financial Statement and failed to disclose a prior bankruptcy when he applied for a \$1.5 million SBA-guaranteed loan to purchase the cabinet making business.	Former owner pled guilty to criminal information.	None

Program Codes: BL=Business Loans; DL=Disaster Loans; GC=Government Contracting and Section 8(a) Business Development **Joint-investigation Federal Agency Acronyms:** DCIS=Defense Criminal Investigative Service; DHS/ICE=Department of Homeland Security/Immigration and Customs Enforcement; DHS/OIG=Department of Homeland Security OIG; DOI/OIG=Department of Interior/OIG; DOL/OIG=Department of Labor OIG; FBI=Federal Bureau of Investigation; GSA/OIG=General Services Administration OIG; HUD/OIG=Housing and Urban Development/OIG; IRS=Internal Revenue Service; SSA/OIG=Social Security Administration/OIG; TEXAS-ABC=Texas Alcoholic Beverage Commission; TIGTA=Treasury Inspector General for Tax Administration; UCSO=Utah County Sheriff’s Office; USDA/OIG=Department of Agriculture/OIG; USPIS=United States Postal Inspection Service; VA/OIG=Veterans Administration/OIG.

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.*

CALL

1-800-767-0385 (Toll Free)

Write or Visit

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

Or E-mail Us at OIG@SBA.GOV

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