

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

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Semiannual Report to Congress  
Spring 2006



October 1, 2005 – March 31, 2006

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# Inspector General Act Statutory Reporting Requirements

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

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Section 5(a)(1)	Significant Problems, Abuses, and Deficiencies	5-28
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Section 5(a)(4)	Matters Referred to Prosecutive Authorities	58-64
Sections 5(a)(5) and 6(b)(2)	Summary of Instances Where Information Was Refused	None
Section 5(a)(6)	Listing of OIG Reports	31-32
Section 5(a)(7)	Summary of Significant Audits & Other Reports	5-28
Section 5(a)(8)	Audit Reports with Questioned Costs	33
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Section 5(a)(10)	Summary of Reports From Prior Semiannual Reports Where No Management Decision Was Made	35
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

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## A Message From The Inspector General

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I am pleased to present the Small Business Administration (SBA), Office of Inspector General (OIG), Semiannual Report summarizing activities from October 1, 2005, through March 31, 2006.

Because I am new to the SBA OIG, having been sworn in on April 6, 2006, the work presented in this report was actually accomplished by my deputy, Peter McClintock, who was Acting Inspector General during this time, and the OIG staff. I appreciate their fine work in preparing this document. I look forward to the new challenges I face as the Inspector General and am greatly impressed with the accomplishments of this OIG. The OIG issued 20 reports with recommendations for improving Agency operations, reducing fraud and unnecessary losses, and recovering funds. OIG investigations led to 23 indictments and 13 convictions of subjects who defrauded the Federal Government.

During this reporting period, an increasing amount of the OIG's audit and investigations work was directed toward the unprecedented devastation of the Gulf Coast hurricanes last year. By March 31, 2006, SBA had approved over \$7 billion in disaster assistance program loans for the Gulf Coast area. Using some of the \$5 million Congress appropriated for OIG oversight of the Agency's hurricane disaster effort, the OIG has begun audits of the loan application approval process, loan disbursement activities, and SBA's Disaster Credit Management System (DCMS). Our investigators are focusing on allegations of wrongdoing, including the identification of false statements by loan applicants. The OIG has published three advisory memoranda on problems with the disaster program's DCMS, and we are hiring additional auditors and investigators on term appointments to be located in the New Orleans area.

In addition, the OIG reviewed the Supplemental Terrorist Activity Relief (STAR) loan program, under which SBA provided loan guaranties to assist small businesses that were affected by the September 11, 2001, terrorist attacks and their aftermath. We found that SBA lacked sufficient controls to ensure that lenders properly determined borrower eligibility; we could not determine from a review of lender loan files whether 50 out of a random sample of 59 borrowers had been injured by the attacks or their aftermath. Many borrowers that we contacted were unaware that they had received special financing.

The OIG also concluded several audits which show the impact of declining resources on the SBA's oversight of several programs. An audit of the monthly Section 7(a) loan reporting for SBA lenders found that the Agency lacked sufficient controls and staffing to ensure accurate reporting by lenders regarding loan status and outstanding guaranty loan balances; this could potentially compromise SBA's oversight of 7(a) lenders and risk management. Another audit found that neither SBA nor procuring agencies monitored whether participants in the 8(a) program were complying with program requirements.

On the positive side, the Agency received an unqualified opinion on the Fiscal Year 2005 financial statement audit. The OIG continues to work with the Agency to correct the material weakness in SBA's financial management and reporting controls.

I would like to thank Administrator Barreto for his support of the OIG's work. I look forward to working with SBA's leadership in carrying out the OIG's mission to fight waste, fraud and abuse and to promote greater governmental efficiency.

Eric M. Thorson  
Inspector General



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# Overview of SBA and the OIG

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## The Small Business Administration

The Small Business Administration (SBA) was established in 1953 to assist small businesses from start-up through the many stages of growth. The Agency's two major goals are to help small businesses succeed and to assist victims in recovering from disasters. SBA offers many services to entrepreneurs through its Offices of Capital Access, Entrepreneurial Development, Government Contracting and Business Development, and Disaster Assistance. Services provided include, but are not limited to: (1) expanding access to financing through the Agency's various business and disaster lending programs; (2) promoting Federal procurement opportunities; and (3) providing counseling and other information to help small business growth. SBA's programs are delivered by a network of field offices in every state, the District of Columbia, the U.S. Virgin Islands, Guam, American Samoa, and Puerto Rico. SBA's appropriation for Fiscal Year (FY) 2006 is \$533 million (plus an additional \$446 million from the disaster supplemental). As of March 31, 2006, SBA had 2,121 employees (including Office of Inspector General (OIG) personnel but excluding disaster-funded employees). There are 3,775 temporary and permanent disaster employees, excluding contractors.

## The Office of Inspector General

The SBA OIG was established by the Inspector General (IG) Act of 1978. Pursuant to this authority, the OIG's four divisions perform the following functions nationwide.

- **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.
- **The Management and Policy Division** provides business support (e.g., budget/financial management, human resources, information technology, and procurement) for the various OIG functions, coordinates the preparation of the Semiannual Report to Congress and the Report on SBA's Management Challenges, and develops OIG strategic and performance plans.

The OIG is headquartered in Washington, DC, and has field audit staff in Atlanta, Chicago, Dallas, and Los Angeles. Investigative field staff are located in Atlanta, Chicago, Dallas, Denver, Houston, Kansas

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## Overview of SBA and the OIG

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City, Los Angeles, Miami, New York, Philadelphia, Seattle, and Washington, DC. An organization chart for the OIG is located in Appendix XI.

### **Work During This Reporting Period**

As of March 31, 2006, the OIG had 93 staff on-board. The OIG's FY 2006 appropriation is \$13.7 million, including a \$1.5 million transfer for disaster assistance oversight activities (net of rescissions). The OIG has a separate appropriation of \$5 million for Gulf Coast disaster oversight.

The OIG's responsibility is to improve SBA programs by identifying key issues facing the Agency, promoting a high level of integrity, and, if a deficiency is identified, ensuring that corrective action is taken. We continue to focus on serving the needs of our customers and stakeholders and on safeguarding SBA resources from waste, fraud, and abuse.

This is the first semiannual report published under the OIG's new FY 2006-2011 Strategic Plan. During this reporting period, OIG work focused on the new strategic goals of (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. These 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. The OIG has begun a series of audits on 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 Investigations Division is directing its efforts to detect and deter fraud related to the SBA disaster loan program.

OIG efforts and accomplishments during the first half of FY 2006 are summarized in the following pages. All audit and other reports issued during this reporting period are listed in Appendix I. All investigative actions are summarized in Appendix X.



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## Agency Management Challenges

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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 consolidated Performance and Accountability Report.

This list of Management Challenges represents the 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 been the subject of one or more OIG or Government Accountability Office

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(GAO) reports, or has resulted from our general knowledge of Agency management issues. For each Management Challenge, we provide the Agency with recommended remedial actions together with our assessment of Agency progress on each action item during the preceding fiscal year. The OIG updates the Management Challenges each year so that they accurately reflect the current Challenges facing the Agency.

In its FY 2006 Report, the OIG eliminated two Management Challenges that appeared in the FY 2005 Report. These two Management Challenges were: "SBA needs to improve its managing for results processes and performance data;" and "SBA needs to enforce its rules to deter firms receiving small business set-aside, 8(a), or small disadvantaged business price evaluation preference contracts from passing through large portions of the procurement to other firms."

This year's report contains one new Management Challenge that was published in February 2005: "Flaws in the procurement process allow large firms to receive small business awards and agencies to receive small business credit for contracts performed by large firms."

As in prior years, the OIG used a color scoring scheme to show Agency progress in addressing the actions needed to resolve the Management Challenges. For FY 2006, in addition to the color scores of red, yellow, and green, the OIG implemented a fourth score color—orange—which denotes that the Agency has made some progress on a particular "action needed" item in a Management Challenge.

The most serious Management Challenges that face SBA during FY 2006 are 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.

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## Agency Management Challenges

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- The current practices of the Small Business Investment Company (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.

While Agency progress on a number of the Management Challenges has been encouraging, much more remains to be done. By their nature, these Management Challenges require continued long-term commitment and effort by the Agency. For more information on the OIG's assessment of SBA's Management Challenges, please review the report at <http://www.sba.gov/ig/challenges.html>.

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# Significant OIG Activities

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## 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.

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. Given the broad scope of SBA's Gulf Coast hurricane disaster assistance efforts, OIG audit and investigations work will focus heavily on this area for the foreseeable future.

### OIG Emphasizes Oversight of SBA Disaster Assistance

As of March 31, 2006, SBA had approved over \$7 billion in low-interest, taxpayer-backed disaster loans to homeowners, renters, and businesses affected by the Gulf Coast hurricanes. While SBA continues to approve loans at a record rate, Congress has been critical of the timeliness of SBA's disbursement of loans. SBA has reported that more than \$500 million in disaster loans has been disbursed and that the Agency is attempting to expedite disbursement of additional loans.

In December 2005 Congress appropriated \$5 million for the OIG to conduct work on the Agency's disaster loan program in the Gulf region. These funds will allow us to secure additional audit and investigative resources needed to provide effective oversight of SBA disaster assistance efforts in the Gulf region. 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 a number of years to come. The OIG plans to establish an office in New Orleans to provide better access to critical locations.

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As discussed below, the OIG has begun audits to identify whether there are unnecessary delays in the loan application approval and disbursement process and to review SBA's Disaster Credit Management System (DCMS), the Agency's disaster loan database. The OIG has also planned a host of audits which will focus on the complete cycle of disaster loans relating to the Gulf hurricanes. Areas of focus include: SBA's loan origination, closing and disbursement; whether borrower use of proceeds is consistent with SBA's authorization; Agency loan servicing; and, after loan default, SBA's efforts to recover the debt through liquidation. Processing reviews will include a focus on whether SBA has proper controls to provide reasonable assurance that

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## Significant OIG Activities

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loans are made to eligible recipients and that the proceeds are used for the intended purposes. Heightened scrutiny will also be given to loans that go into default quickly (e.g., after the first payment becomes due), as early defaults are often indicative of origination and servicing problems by the Agency, as well as possible borrower fraud. In addition, reviews will be performed to ensure that SBA is devoting adequate resources, and has established sufficient controls, to maximize recovery of taxpayer dollars through the liquidation process.

Also in the audit area, the OIG is working to ensure the integrity of the reporting process for the various hurricane-related contracts that Federal agencies report as being awarded to small businesses. The OIG

*...the OIG is working to ensure the integrity of the reporting process for the various hurricane-related contracts that Federal agencies report as being awarded to small businesses.*

has drafted and circulated for comment a review guide for other OIGs to use in the assessment of procuring agency compliance with small business contracting requirements. We have also coordinated with the GAO on its recently-initiated review of small business procurement in the Gulf region.

The OIG's Investigations Division is focusing on detecting and deterring fraud related to the SBA disaster loan program. This effort includes proactive measures to identify: entities wrongfully receiving duplicate payments; potential fraud through early review of loan data for fraud indicators; and character misrepresentations through random sampling of the criminal background information of loan recipients.

Loan Approval and Disbursement. The OIG has an ongoing review of the Agency's disaster loan approval and disbursement process to determine if disaster loans are being processed and disbursed in a timely manner and, if not, the cause of the delays. In addition, the OIG is looking at external impediments, such as local governments and other Federal Agency requirements that may unduly delay disaster loan funds that home and business borrowers need to initiate the rebuilding process.

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Review of DCMS. We are also looking at the disaster loan program's DCMS application, which was designed for 1,500 concurrent users processing SBA disaster loans. SBA has upgraded the system to support in excess of 4,000 users and plans to implement a significant hardware and software upgrade to support approximately 10,000 users. The OIG will review the DCMS upgrade to ensure that forecasted needs are appropriately addressed and the application is developed in accordance with SBA's System Development Life Cycle standards. We have already issued three management advisory reports identifying deficiencies, which are discussed in the next section.

Criminal Investigations. The OIG is investigating multiple allegations of wrongdoing related to the Gulf hurricanes that were received during this reporting period. Thus far, allegations involve claims for

*The OIG is investigating multiple allegations of wrongdoing related to the Gulf hurricanes that were received during this reporting period.*

property damage that never occurred or for property not owned by the borrower during the disaster; false statements about prior criminal records; wrongful collection of Federal Emergency Management Agency (FEMA) payments while applying for an SBA loan; attempted bribery of SBA officials; misuse of SBA

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## Significant OIG Activities

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loan funds for gambling or other unauthorized purposes; and overstatement of financial losses. Four cases have been referred for criminal prosecution. We expect instances of fraud to increase significantly as more loan disbursements are made to borrowers and when the 12-month deferment of principal and interest payments for many disaster loans comes to an end.

The OIG has also initiated several proactive projects to identify criminal misconduct by disaster borrowers. One project is designed to identify borrowers who submit false statements on their SBA applications for disaster assistance business loans relating to past criminal records. The project seeks to ensure compliance with SBA's policy of preventing assistance to persons of poor character. For this project, the OIG will conduct criminal history checks on a statistical sample of disaster loans.

*The OIG has also initiated several proactive projects to identify criminal misconduct by borrowers.*

A second project is a joint effort with the Department of Homeland Security (DHS) OIG and other OIGs to identify applicants for disaster assistance loans who did not reside in the affected areas during the Gulf hurricanes. Initial steps include verifying employment records of certain subjects and examining names of persons currently residing in Texas who have applied for SBA and/or FEMA hurricane assistance for losses allegedly incurred in other states.

A third project is early fraud detection for hurricane-related disaster assistance loans. Through data-mining and analysis of DCMS data, an OIG team will proactively identify potential fraud in the disaster loans, seeking to prevent fraud whenever possible. Fraud indicators will be similar to those used by an OIG group examining regular business loans. Where indicators exist, the OIG will

*Through data-mining and analysis of DCMS data, an OIG team will proactively identify potential fraud in the disaster loans, seeking to prevent fraud whenever possible.*

investigate and bring to prosecution culpable parties.

The OIG is also working with the multi-agency PCIE Hurricane Katrina Fraud Task Force to identify potential duplication of benefits where victims may receive excess aid resulting from unreported or underreported income, unreported insurance compensation, or other fraudulent activities. We are coordinating with the DHS OIG to address error correction controls between FEMA's National Emergency Management Information System (NEMIS) and SBA's DCMS, and to prevent duplication of disaster benefits to disaster victims in accordance with Federal guidelines. The OIG is also coordinating data-sharing with the Department of Housing and Urban Development to identify recipients of duplicate benefits.

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Further, the OIG is coordinating with the Federal IG community on inter-agency Gulf hurricane audit and investigations efforts. Prior to Hurricane Katrina, the President's Council on Integrity and Efficiency (PCIE) and the Executive Council on Integrity and Efficiency (ECIE) had established a Homeland Security Roundtable under the leadership of the DHS IG. This Roundtable took on the role of coordinating the submission of reports regarding Gulf hurricane recovery oversight by the IG community.

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## Significant OIG Activities

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The OIG contributed disaster work plans to the first PCIE/ECIE 90-day “Report to Congress on Oversight of Gulf Coast Hurricane Recovery” in December 2005. Subsequent to that report, we also provided Congress with results of completed reviews published.

Finally, the OIG has undertaken the following efforts:

- The OIG’s Office of Security Operations has conducted background investigations on thousands of employees who have been hired for SBA’s loan processing and operations for the Gulf hurricane disasters. This office has also conducted name checks and FBI fingerprint checks on hundreds of borrowers whose disaster loan applications indicate a criminal history. The results of these checks are reported to SBA program officials for character eligibility determinations.
- The OIG provided fraud awareness information briefings to over 700 employees at SBA’s Fort Worth (Texas) Disaster Center, and OIG fraud hotline posters were disseminated throughout SBA field disaster centers in the Gulf states so that SBA officials and the public could readily report fraud.
- The OIG also issued an information notice to all SBA employees announcing the Hurricane Relief Fraud Hotline and requesting that they increase their awareness of fraudulent activities as they receive and process disaster-related loans and provide other disaster-related assistance, and to report any fraudulent activities to the hotline.

### Data Exchange Errors Between FEMA and SBA Hamper Efforts to Aid Disaster Victims

Information systems within SBA and FEMA must interface properly to ensure timely and appropriate assistance to Gulf hurricane disaster victims. An individual requesting assistance initially registers in FEMA’s NEMIS and may be referred to DCMS based upon indications of income, household size or self-employment, and indications of loss of real or personal property.

*Information systems within SBA and FEMA must interface properly to ensure timely and appropriate assistance to Gulf hurricane disaster victims.*

Currently, SBA’s DCMS provides daily file updates (for example, “loss verified,” “loan approved” or “loan disbursed”) to NEMIS. FEMA uses that information to update NEMIS and determine if the disaster

*...during data transfers between DCMS and NEMIS complete data controls are not in place to: (1) identify that an error had occurred; (2) flag affected records; and (3) monitor and correct errors through a log and related feedback loop.*

victims are eligible for further FEMA assistance. Our audit work identified that during data transfers between DCMS and NEMIS complete data controls are not in place to: (1) identify that an error had occurred; (2) flag affected records; and (3) monitor and correct errors through a log

and related feedback loop. SBA estimated that, since DCMS was implemented, it has had to review and correct roughly 83,000 update records. We recommended that SBA work with FEMA to improve and formalize the error resolution process between the two systems. Error correction delays have resulted in disaster victims not always receiving needed assistance in a timely manner.

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## Significant OIG Activities

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### Disaster Loan System Referral Procedures and System Errors Delay Assistance to Recent Hurricane Victims

The magnitude of the 2005 Gulf hurricane disasters has resulted in an unprecedented need to provide relief to eligible victims in a timely and effective manner. The DCMS was implemented shortly before the outbreak of the Katrina disaster, resulting in an unparalleled volume of applications being processed in a new computer system. The DCMS application has a direct interface with NEMIS to provide disaster assistance. Generally FEMA registers disaster victims in NEMIS and refers them to SBA as part of its disaster relief and emergency assistance programs.

*The DCMS was implemented shortly before the outbreak of the Katrina disaster, resulting in an unparalleled volume of applications being processed in a new computer system.*

In two reviews during this reporting period, the OIG found that SBA and FEMA need to reconsider procedures regarding automatic submission of disaster loan applications to DCMS. For example,

*In two reviews during this reporting period, the OIG found that SBA and FEMA need to reconsider procedures regarding automatic submission of disaster loan applications to DCMS.*

FEMA's Individual Assistance Center Online Registration forwarded to SBA disaster loan applications indicating "\$0 Income," or with the pre-disaster income field left blank, needlessly increasing the volume of referrals to SBA. We also found that SBA mailed loan applications to disaster victims that normally would not be referred to SBA's disaster loan

program, and that the increased application volume delayed responses to those applicants who actually were qualified for the program.

### Financial Statements and Information Systems Controls Audits for FY 2005 Address Disaster Program Issues

SBA's FY 2005 financial statement audit, which assesses the adequacy of internal controls over financial reporting, found that improvement was needed in the management of disaster program express mail expenses and employee time and attendance. The audit found that the Atlanta Area Disaster Office had inadequate controls over the approval of time and attendance for approximately 2,300 temporary personnel working in remote locations of disaster sites. In addition, inadequate controls were in place regarding use and reconciliation of Federal Express shipping vouchers. The rapid increase in temporary personnel to administer disaster loans increases the importance of controls over these areas, because these processes are inherently at high risk for abuse, which may result in improper payments or misuse of funds or assets.

*...the Atlanta Area Disaster Office had inadequate controls over the approval of time and attendance for approximately 2,300 temporary personnel working in remote locations of disaster sites.*

*...controls in the DCMS were not adequate to ensure that management had determined what activities and files were considered sensitive and required logging.*

The audit of SBA's FY 2005 information systems controls determined that controls in the DCMS were not adequate to ensure that management had determined what activities and files were considered sensitive and

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## Significant OIG Activities

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required logging. The audit report recommended independent management review of database and application logs to ensure that potential security violations are analyzed and investigated. The report also recommended that the number of individuals granted “SuperUser” access be reduced to the minimum number possible, and that procedures be established granting system access according to responsibilities and duties.

### OIG Finds Fraud Perpetrated by Recipients of September 11, 2001, Disaster Loans

Part of the OIG effort to fight fraud involves examining the over \$1.1 billion in disaster assistance loans disbursed in response to the September 11, 2001, terrorist attacks. As is the case with other disaster assistance loans, the emphasis on timely claim disbursements can create opportunities for unscrupulous applicants to commit fraud. In addition, problems with this type of disaster assistance loan are not immediately evident, *...problems with...disaster assistance loan(s) are not immediately evident, because repayments are typically deferred.*

*Part of the OIG effort to fight fraud involves examining the over \$1.1 billion in disaster assistance loans disbursed in response to the September 11, 2001, terrorist attacks.*

because repayments are typically deferred. The OIG has investigated and obtained the prosecution of numerous parties that committed fraud to obtain 9/11 disaster loans.

In one recent case, two former co-owners of a New York City financial management firm had applied for a \$1 million 9/11 disaster assistance loan. A joint investigation by the OIGs of SBA and the Social Security Administration determined that the firm was not located near the World Trade Center, and there was no evidence that the firm had been in business on the date of the attacks. Both co-owners were indicted for falsely claiming physical damage and economic injury. Thus far, one has pled guilty to conspiracy, false statements, and mail fraud. The loan, however, was denied because one co-owner never filed Federal income tax returns.

In another recent 9/11 case, the former president of a New York business received a \$646,900 disaster assistance loan for his company, which sold motor vehicles and parts to the United Nations. A total of \$548,300 was to have been used to pay off vendors. In a joint investigation with the U.S. Postal Inspection Service, the OIG determined that the borrower forged vendors’ endorsements on two-party checks payable to his firm and to the vendors for a total of \$131,600 and then transferred most of the funds to a new business. Moreover, the investigation found that he made false statements to SBA when he applied for additional funding, stating that he had used all previous funds according to the loan authorization. The individual was indicted for mail fraud, making material false statements, and forging endorsements on U.S. Treasury checks. In addition, the former president of a foreign mining company pled guilty to being an accessory after the fact by assisting the borrower in negotiating one of the fraudulently received two-party checks.



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# Significant OIG Activities

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## Small Business Access to Capital

SBA has a financial assistance portfolio of small business loans and financings exceeding \$61 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, lenders, and SBA) 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.

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.

### **OIG Unable to Determine Whether Supplemental Terrorist Activity Relief Loans Were Directed Toward Small Businesses Affected by the 9/11 Terrorist Attacks**

In response to concerns about the impact of the terrorist attacks of 9/11 on small businesses, in January 2002 Congress authorized SBA to guaranty up to \$4.5 billion in Supplemental Terrorist Activity Relief (STAR) loans made by lenders to small businesses "adversely affected" by the 9/11 attacks and their aftermath. Several news articles published in September 2005 raised concerns about STAR loans that appeared to have been made to borrowers that were not affected by the 9/11 attacks. As a result, the SBA Administrator and the Chair of the U.S. Senate Committee on Small Business and Entrepreneurship requested an OIG audit to determine if STAR loans went to qualified borrowers.

The audit found that eligibility could not be readily determined for 85 percent of the STAR loans reviewed because the lender files did not contain information sufficient to demonstrate that borrowers were adversely affected by the 9/11 attacks and their aftermath. Although SBA established criteria for documenting STAR loan eligibility, it did not establish adequate internal controls and oversight to ensure that only eligible borrowers obtained loans. SBA also did not require lenders to provide their written justifications for making STAR loans. As a result, funds appropriated for guaranties on loans made to small businesses adversely affected by the terrorist attacks may not have been used for that purpose.

*...eligibility could not be readily determined for 85 percent of the STAR loans reviewed because the lender files did not contain information sufficient to demonstrate that borrowers were adversely affected by the 9/11 attacks and their aftermath.*

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## Significant OIG Activities

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In response to the audit report, SBA agreed to implement better procedures, internal controls, and oversight to reduce the potential for misuse of funds in future special programs where 7(a) loan funds are used for nationwide disaster relief. SBA also agreed to implement procedures to ensure that STAR loan justifications are adequately documented before a guaranty is honored.

*SBA...agreed to implement procedures to ensure that STAR loan justifications are adequately documented before a guaranty is honored.*

### Dishonest Loan Agents Continue to Exploit SBA Loan Programs

The OIG continues to identify loan agent fraud as a Management Challenge for the Agency. A loan agent is employed and compensated by an applicant or lender to prepare an SBA loan application and/or refer an applicant to a lender (or a lender to an applicant). Honest loan agents help small businesses gain access to capital, but dishonest agents have perpetrated fraudulent schemes involving millions of dollars in loans. Such

*...fraudulent loans often default for non-payment, and...SBA must then purchase the guaranteed portions of the loans.*

fraudulent loans often default for non-payment, and, unless a lender was aware of the fraud, SBA must then purchase the guaranteed portions of the loans.

In addition, unscrupulous loan agents can conspire with others to commit crimes, sometimes for significant dollar amounts. For example, during this reporting period a loan broker who recruited borrowers in Texas as part of a conspiracy to falsely obtain nine SBA-guaranteed convenience store loans totaling \$9.5 million was sentenced to 41 months incarceration and 3 years probation, and ordered to pay \$8,884,253 in restitution with four other co-conspirators. The broker had previously been indicted for bank fraud, conspiracy, and money laundering. The OIG is conducting this investigation jointly with the Federal Bureau of Investigation (FBI).

The OIG's "FY 2006 Report on the Most Serious Management Challenges Facing the Small Business Administration" discusses measures necessary to prevent loan agent fraud. SBA does not know the magnitude of the loan agent problem because it has little information on agent involvement with SBA loans.

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

Accordingly, the Agency needs to systematically identify all loan agents and track their association with individual loans. Such measures take on added importance 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.

### Borrowers Falsify Equity Injections to Obtain Loans

*Agency requirements generally mandate that loan applicants inject their own assets into the project being financed. This "equity injection" gives the borrowers a tangible stake in the project's success.*

Agency requirements generally mandate that loan applicants inject their own assets into the project being financed. This "equity injection" gives the borrowers a tangible stake in the project's success. Many OIG investigations have uncovered borrowers who

falsely claim to have made equity injections in order to obtain SBA financing.

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## Significant OIG Activities

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For example, the owner of several Texas gas stations was arrested by OIG and Texas Alcoholic Beverage Commission (TABC) agents for alleged false statements and the unauthorized use of a TABC permit. After the owner's arrest, he admitted to falsifying an equity injection to obtain a \$640,000 SBA-guaranteed loan to purchase four food stores, and to transferring ownership of the properties without notifying SBA. A second man was also arrested for alleged false statements and for the unauthorized use of a TABC permit. The second man had entered into an agreement with the owner to purchase one of the food stores without disclosing the sale to either SBA or the lender. The second man then allegedly sold the store to a third party but continued to renew the TABC permit while claiming ownership of the store. The OIG is currently conducting this joint investigation with the TABC. Additional arrests and prosecutions are anticipated.

In another case, an OIG investigation determined that two former owners of a Missouri day care center had falsified making a required \$75,000 equity injection in order to obtain a \$311,000 SBA-guaranteed loan. The business never opened, and the loan quickly defaulted, resulting in a loss of over \$154,000 after liquidation of collateral. One owner was sentenced to 5 years probation after pleading guilty to making false statements to the lender and SBA. The other owner was sentenced to 3 years probation after pleading guilty to being an accessory after the fact to fraud. Both owners were also sentenced to make restitution in the amount of the loss. SBA debarred the two individuals from participating in Federal programs or procurements for 3 years.

*...an OIG investigation determined that two former owners of a Missouri day care center had falsified making a required \$75,000 equity injection in order to obtain a \$311,000 SBA-guaranteed loan.*

### **SBA Loan Programs Remain Vulnerable to False Claims of Citizenship**

Investigations by the OIG and other law enforcement agencies continue to uncover well-organized schemes by borrowers and loan agents in which borrowers falsely claim to be U.S. citizens to obtain SBA-guaranteed loans. Such loans often default quickly, with millions of dollars at risk (an individual loan can exceed \$1 million). Moreover, loans to ineligible borrowers can make financing unavailable to honest prospective borrowers. Compounding the problem is SBA's increasing dependence on lenders to administer its loan programs.

*...loans to ineligible borrowers can make financing unavailable to honest prospective borrowers. Compounding the problem is SBA's increasing dependence on lenders to administer its loan programs.*

Recently, the president of a Michigan gas station and convenience store was indicted for making false statements to SBA and a lender in order to obtain a \$1.175 million SBA-guaranteed loan. He signed documents indicating he was a U.S. citizen; however, a joint investigation with the DHS determined that he was neither a U.S. citizen nor a lawful permanent resident when he applied for the loan. In addition, the president and secretary of the firm were indicted for allegedly misrepresenting that they had made an equity injection of \$130,000.

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## Significant OIG Activities

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### Variety of Fraudulent Schemes Used to Obtain SBA-Guaranteed Loans

In addition to the fraudulent schemes previously mentioned, criminals use a variety of tactics to obtain SBA-guaranteed loans. These include 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. Such tactics increase the chances of monetary losses.

*...criminals use a variety tactics to obtain SBA-guaranteed loans. These include 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.*

For example, the owner of two Texas restaurants fraudulently obtained two SBA-guaranteed loans and a line of credit totaling \$1,078,500. In order to influence the financial institutions to approve the financing, the owner inflated his personal property values and net worth, and then utilized financial proceeds from the loans for personal expenses. He was sentenced to 5 years probation and ordered to pay over \$1.1 million in restitution. The OIG conducted this investigation jointly with the FBI and the Internal Revenue Service (IRS).

In another case, a joint investigation with the FBI disclosed that the former owner of a California market falsified Federal income tax returns as part of his application for a \$1 million SBA-guaranteed loan. He also submitted altered Federal income tax returns to another bank in order to obtain a \$580,000 home loan. None of the submitted tax returns matched the returns filed with the IRS. After his indictment in June 2000, the individual became a fugitive and was apprehended in 2002. He pled guilty to two counts of making false statements to a federally insured financial institution. During the reporting period, the individual was sentenced to over 12 months in prison, a \$10,000 fine, restitution of \$197,000, and 5 years supervised probation.

In yet another type of fraud, the president of a Michigan gas station and convenience store was indicted for making false statements to a lender in order to assume an existing SBA-guaranteed loan of about \$640,000. He signed documents in which he stated he had never been arrested or convicted of any criminal offense other than a minor traffic violation. A joint investigation with the DHS determined that the businessman had, in fact, pled guilty to conspiracy to transport and sell stolen motor vehicles and had been sentenced to 4 years Federal probation.

### OIG Investigations Identify Wrongful Actions by SBIC Principals

SBA licenses SBICs so that they, in turn, can provide assistance to small businesses, especially during growth stages. To accomplish this, the Agency supplements SBIC capital with Government-guaranteed securities. Some SBIC executives have abused their positions of trust for personal enrichment.

*...a manager of a New Jersey SBIC technology fund was sentenced to 70 months in prison and 5 years supervised release, and ordered to pay over \$1.9 million in restitution to SBA, in connection with making false entries in the SBIC's records.*

For example, during this reporting period, a manager of a New Jersey SBIC technology fund was sentenced to 70 months in prison and 5 years supervised release, and ordered to pay over \$1.9 million in restitution to SBA, in connection with making false entries in the

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## Significant OIG Activities

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SBIC's records. He had converted at least \$5 million received from SBA for his personal benefit. His wife had previously pled guilty to interstate transportation of stolen or fraudulently obtained property in connection with her role in stealing more than \$1.9 million from the SBIC. The OIG conducted this investigation jointly with the FBI.

In another recent case, the former chief executive officer of a Missouri SBIC was served with a complaint and summons in connection with alleged breaches of fiduciary duty, including the improper conversion of funds for his personal benefit. The complaint seeks recovery of nearly \$394,000 in actual damages plus interest. The OIG is conducting this investigation jointly with the FBI.

### **The OIG Continues to Recommend Recovery of Improper Guaranty Purchases**

Reviews of several SBA-guaranteed loans revealed that the lenders did not originate, close and/or service the loans in accordance with SBA's policies. These included two "early default" loans, defined as a loan default or business failure that occurs prior to, or within 18 months after, final disbursement, and one "early problem" loan, defined as occurring when a borrower consistently makes late or partial payments,

*Reviews of early default and early problem loans have identified a high rate of lender deficiencies in originating, closing, and servicing loans, putting SBA's guaranty at risk.*

funds monthly payments through the sale of collateral, or has two or more consecutive scheduled payments deferred within 18 months of final disbursement. Reviews of early default and early problem loans have identified a high rate of lender deficiencies in originating, closing, and servicing

loans, putting SBA's guaranty at risk. When such deficiencies are identified, full or partial recovery of the SBA guaranty paid to the lender is generally recommended. The three loan reviews completed during this reporting period identified lender deficiencies involving disbursement limitations, equity injection, and use of loan proceeds. The reviews resulted in recommended recoveries of \$133,404. Additional reviews of early default and early problem loans are in progress.

### **Improvements are Needed in the 7(a) Lender Monthly Reporting Process**

Eighty percent of SBA loans guaranteed annually are originated, serviced, and liquidated by private sector lenders, with limited SBA oversight. Thus, SBA has established a Lender/Loan Monitoring System (L/LMS) to manage risk associated with its loan portfolio. The L/LMS system uses data from SBA's Loan Accounting System (LAS) to rate lenders and loans. Data within the LAS is updated through the 1502 Reporting Process, a monthly loan status report submitted by the lenders to SBA's transfer agent, Colson Services Corporation (Colson) for all Section 7(a) loans in their portfolios. The OIG reviewed the 1502 Reporting Process as part of a review of the L/LMS to determine whether accurate, complete, and timely data was incorporated into the L/LMS. Based on our analysis of the process and a judgmental sample of lender reporting results, we found that SBA had not established a control environment to ensure data reliability. For example, a review of 217 loans reported by six lenders in December 2004, showed that the LAS had the wrong status for 86 (40 percent) of these loans. In addition, for the same six lenders, the outstanding guaranty balances in the LAS, applicable to 129 of their 217 loans were

*Inaccuracies in the status and outstanding guaranty loan balances reported by the lenders potentially compromise the Agency's risk assessment of its loan portfolio.*

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## Significant OIG Activities

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inaccurate. Reports from Colson covering November through January disclosed that Colson corrected only 10 to 15 percent of the errors that were identified in any given month. Inaccuracies in the status of loans and outstanding guaranty loan balances reported by the lenders potentially compromise the Agency's risk assessment of its loan portfolio.

The OIG recommended: (1) revisions in the existing Standard Operating Procedure to include greater controls and assign office responsibilities; (2) an assessment of the risks resulting from inaccuracies in the 1502 Reporting Process; (3) appropriate training for SBA and lender personnel involved in the process; (4) an automated process to reclassify loans not reported monthly as delinquent; (5) modification of the Colson contract to improve Colson's performance; and (6) improved monitoring efforts over SBA and Colson personnel. SBA agreed with those recommendations.

The OIG also recommended that SBA cite the internal control deficiency as a material weakness in the annual Federal Managers Financial Integrity Act (FMFIA) assurance statement and in the Agency's annual Performance and Accountability Report (PAR). Management disagreed, stating that they did not believe our sample was adequate to evaluate internal controls properly and, therefore, they do not believe there was a material weakness that should be reported under FMFIA and the PAR. However, it does not appear that SBA is undertaking its own analysis to determine the extent of the problem.

*The OIG...recommended that SBA cite the internal control deficiency as a material weakness in the annual Federal Managers Financial Integrity Act (FMFIA) assurance statement and in the Agency's annual Performance and Accountability Report (PAR).*

### **Improvements are Needed in Human Capital Planning for the Office of Financial Assistance**

As part of its ongoing examination of SBA human capital and transformation efforts, the OIG reviewed the Office of Financial Assistance's (OFA) human capital planning activities. We found that OFA does

*...the OFA does not have an up-to-date staffing plan or a documented training plan to ensure that its staff has, retains, and builds the skills and competencies needed for OFA to achieve its current and future goals.*

not have an up-to-date staffing plan or a documented training plan to ensure that its staff has, retains, and builds the skills and competencies needed for OFA to achieve its current and future goals. We also found that the current Associate Deputy Administrator for Capital Access has not taken action to ensure that OFA operates with an

updated and approved staffing plan. The OIG also observed that OFA does not routinely monitor or measure quality assurance in the operations of its loan processing and service centers. OFA program officials indicated agreement with the OIG's observations and concerns regarding human capital planning in OFA.

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## Significant OIG Activities

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### 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 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 23 percent of the total value of all prime contract awards for each fiscal year to go to small businesses.

SBA also manages the Section 8(a) Business Development (8(a) BD) program. This program was established to provide business development assistance to small businesses owned by socially and economically disadvantaged individuals, and 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 Agency 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. All demand of SBA effective and efficient management, outreach, and service delivery. Determining whether business development and Government contracting programs meet these demands requires reliable internal and external data for effective monitoring and oversight.

### Federal Procurement Remains a Target for Fraud

A serious government contracting issue involves companies which misrepresent themselves as small businesses to gain an unfair advantage in the Federal marketplace. Recently, an Arizona firm that provides technology products and services to the Government agreed to pay \$1 million to settle allegations that a corporation it had purchased in 2002 had falsely certified itself as a small business on its application for the General Services Administration's (GSA) Multiple Award Schedule (MAS) listing products and vendors. The OIG received a complaint that the corporation had unfairly received a preference in the award of task orders under the MAS. A two-year investigation conducted jointly with the GSA OIG and the Department of Justice concluded that the purchased corporation had indeed misrepresented its size status on its 1996 application, and that the firm had unfairly benefited from the small business designation. The Arizona firm withdrew the small business certification in 2005.

*Recently, an Arizona firm that provides technology products and services to the Government agreed to pay \$1 million to settle allegations that a corporation it had purchased in 2002 had falsely certified itself as a small business on its application for the GSA MAS.*

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## Significant OIG Activities

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### A Lack of Monitoring Allows 8(a) Companies to Circumvent SBA Business Development Regulations

SBA delegated its 8(a) BD contract execution authority to 26 Federal procuring agencies starting in 1998. At that time, SBA ceased to directly monitor compliance by 8(a) firms program regulations on awarded contracts, delegating that responsibility to the procuring agencies. However, the Agency apparently has not conducted any surveillance reviews since the delegation to ensure that the procuring agencies are effectively monitoring the contracts. An OIG review of 23 of the 26 procuring agencies found that none of them has procedures or other guidance in place to detect if companies are not complying with the 8(a) regulations. Because there is no evidence of compliance monitoring of 8(a) contracts by either SBA or the procuring agencies, companies could violate 8(a) regulations without detection by Federal officials.

*Because there is no evidence of compliance monitoring of 8(a) contracts by either SBA or the procuring agencies, companies could violate 8(a) regulations without detection by Federal officials.*

In one case, neither SBA nor the procuring agency was aware that an 8(a) company apparently subcontracted out 100 percent of its work on 13 8(a) contracts worth approximately \$2 million. The firm appears to have been unduly dependent on subcontractors. It also appears to have falsified payroll records, and not to have met the requirements to perform out-of-state contracts. SBA has agreed to: (1) revise the partnership agreements it has with procuring agencies to require them to take certain actions; and (2) ensure that surveillance reviews are conducted on a regular basis.

### Ineligible 8(a) BD Company Receives \$9.3 Million Contract

A company and its owner(s) must meet numerous eligibility requirements in order to participate in the 8(a) BD program. Firms value 8(a) status because it confers certain advantages in competing for Government contracts. Companies accepted to the 8(a) BD program can receive sole source awards and other awards available only to 8(a) participants. In some cases, business owners are willing to commit fraud to obtain admission to the 8(a) program.

*Firms value 8(a) status because it confers certain advantages in competing for Government contracts.*

The OIG found that an 8(a) company with two owners – one disadvantaged, one not – that had received a \$9.3 million 8(a) contract had provided false and misleading information to get into, and remain in, the program. The company's disadvantaged owner violated 8(a) BD eligibility requirements concerning payment of Federal financial obligations, company control, and good character. He failed to make required IRS payments on 9 years of delinquent taxes, totaling over \$270,000. The non-disadvantaged owner received the higher compensation of the two, and as such, should be considered to be in control of the company, which is also a violation of 8(a) requirements. During the application process, the company falsely led SBA to believe it had complied with all requirements, thus violating the obligation to be of good character. Moreover, after being admitted to the program, the company apparently did not inform SBA that its disadvantaged owner was not the highest compensated

*During the application process, the company falsely led SBA to believe it had complied with all requirements, thus violating the obligation to be of good character.*



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## Significant OIG Activities

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employee, although it is required to inform SBA of any changes affecting its eligibility. SBA has agreed with the OIG's recommendation to initiate proceedings to terminate the company from the program.

### **Improvements are Needed in the Central Contractor Registration Database to Prevent Large Businesses From Being Classified as Small Ones**

In the OIG's "FY 2006 Report on the Most Serious Management Challenges Facing the Small Business Administration," Management Challenge 1 addresses flaws in the procurement process that allow contracting agencies to count contracts awarded to large businesses towards their small business goals.

The Central Contractor Registration (CCR) website was developed by the Department of Defense to provide a way for contractors to receive payments when contracting with the Federal Government. Subsequently, the database maintained on the CCR website also became a marketing tool for contractors. During this reporting period, we determined that a flaw in the CCR system allows contradictory information on a contractor's size to be included, which can lead contracting officials and others to incorrectly identify contractors as small businesses and thus designate contracts awarded to large businesses as small business contracts. The OIG believes that the CCR database needs to be modified to include an edit check and additional instructions. SBA's Office of Government Contracting agreed with the OIG's recommendations for corrective action.

*...a flaw in the CCR system allows contradictory information on a contractor's size to be included, which can lead contracting officials and others to incorrectly identify contractors as small businesses and thus designate contracts awarded to large businesses as small business contracts.*

### **Businesses Scheme to Maintain Section 8(a) Status**

The former president and vice president of a Virginia hazardous materials abatement and waste removal company conspired to make misrepresentations to SBA in order to maintain the firm's 8(a) eligibility.

*The former president and vice president of a Virginia hazardous materials abatement and waste removal company conspired to make misrepresentations to SBA in order to maintain the firm's 8(a) eligibility.*

They also violated Environmental Protection Agency (EPA) regulations by conspiring to falsify hazardous environmental training certificates on contracts. During this reporting period, the former president was sentenced to 5 months in prison, 5 months home detention,

3 years supervised release, a \$1 million fine, and a special fee. Moreover, the vice president, who was also the president of a subcontractor firm that served the contractor, previously had pled guilty to conspiracy to defraud SBA and the EPA. The subcontractor firm and its president were later suspended from Government contracting by the U.S. Army Procurement Fraud Branch. Based on a Department of Justice request to join an ongoing investigation, the OIG worked jointly on this case with the FBI, the Defense Criminal Investigative Service, the EPA Criminal Investigation Division, the U.S. Army Criminal Investigation Division, the National Aeronautics and Space Administration (NASA) OIG, the Defense Contract Audit Agency, and the Virginia Department of Professional and Occupational Regulation. Additional defendants are awaiting sentencing.

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## Significant OIG Activities

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### SBIR Fraud Affects Multiple Agencies

The Small Business Innovation Research (SBIR) program helps a small business develop its technological potential by funding its startup and development stages and by encouraging the commercialization of its technology, product, or service.

*Fraud related to SBIR contracts can involve more than one Federal agency.*

Fraud related to SBIR contracts can involve more than one Federal agency.

In one case, the owner of a technology company allegedly billed multiple Federal agencies for the same work, billed for work that was not performed, and falsified time sheets and research logs to ensure optimum funding under each contract. Consequently, the U.S. Government overpaid the company approximately \$2 million. The OIG investigators served the company and its

*...the owner of a technology company allegedly billed multiple Federal agencies for the same work, billed for work that was not performed, and falsified time sheets and research logs to ensure optimum funding under each contract.*

owner with a civil complaint under the False Claims Act. The complaint alleged that the owner made false statements and engaged in a pattern of fraudulent conduct to improperly obtain funds from SBIR contracts awarded to the company by the U.S. Army, U.S. Air Force, and NASA. The OIG is conducting this investigation jointly with the NASA OIG, the U.S. Postal Inspection Service, the U.S. Army Criminal Investigations Division, and the Defense Criminal Investigative Service.

### 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 semiannual basis regarding the Agency's use of its authority in connection with cosponsorships and fee-based Administration-sponsored events. SBA's Office of Strategic Alliance (OSA) provided information to the OIG related to cosponsorships, including the names, dates and locations of the cosponsorships, and names of cosponsors. Between October 1, 2005, and March 31, 2006, there were 33 cosponsorships, as shown in Appendix IX. SBA reported that it did not conduct any fee-based Administration-sponsored events during this period.

*Between October 1, 2005, and March 31, 2006, there were 33 cosponsorships, as shown in Appendix IX.*

### 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.

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## Significant OIG Activities

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

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 advise that they continue to work on the regulations.

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# Significant OIG Activities

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## Agency Management

The Chief Financial Officers Act of 1990 requires each Federal agency to have its financial statements audited annually. A key initiative of the Office of Management and Budget (OMB) 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, SBA's external auditors have been critical of the Agency's reporting process and its ability to provide accurate, complete, and reliable financial data.

SBA depends on a complex information technology (IT) environment, which includes a number of mission-critical systems running on a mix of legacy mainframe, client-server, and minicomputers. The Agency has had difficulty producing reliable and timely financial and management information to support its operations, primarily because of reliance on outdated IT systems that are not integrated. SBA recently implemented a new Disaster Credit Management System to modernize and improve its disaster loan-making activities, and a Lender and Loan Monitoring System to monitor its business loan portfolio. The Agency is in the process of developing the requirements for a Loan Management and Accounting System (LMAS) that will eventually replace SBA's Loan Accounting System, which is obsolete.

### **SBA Makes Significant Progress in Overcoming Financial Management Challenge**

Various laws and regulations place significant responsibilities on Federal financial managers to manage public resources effectively and efficiently. In recent years, the OIG, GAO, and SBA's external auditor all noted significant internal control weaknesses that resulted in the Agency being unable to produce reliable, timely, and accurate financial information, including its annual financial statements. Because of these weaknesses, SBA's independent auditors were unable to render opinions on SBA's financial statements from FY 2000 through FY 2003.

Recognizing the importance of sound financial management, SBA's Administrator has made improving financial management one of the Agency's top priorities. SBA has worked diligently to identify and address the underlying causes of its financial management issues and the Agency has made significant progress towards improvement. Improved models for estimating the Agency's subsidy costs and improved controls over financial statement preparation contributed significantly to permitting the external auditor to render an unqualified opinion on SBA's FY 2005 Financial Statements.

*SBA has worked diligently to identify and address the underlying causes of its financial management issues and the Agency has made significant progress towards improvement.*

Despite the improvements in the quality, accuracy, and reliability of SBA's FY 2005 financial reports and supporting documentation, SBA's external auditor concluded that a material weakness continues to exist in SBA's financial management and reporting controls. The OIG recently updated the financial Management Challenge to reflect the progress made and to emphasize the additional steps needed for SBA to resolve this Challenge. To be successful, SBA will need to further

*Despite the improvements in the quality, accuracy, and reliability of SBA's FY 2005 financial reports and supporting documentation, SBA's external auditor concluded that a material weakness continues to exist in SBA's financial management and reporting controls.*

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## Significant OIG Activities

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improve financial reporting controls, enhance quality assurance procedures over financial reporting, submit quarterly and annual financial statements that are substantially free of errors, maintain the external auditor's unqualified opinion on the Agency's financial statements, have no reportable conditions related to financial management and reporting, and implement the requirements of OMB Circular A-123 (A-123).

A-123 provides updated internal control standards with an emphasis on integrating control assessments with other control-related activities. A-123 provides an excellent framework for SBA to evaluate its existing control environment and to determine where control deficiencies exist that prevent SBA from achieving the objectives of its financial management and reporting controls. The actions the OIG identifies as necessary for SBA to overcome its financial Management Challenge are consistent with the actions necessary for a successful A-123 implementation. Therefore, the OIG is providing SBA with internal control assessment tools, external auditor documentation of SBA's key accounting and reporting cycles, and informal reviews of SBA's OMB A-123 implementation plans and progress to date.

The OIG is monitoring SBA's continued progress by: increasing the resources devoted to the Agency's annual financial statement audit; working closely with SBA to ensure the Agency incorporates needed corrective actions identified by the OIG and external auditors into its financial reporting plans; requiring review by the OIG of all final actions on recommendations related to SBA's financial Management Challenge; and following SBA's activities to implement the requirements of A-123. For FY 2006, a new external auditor, KPMG, will perform the financial statement audit and related work.

*The OIG is monitoring SBA's continued progress by: increasing the resources devoted to the Agency's annual financial statement audit...*

### **SBA Shows Improvement in Accrediting its Major Information Systems but Needs Improvement in Addressing Identified System Vulnerabilities**

The confidentiality, integrity, and availability of SBA's information systems are vital to the continued successful operation of the Agency. SBA's effort to improve its computer security program during the past year has shown mixed results. SBA achieved a major milestone in certifying and accrediting 95 percent of its major systems within the past year. However, recent OIG and external auditor reviews showed the need for continued focus and improvement in Information System Controls. Based on these audit results, the OIG has updated the information security Management Challenge to reflect the additional specific actions needed for SBA to overcome this Management Challenge.

Our external auditor's FY 2005 review of general and application controls was issued during this reporting period. This audit followed guidance provided in the GAO Federal Information System

*The external auditor made six new recommendations, and specifically identified two of 26 unimplemented recommendations from previous audit reports that addressed significant risks to the integrity of the Agency's information security program.*

Controls Audit Manual (FISCAM) and concluded, as it did for FY 2004, that SBA needs to improve: (1) entity-wide security program controls; (2) access controls; (3) application software development and program change controls; (4) system software controls; (5) segregation of duty controls; and (6) service continuity

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## Significant OIG Activities

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controls. The external auditor made six new recommendations, and specifically identified two of 26 unimplemented recommendations from previous audit reports that addressed significant risks to the integrity of the Agency's information security program.

The OIG review of SBA's FY 2005 Information Security Program, required by the Federal Information Security Management Act, revealed mixed results. SBA continued to have 19 of its 20 major systems (95 percent) certified and accredited. However, SBA has not been able to quickly or sufficiently address 211 system risk assessment vulnerabilities and unresolved OIG audit findings. A number of these unimplemented audit recommendations and risk assessment weaknesses are significant to SBA's information technology environment. Therefore, improvements continue to be needed in general and application controls in SBA's IT general support and major application systems.

*...SBA has not been able to quickly or sufficiently address 211 system risk assessment vulnerabilities and unresolved OIG audit findings.*

### **SBA Improperly Accepted One Cash Gift for Travel-Related Purposes**

Section 4(g)(2) of the Small Business Act as amended by SBA's most recent reauthorization 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 any findings to Congress. During this reporting period, the OIG reviewed one cash gift received by the Agency in June 2005 and found that the Office of General Counsel (OGC) had never been requested to perform the required conflict of interest determination for the donor. The OIG brought this matter to the attention of OGC, which, in turn, performed a conflict of interest determination and found that the cash gift was improperly received by the Agency to pay for travel. Agency officials plan to return the money to the donor. The Agency reported that no cash gifts were received during the period October 1, 2005 through March 31, 2006.

Also during this reporting period, the Agency's final regulations for implementing the changes to SBA's gift authority were published in the Federal Register. The OIG reviewed and provided comments noting certain deficiencies in the regulations, and the Agency made appropriate adjustments. In addition, final action was reached on four of the nine recommendations from our audit report, "Review of SBA Procedures for Cash Gifts," issued September 30, 2005.

### **The Number and Percentage of Overdue Management Decisions Has Decreased While the Number and Percentage of Overdue Final Implemented Actions Has Increased**

When the OIG presents a recommendation, the management decision can take several forms. Program officials may agree to the recommendation, disagree with the recommendation, or seek to negotiate a compromise agreement with the OIG. The IG Act requires that Federal agencies make management decisions on all findings and recommendations within a maximum of 6 months of report issuance. As of March 31, 2006, 25 management decisions on recommendations in OIG reports were overdue—approximately 27 percent of all pending management decisions. This represents a decrease since September 30, 2005 in the number and percentage of overdue management decisions. The Offices of

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## Significant OIG Activities

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Capital Access, Government Contracting/Business Development, Management and Administration, and Strategic Alliance 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 substantially increased—by 20 percent—since September 30, 2005. As of the end of this reporting period, 61 percent of all pending final actions (134 actions) were overdue. The OCIO and Management and Administration were responsible for almost half of the overdue final actions.

*The number and percentage of recommendations with overdue final implemented actions has substantially increased—by 20 percent—since September 30, 2005. As of the end of this reporting period, 61 percent of all pending final actions...were overdue.*

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# Significant OIG Activities

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## Other Significant OIG Activities

### Proactive Character Screening Reduces Potential Program Fraud

To ensure that participants in programs involving business loans, disaster assistance loans, Section 8(a) certifications, surety bond guaranties, SBICs, and certified development companies meet SBA character standards, the OIG's Office of Security Operations conducts name checks and, when necessary, fingerprint checks. During this reporting period, the OIG processed 1,719 external name check requests for these programs.

*During this reporting period, the OIG processed 1,719 external name check requests for these programs.*

The OIG also refers applicants who appear ineligible because of character issues to program officials for adjudication based on data from an on-line connection with the FBI. During this period, OIG referrals resulted in SBA business loan program managers declining 47 applications totaling nearly \$20.1 million, and disaster loan program officials declining 14 applications totaling almost \$1.4 million. Over \$266.2 million in loans has been declined during the last 10 years due to character eligibility issues, thus making credit available to more worthy applicants.

*Over \$266.2 million in loans has been declined during the last 10 years due to character eligibility issues, thus making credit available to more worthy applicants.*

available to more worthy applicants.

Moreover, OIG efforts during this period resulted in the Section 8(a) BD program declining seven applications for admission, and the Surety Bond Guaranty Program declining one application. The OIG also initiated 145 background investigations and issued 19 security clearances for Agency employees and contractor personnel needing clearances, adjudicated 88 background investigative reports, and coordinated with SBA's Office of Disaster Assistance to adjudicate 323 derogatory background investigative reports. Finally, the OIG processed 2,485 internal name check requests for Agency activities such as success stories, Small Business Person of the Year nominees, and disaster assistance new hires.

### The OIG Recommends Debarments

The OIG believes that it is in the public interest to debar parties that have engaged in fraudulent conduct or have otherwise shown a lack of business integrity. Debarred parties are precluded from conducting business or contracting with the Federal Government for a specified period of time, generally 3 years. The OIG has adopted a proactive program to identify current SBA program participants for whom debarment would serve the public interest and to make debarment recommendations to SBA.

*The OIG has adopted a proactive program to identify current SBA program participants for whom debarment would serve the public interest and to make debarment recommendations to SBA.*

For example, during the reporting period, the OIG recommended that SBA debar two individuals who made false statements to obtain an SBA-guaranteed loan to purchase a business. One of the individuals claimed that he would use personal assets to make an equity injection to pay part of the purchase price of



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## Significant OIG Activities

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the business. An OIG investigation determined that a majority of the equity injection was actually loaned to the individual by his brother. In addition, the brother had previously received an SBA loan. If the affiliation of the two individuals had been disclosed, the two loans would have exceeded SBA's statutory limit for total loans to a borrower. The two subjects pled guilty to conversion of government property and were sentenced to 3 years probation and fines. The Agency agreed with the OIG recommendation to debar the individuals.

Also, during the reporting period, the OIG recommended that SBA debar an individual who defrauded the government to obtain a disaster loan for damage he claimed occurred as a result of the 9/11 terrorist attacks. The OIG's recommendation to the Agency related that the individual claimed that his business was located near the World Trade Center and that, as a result of the attacks, his law firm's revenues declined. The OIG investigation determined that the individual's claims were false because his law firm never had an office located near the World Trade Center. The investigation resulted in the subject pleading guilty to wire fraud and money laundering in violation of 18 U.S.C. §§ 1343 and 1957. The Agency has not finished its evaluation to decide whether to debar the individual.

*...the OIG recommended that SBA debar an individual who defrauded the government to obtain a disaster loan for damage he claimed occurred as a result of the 9/11 terrorist attacks.*

Debarment statistics for the reporting period can be found in the Statistical Highlights section.

### **OIG Reviews Legislation, Regulations, and Standard Operating Procedures to Identify Potential Problem Areas**

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.

*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.*

From October 1, 2005, through March 31, 2006, the OIG identified and recommended solutions to reduce potential management problems and inefficiencies in several areas of importance to the Agency. These included: Agency initiatives to expedite assistance to the victims of the Gulf hurricanes; regulations and office reorganizations regarding SBA's oversight of lenders participating in business loan programs and the Agency's planned centralization of certain SBA loan functions; regulations establishing a woman-owned small business contracting program; and various initiatives governing admission to, and graduation from, the 8(a) BD program. During this period, the OIG reviewed 20 proposed legislative and regulatory changes, and 58 internal SBA operating procedures and other initiatives, covering a wide variety of Agency issues.

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## Significant OIG Activities

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Regarding one such initiative, the OIG identified problems with a proposed expansion of the CommunityExpress Program, which is a pilot program of the 7(a) loan guaranty program. Similar to the SBAExpress Program, lenders in the CommunityExpress Program are permitted to use their own forms and lending procedures rather than SBA processes. Unlike the SBAExpress Program, in which lenders receive a 50 percent guaranty, CommunityExpress lenders receive a 75 to 80 percent guaranty, depending upon the size of the loan. In exchange for the higher guaranty, lenders are required to direct loans to borrowers located in pre-designated geographic areas generally comprising low and moderate income areas, and to women, minorities and/or veterans, and to provide technical assistance to these borrowers.

...the OIG identified problems with a proposed expansion of the CommunityExpress Program, which is a pilot program of the 7(a) loan guaranty program.

The Agency proposed to extend the term of the CommunityExpress Program, and to expand the universe of borrowers that were eligible to participate in the program. The OIG disagreed with this proposal because the CommunityExpress Program was established in March 1999 and the Agency has never issued any regulations, Standard Operating Procedures (SOPs), or any other guidance to govern this program. (A proposed program guide was circulated within the Agency for clearance several years ago, but was never officially cleared by all required clearing offices. Nevertheless, the Agency has posted this guide on its banking website as official program guidance.) The OIG believes that prior to extending the term of this pilot program, and prior to expanding the scope of the program, the Agency needs to develop regulations, SOP provisions or a program guide that is cleared as an appendix to an SOP.

... the CommunityExpress Program was established in March 1999 and the Agency has never issued any regulations, SOPs, or any other guidance to govern this program.

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# Statistical Highlights

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## FY 2006 6-Month Productivity Statistics October 1, 2005, through March 31, 2006

<b>Summary of Office-Wide Dollar Accomplishments</b>	<b>Totals</b>
A. Potential Investigative Recoveries and Fines.....	\$19,671,209
B. Loans/Contracts Not Made as Result of Investigations .....	\$6,200
C. Loans Not Made as a Result of Name Checks .....	\$21,463,372
D. Disallowed Costs Agreed to by Management.....	\$456,202
E. Recommendations that Funds Be Put to Better Use Agreed to by Management.....	\$25,000
<b>Total .....</b>	<b><u>\$41,621,983</u></b>

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

A. Reports Issued.....	20
B. Recommendations Issued.....	60
C. Dollar Value of Costs Questioned.....	\$481,366
D. Dollar Value of Recommendations that Funds Be Put to Better Use.....	\$0
E. Collections as a Result of Questioned Costs .....	\$669,955

### Audit and Report Follow-up Activities

A. Recommendations Closed.....	70
B. Disallowed Costs Agreed to by Management .....	\$456,202
C. Dollar Value of Recommendations that Funds Be Put to Better Use Agreed to by Management.....	\$25,000
D. Unresolved Recommendations.....	99

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

A. Legislation Reviewed.....	7
B. Regulations Reviewed.....	13
C. Standard Operating Procedures and Other Issuances* Reviewed.....	58
<b>Total .....</b>	<b>78</b>

\*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.

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# Statistical Highlights

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## FY 2006 6-Month Productivity Statistics October 1, 2005, through March 31, 2006

### Indictments, Convictions, and Case Activity

A. Indictments from OIG Cases.....	23*
B. Convictions from OIG Cases .....	13*
C. Cases Opened .....	28
D. Cases Closed .....	29

### Investigations Recoveries and Management Avoidances

A. Potential Recoveries and Fines as a Result of OIG Investigations.....	\$19,671,209
B. Loans/Contracts Not Approved as a Result of OIG Investigations.....	\$6,200
C. Loans Not Approved as a Result of the Name Check Program .....	\$21,463,372
<b>Total .....</b>	<b><u>\$41,140,781</u></b>

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

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

### Program Actions Taken as a Result of Investigations

A. Debarments Recommended to the Agency .....	8
B. Debarments Pending at the Agency .....	9
C. Proposed Debarments Issued by the Agency .....	6
D. Final Debarments Issued by the Agency.....	7

### OIG Hotline Operation Activities

A. Total Fraud Line Calls/Letters .....	248
B. Total Calls/Letters Referred to Investigations Division.....	28
C. Total Calls/Letters Referred to SBA or Other Federal Investigative Agencies .....	27
D. Total Calls/Letters Referred to Other Entities.....	31
E. Total Calls/Letters Needing No Action .....	162

\*Includes four indictments/convictions that occurred in the last semiannual reporting period but were not reported.

# Appendix

## Appendix I OIG Reports Issued October 1, 2005, through March 31, 2006

Title	Report Number	Issue Date	Questioned Costs	Funds for Better Use
<i>Capital Access</i>				
1502 Reporting Process	6-07	12/9/05		
Audit of SBA's Administration of the Supplemental Terrorist Activity Relief (STAR) Loan Program	6-09	12/22/05		
Audit of SBA-Guaranteed Loan to Ford's Plumbing	6-14	3/2/06	\$26,413	
Audit of SBA-Guaranteed Loan to Furco, Inc.	6-16	3/20/06	\$18,992	
Audit of SBA-Guaranteed Loan to ScapeArt, Inc.	6-17	3/20/06	\$88,269	
<b>Program Subtotal</b>	<b>5</b>		<b>\$133,674</b>	
<i>Disaster Assistance</i>				
Disaster Loan Application Declines Within DCMS	6-11	2/2/06		
FEMA Online Registrations Increase DCMS Applications	6-12	2/17/06		
Interface Error Correction Between NEMIS and DCMS	6-20	3/31/06		
<b>Program Subtotal</b>	<b>3</b>		<b>\$0</b>	
<i>Agency Management</i>				
Advisory Memorandum Report — Independent Evaluation of SBA's Information Security Program	6-01	10/7/05		
FY 2006 Management Challenges	6-02	10/14/05		
Single Audit of Greenpoint Manufacturing and Design Center	6-03	10/17/05	\$347,692	
Audit of SBA's FY 2005 Financial Statements	6-04	11/14/05		
Government-Wide Financial Report System for FY 2004	6-05	11/18/05		
Agreed-Upon Procedures: SBA's Intragovernmental Activity and Balances	6-06	12/2/05		
Audit of SBA's FY 2005 Information System Controls	6-08	12/21/05		
Audit of SBA's FY 2005 Financial Statements — Management Letter	6-10	1/18/06		
Human Capital Planning in the Office of Financial Assistance	6-13	3/2/06		
<b>Program Subtotal</b>	<b>9</b>		<b>\$347,692</b>	

# Appendix

**Appendix I (cont.)  
OIG Reports Issued  
October 1, 2005, through March 31, 2006**

Title	Report Number	Issue Date	Questioned Costs	Funds for Better Use
<i>Government Contracting and Business Development</i>				
Monitoring Compliance with 8(a) BD Regulations During 8(a) BD Contract Performance	6-15	3/16/06		
The Central Contractor Registration Needs to Be Modified	6-18	3/21/06		
Review of a Company's 8(a) Business Development Program Eligibility	6-19	3/30/06		
<b>Program Subtotal</b>	<b>3</b>		<b>\$0</b>	
<b>TOTALS (all reports)</b>	<b>20</b>		<b>\$ 481,366</b>	

# Appendix

## Appendix II OIG Reports with Questioned Costs

		Report s	Recommend- ations*	Questioned Costs**	Unsupported Costs**
A.	No management decision made by September 30, 2005	7	9	\$5,609,892.10	\$3,086,077.13
B.	Issued during this reporting period	4	4	\$481,366.00	\$0
	Universe from which management decisions could be made in this reporting period – <b>Subtotals</b>	11	13	\$6,091,258.10	\$3,086,077.13
C.	Management decision(s) made during this reporting period	3	3	\$1,930,385.73	\$0
	(i) Disallowed costs	0	0	\$0	\$0
	(ii) Costs not disallowed	0	0	\$0	\$0
D.	<b>No management decision made by March 31, 2006</b>	8	10	\$3,914,412.37	\$3,086,077.13

\* 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	Recommend- ations*	Recommended Funds For Better Use
A.	No management decision made by September 30, 2005	2	2	\$318,823.00
B.	Issued during this reporting period	0	0	0
	Universe from which management decisions could be made in this reporting period – <b>Subtotals</b>	2	2	\$318,823.00
C.	Management decision(s) made during this reporting period	1	1	\$25,000.00
	(i) Recommendations agreed to by SBA management	1	1	\$25,000.00
	(ii) Recommendations not agreed to by SBA management	0	0	\$0
D.	<b>No management decision made by March 31, 2006</b>	1	1	\$293,823.00

\*Reports may have more than one recommendation.

# Appendix

## Appendix IV OIG Reports with Non-Monetary Recommendations

		Reports	Recommendations
A.	No management decision made by September 30, 2005	25	86
B.	Issued during this reporting period	12	56
	Universe from which management decisions could be made in this reporting period – <b>Subtotals</b>	37	142
C.	Management decision(s) made (for at least one recommendation in the report) during this reporting period	18	66
D.	<b>No management decision made (for at least one recommendation in the report) by March 31, 2006 *</b>	24	77

\*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.



# Appendix

## Appendix V OIG Reports From Prior Semiannual Periods with Overdue Management Decisions as of March 31, 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 two recommendations 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 Selected SBA Computer General Support Systems	4-41	9/10/04	Agency has not responded to one recommendation made in the report.
Audit of SBA's E-mail System	4-42	9/10/04	Agency response does not fully address the three recommendations.
Audit of Early Defaulted Loan to Big Z Travel Center	4-43	9/17/04	Management has not responded to one recommendation 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.
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.
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 five recommendations 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 five recommendations made in the report.
Audit of the SBIC Liquidation Process	5-22	7/28/05	Nine recommendations made in the report are awaiting management response and pending results of a contractor's report.

# Appendix

**Appendix V (cont.)  
 OIG Reports From Prior Semiannual Periods  
 with Overdue Management Decisions  
 as of March 31, 2006**

Title	Report Number	Date Issued	Status
Criteria for Overcoming the Presumption of Social Disadvantage is Needed	5-24	9/28/05	Management has not responded to one recommendation in the report.
Audit of SBA's Informs Electronics System	5-25	9/22/05	Agency response does not fully address the recommendation.
Management Advisory Memorandum: BLX PLP Processing Restrictions for Paying off Existing SBA Debt.	5-27	9/28/05	Agency response does not fully address the recommendation.
Review of SBA Procedures for Cash Gifts	5-28	9/30/05	Agency has not responded to four recommendations 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.

# Appendix

## Appendix VI OIG Reports Without Final Action as of March 31, 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
1-12	SBA's Information Systems Controls – FY 2000	3/27/01	***	**
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	**
2-12	Improvements in the SBLC Oversight Process	3/20/02	***	9/30/05
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	***	**
2-29	Internal Control Over Colson Services Corporation's Contract as Central Servicing Agent for SBA's CDC Program	9/16/02	12/12/02	6/30/06
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
3-18	Grants to the Texas Center for Women's Business Enterprise	3/20/03	6/4/03	10/15/03
3-20	SBA's Information System Controls for FY 2002	3/31/03	***	**
3-21	Equity Injection in the SBA 7(a) Loan Guaranty Program	3/31/03	5/27/04	2/18/05

\*\* Target dates vary with different recommendations.

\*\*\*Management decision dates vary with different recommendations.

# Appendix

## Appendix VI (cont.) OIG Reports Without Final Action as of March 31, 2006

Report Number	Title	Date Issued	Date of Management Decision	Final Action Target Date
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	10/31/05
3-32	SBA's Acquisition, Development and Implementation of the Joint Accounting and Administrative Management System	6/30/03	***	**
3-33	SBIC Oversight	7/1/03	***	4/30/05
3-34	SBA's Compliance with JFMIP Property Management System Requirements	7/23/03	9/11/03	12/30/06
3-35	National Women's Business Council	7/28/03	***	**
3-36	Audit of an Early Defaulted Loan	8/19/03	10/01/03	9/30/04
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
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	**
4-18	SBA's Loan Application Tracking System	4/5/04	***	**
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	**
4-26	Audit of an Early Defaulted Loan	6/22/04	7/1/04	3/31/05
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-Guaranteed Loan	7/9/04	10/6/04	3/31/05
4-29	Audit of an Early Defaulted Loan	7/12/04	10/6/04	3/31/05

\*\* Target dates vary with different recommendations.

\*\*\*Management decision dates vary with different recommendations.

# Appendix

## Appendix VI (cont.) OIG Reports Without Final Action as of March 31, 2006

Report Number	Title	Date Issued	Date of Management Decision	Final Action Target Date
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	***	**
4-42	Audit of SBA's E-mail System	9/10/04	***	**
4-44	SBA-Sponsored and Cosponsored Events Conducted by District Offices	9/24/04	***	9/30/05
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	***	**
5-13	SBA's FY 2004 Financial Statements – Management Letter	2/23/05	***	**
5-17	SBA's Continuity of Operations Planning Program	3/30/05	5/3/05	**

\*\* Target dates vary with different recommendations.

\*\*\*Management decision dates vary with different recommendations.

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# Appendix

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**Appendix VI (cont.)  
OIG Reports Without Final Action as of March 31, 2006**

<b>Report Number</b>	<b>Title</b>	<b>Date Issued</b>	<b>Date of Management Decision</b>	<b>Final Action Target Date</b>
5-19	Advisory Memorandum Report – Consolidation of SBA’s Systems Subject to FISMA	5/20/04	***	12/30/05
5-23	SBA’s Administration of its Special Appropriation Grant	9/24/04	***	**
6-07	Review of the 1502 Reporting Process	12/9/05	1/9/05	

\*\* Target dates vary with different recommendations.

\*\*\*Management decision dates vary with different recommendations.

# Appendix

## Appendix VII Significant Recommendations From Prior Semiannual Reporting Periods Without Final Action as of March 31, 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	9/30/06
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	11/17/03
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	11/17/03

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

## Appendix

**Appendix VII (cont.)  
Significant Recommendations  
From Prior Semiannual Reporting Periods  
Without Final Action as of March 31, 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	12/31/03
3-33	7/1/03	Revise Standard Operating Procedure (SOP) on Small Business Investment Companies (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	4/5/05
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.	10/24/04	9/30/05
3-36	8/19/03	Seek recovery of \$282,447 from the 7(a) lender less any subsequent recoveries.	10/1/03	9/30/04
4-27	6/29/04	Direct the San Francisco District Director to instruct the San Jose SCORE Chapter to return all Silicon Valley SBDC program income that was generated at the e-Center and is being held at the e-Center Special Account to West Valley Community College.	12/29/04	7/6/06

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



## Appendix

**Appendix VII (cont.)  
Significant Recommendations  
From Prior Semiannual Reporting Periods  
Without Final Action as of March 31, 2006\***

<b>Report Number</b>	<b>Date Issued</b>	<b>Recommendation</b>	<b>Management Decision Date</b>	<b>Final Action Target Date</b>
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
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
5-04	11/4/04	That the Acting Associate Administrator for Business Development develop and implement procedures to ensure that eligibility reviewers recommend denial of SDB certification if a firm or any of its principals do not comply with 13 CFR 124.108(e).	4/1/05	9/30/05

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## Appendix

**Appendix VII (cont.)  
Significant Recommendations  
From Prior Semiannual Reporting Periods  
Without Final Action as of March 31, 2006\***

<b>Report Number</b>	<b>Date Issued</b>	<b>Recommendation</b>	<b>Management Decision Date</b>	<b>Final Action Target Date</b>
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
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
5-12	2/24/05	For the Loan Accounting System (LAS): (1) provide software developers, testers, and IT management with ongoing training in software development, testing and acceptance procedures; (2) define sufficient documentation standards for LAS, and (3) define sufficient test standards and procedures for LAS.	6/22/05	3/31/06
5-17	3/30/05	Assign overall Continuity of Operations Program (COOP) Business Resumption Program oversight responsibilities to the Office of Chief Operating Officer.	5/3/05	6/1/05

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## Appendix

**Appendix VII (cont.)  
Significant Recommendations  
From Prior Semiannual Reporting Periods  
Without Final Action as of March 31, 2006\***

<b>Report Number</b>	<b>Date Issued</b>	<b>Recommendation</b>	<b>Management Decision Date</b>	<b>Final Action Target Date</b>
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
5-17	3/30/05	Annually test the SBA COOP and a percentage of all headquarters and field office BRP every year to ensure compliance, and therefore determine if the plans tested are adequate. Full testing of all SBA program and field office BRPs should occur at least every 4 years to ensure that all BRPs are sufficient and that program and field offices have viable, complete and tested BRPs.	5/30/05	12/31/05
5-22	7/28/05	Revise SOP 10 07 to require the development of meaningful goals and performance indicators that will measure the efficiency, effectiveness, and timeliness of the efforts of the Office of Small Business Investment Companies (SBIC) Liquidation and to include procedures to monitor periodically how well the Office of Liquidation (OL) is achieving its goals.	8/27/05	1/24/06
5-22	7/28/05	Revise SOP 10 07 to require the development of meaningful goals and performance indicators that will measure the efficiency, effectiveness, and timeliness of each liquidation method.	8/27/05	1/24/06
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.	8/27/05	1/24/06

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

## Appendix

**Appendix VII (cont.)  
Significant Recommendations  
From Prior Semiannual Reporting Periods  
Without Final Action as of March 31, 2006\***

<b>Report Number</b>	<b>Date Issued</b>	<b>Recommendation</b>	<b>Management Decision Date</b>	<b>Final Action Target Date</b>
5-22	7/28/05	Restructure contracts with SBIC receivership agents to include performance standards that will be used to assess performance.	8/27/05	1/24/06
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.	8/27/05	1/24/06
5-22	7/28/05	Ensure that each case file includes documented evidence that OL staff considered all liquidation methods.	8/27/05	1/24/06
5-22	7/22/05	Track the costs for each liquidation case and summarize all costs by liquidation method yearly. After a reasonable period of time, these historical costs should be used for cost analyses.	8/27/05	1/24/06
5-22	7/22/05	Revise SOP 10 07 to (1) require a documented cost analysis be included in the selection process for each SBIC liquidation case. An exception would be cases for which the suspicion of fraud is the motivating factor for selecting the liquidation method. If fraud is suspected, the case file should be appropriately documented; and (2) include the additional liquidation methods of: (a) using commission-based contractors to sell acquired assets and (b) selling SBA's equity and debt interest in the SBICs.	8/27/05	1/24/06
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.	8/27/05	1/24/06

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

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# Appendix

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**Appendix VII (cont.)  
Significant Recommendations  
From Prior Semiannual Reporting Periods  
Without Final Action as of March 31, 2006\***

<b>Report Number</b>	<b>Date Issued</b>	<b>Recommendation</b>	<b>Management Decision Date</b>	<b>Final Action Target Date</b>
5-22	7/22/05	Revise SOP 10 07 to require OL staff to ascertain, for the sale of portfolio assets by an SBIC, whether the buyer was an associate of the SBIC.	8/27/05	1/24/06

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

# Appendix

## Appendix VIII 6-Month Significant Recommendations Summary as of March 31, 2006

Report Number	Title	Date Issued	Recommendation
6-03	Single Audit of Greenpoint Manufacturing and Design Center	10/17/05	That the Assistant Administrator for Administration take appropriate action in accordance with Office of Management and Budget guidance to recover questioned costs or obtain supporting documentation.
6-07	1502 Reporting Process	12/9/05	That the Associate Deputy Administrator for Capital Access ensure that an automated process is initiated to identify and re-classify all loans not reported on the monthly SBA Form 1502 submission to delinquent status.
6-09	Audit of SBA's Administration of the Supplemental Terrorist Activity Relief (STAR) Loan Program	12/22/05	For future special programs where 7(a) loans are used for nationwide disaster relief, require loan applications to justify how the business was harmed by the disaster.
6-09	Audit of SBA's Administration of the STAR Loan Program	12/22/05	For future special programs where 7(a) loans are used for nationwide disaster relief, require lenders to obtain supporting documentation to verify applicant claims of injury and provide detailed justifications showing applicant eligibility.
6-09	Audit of SBA's Administration of the STAR Loan Program	12/22/05	For future special programs where 7(a) loans are used for nationwide disaster relief, implement effective internal controls and program oversight to ensure borrower eligibility and lender compliance.
6-09	Audit of SBA's Administration of the STAR Loan Program	12/22/05	That the Office of Capital Access establish criteria, in consultation with the Office of General Counsel (OGC) to provide more definitive guidance and examples for purchase reviewers to use in determining what constitutes an inadequate justification for STAR eligibility.

# Appendix

## Appendix VIII (cont.) 6-Month Significant Recommendations Summary as of March 31, 2006

Report Number	Title	Date Issued	Recommendation
6-09	Audit of SBA's Administration of the STAR Loan Program	12/22/05	Review guaranties the Agency has already paid under the STAR loan program, obtaining additional records from lenders as necessary, to determine whether lenders were paid despite the absence of adequate borrower eligibility justifications. If lenders had inadequate justifications, determine, in consultation with the Office of General Counsel, whether SBA should reclassify the loans as 7(a) loans (if budget authority remains available) or seek recovery of the guaranties from the lenders.
6-10	Audit of SBA's FY 2005 Financial Statements- Management Letter	1/18/06	That the Chief Financial Officer (CFO) coordinate with the Office of Field Operations (OFO) to train SBA field office administrative and accounting staff in procedures for requisitioning services and obligating funds.
6-10	Audit of SBA's FY 2005 Financial Statements- Management Letter	1/18/06	That the CFO continue to enhance its quality assurance and review process to prevent and detect errors or misstatements in amounts recorded in SBA's financial accounting systems. Specifically, we recommend that the Office of Financial Assistance (OFA) clearly identify the loan programs and amount of estimate associated with each, and that the Accounting Liaison and Quality Assurance group (ALQA) strengthen its controls to ensure that the alignment entry is recorded correctly.
6-10	Audit of SBA's FY 2005 Financial Statements- Management Letter	1/18/06	That the CFO retain and have readily available for review supporting documentation for all transactions recorded in the general ledger, including guaranty cancellation requests received from the lenders.

## Appendix

### Appendix VIII (cont.) 6-Month Significant Recommendations Summary as of March 31, 2006

Report Number	Title	Date Issued	Recommendation
6-10	Audit of SBA's FY 2005 Financial Statements- Management Letter		That the CFO coordinate with the Office of Administration and the OFO to implement controls to ensure that the accountable property system remains current and accurate throughout the year, not only after completion of the annual inventory.
6-14	Audit of SBA-Guarantied Loan to Ford's Plumbing	3/2/06	That the Associate Administrator for Financial Assistance seek recovery of \$26,143 from the lender on the guaranty paid, less subsequent recoveries, for loan to Ford's Plumbing.
6-15	Monitoring Compliance with 8(a) Business Development (BD) Regulations During 8(a) BD Contract Performance	3/16/06	That the Associate Deputy Administrator for Government Contracting revise the partnership agreements so that procuring agencies are specifically required to: (1) monitor 8(a) BD companies' compliance with specified contract and Federal Acquisition Regulations (FAR) requirements, and 8(a) BD regulations; (2) inform contracting officers and technical representatives of their responsibilities concerning 8(a) compliance; and (3) acknowledge that SBA can take back the delegation authority if it does not adequately monitor 8(a) BD company compliance with 8(a) BD regulations.
6-15	Monitoring Compliance with 8(a) BD Regulations During 8(a) BD Contract Performance	3/16/06	That the Associate Administrator for Field Operations ensure surveillance reviews of procuring agencies are conducted on a regular basis. These surveillance reviews should ensure that procuring agencies are effectively monitoring for and enforcing compliance with specified 8(a) BD regulations.
6-16	Audit of SBA-Guarantied Loan to Furco, Inc.	3/20/06	That the Associate Administrator for Financial Assistance seek recovery of \$18,922 from the lender on the guaranty paid for loan to Furco, Inc.



# Appendix

## Appendix VIII (cont.) 6-Month Significant Recommendations Summary as of March 31, 2006

Report Number	Title	Date Issued	Recommendation
6-17	Audit of SBA-Guaranteed Loan to ScapeArt, Inc.	3/20/06	That the Associate Administrator for Financial Assistance seek recovery of \$88,269 from the lender on the guaranty paid for loan to ScapeArt, Inc., less subsequent collections.
6-19	Review of a Company's 8(a) BD Program Eligibility	3/30/06	That the Associate Administrator for Business Development take the necessary steps to remove the company from the 8(a) BD Program.
6-20	Interface Error Correction between NEMIS and DCMS	3/31/06	That SBA coordinate with the Federal Emergency Management Agency (FEMA) to establish a Configuration Change Control Board and updated National Emergency Management Information System (NEMIS)-Individuals & Households & SBA Interface Requirements Specifications with defined responsibilities for data element ownership, data administration and data correction responsibilities within both SBA's Disaster Credit Management System (DCMS) and FEMA's NEMIS for all records transmitted between SBA and FEMA.
6-20	Interface Error Correction between NEMIS and DCMS	3/31/06	That SBA coordinate with FEMA to identify the conditions that will cause records to abort status update processing. Design appropriate program edits to prevent and report these conditions. Update the interface documentation to include these conditions.
6-20	Interface Error Correction between NEMIS and DCMS	3/31/06	That SBA coordinate with FEMA to develop a formalized error resolution process with trouble tickets and mechanisms to identify specific aborted record processing.

## Appendix

**Appendix IX**  
**List of Events/Activities Where SBA Used its Cosponsorship Authority\***  
**Small Business Act, Section 4(h)**  
**October 1, 2005, through March 31, 2006**

Name/Subject of Event	Date Event Begins	Date Event Ends	Location of Event	Name(s) of Cosponsor(s)
B2B Matchmaker Primer Workshop and B2B Matchmaker Conference	4/12/06	5/17/06	Fairfield, CT	Greater Valley Chamber of Commerce
Cyber Security Is Good Business	6/5/06	6/30/06	Bismarck & Fargo, ND, Rapid City & Sioux Falls, SD, Minneapolis, MN, Colorado Springs & Denver, CO, Cheyenne & Casper, WY	FBI, National Institute of Standards and Technology
Small Business Training	3/16/06	7/31/06	San Jose, CA	City of San Jose, San Jose State University Foundation, Cisco Systems, Inc., BAAGGL, Chevron Corporation, Greater Bay Bank Corporation, Microsoft Corporation, Sprint Nextel Corporation, Bridge Bank National Association
Grow Your Business Workshops and San Bernardino County 2006 Business Workshops	3/21/06	11/21/06	Cucamonga, CA	The County of San Bernardino Economic Development Agency
Government Contracting Seminars	3/14/06	9/26/06	Augusta, ME	Maine Procurement Technical Assistant Center

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

## Appendix

**Appendix IX (cont.)  
List of Events/Activities Where SBA Used its Cosponsorship Authority\*  
Small Business Act, Section 4(h)  
October 1, 2005, through March 31, 2006**

<b>Name/Subject of Event</b>	<b>Date Event Begins</b>	<b>Date Event Ends</b>	<b>Location of Event</b>	<b>Name(s) of Cosponsor(s)</b>
10 <sup>th</sup> Bi-Annual Small Business Procurement Fair/High Tech Matchmaker	4/28/06	4/28/06	Upton, NY	Brookhaven National Laboratory
SBA Day	3/8/06	3/8/06	Victorville, CA	Desert Community Bank
VT 9 <sup>th</sup> Annual Women's Economic Opportunity Conference	11/5/05	11/5/05	Randolph, VT	Office of Senator Patrick Leahy, US Department of Labor, Women's Bureau, VT Agency of Transportation, VT Commission on Women, VT Secretary of State, VT Women's Business Center, Central VT Community Action Council, VT Attorney General, VT Department of Labor, VT Agency of Human Services, Economic Services Division, VT Interactive Television, VT Department of Economic Development, VT Manufacturing Extension Center and VT SBDC
Mentor/Protégé Program and Smart Business Talk Workshops	2/23/05	11/28/06	East Point, GA	Women's Employment Opportunity Project, Inc.
Free Surety Bonding/Working Capital Financing Conference	3/2/06	3/2/06	New York, NY	New York City Department of Small Business Services
How to Start and Manage a Small Business	2/18/06	2/18/06	Baltimore, MD	Memorial Baptist Church, Central Region MD SBDC Subcenter
The Black Business Conference 2006	2/28/06	2/28/06	Detroit, MI	Bank One, Alpha Phi Alpha Fraternity, Inc.

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**Appendix IX (cont.)  
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Small Business Act, Section 4(h)  
October 1, 2005, through March 31, 2006**

Name/Subject of Event	Date Event Begins	Date Event Ends	Location of Event	Name(s) of Cosponsor(s)
Business Planning Training Tutorial	2/06	8/31/07	World Wide Web	Palo Alto Software, Inc.
Federal Contracting Matchmaking Event	2/3/06	2/3/06	San Juan, PR	Colegio de Ingenieros y Agrimensores de Puerto Rico
Entrepreneurship & Revitalization in New Orleans & the Gulf Region	4/11/06	4/11/06	New Orleans, LA	The Kauffman Foundation and Public Forum Institute
Publication of West Virginia Small Business Resource Guide and Website	3/1/06	12/31/06	State of Virginia and World Wide Web	WV Publishing, LLC
Small Business Week 2006	4/12/06	4/13/06	Washington, DC	SCORE, Sam's Club, Raytheon Corporation, BAE Systems, Cisco Systems, Fiducial, Inc., Microsoft Corporation, Johnson & Johnson, Symantec Corporation, Verizon Communications, Inc., KBR, Intel Corporation, IBM Corporation, Aetna Foundation, Nationwide Financial Services, Administaff, U.S. Postal Service, The Ewing Marion Kauffman Foundation
Minority Business Leadership Forum	2/1/06	2/1/06	Detroit, MI	National Football League, Detroit Urban League

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## Appendix

**Appendix IX (cont.)  
List of Events/Activities Where SBA Used its Cosponsorship Authority\*  
Small Business Act, Section 4(h)  
October 1, 2005, through March 31, 2006**

Name/Subject of Event	Date Event Begins	Date Event Ends	Location of Event	Name(s) of Cosponsor(s)
Business Matchmaking and Business Matchmaking Online	1/06	9/30/07	San Francisco, CA, Houston, TX, Washington, DC and Miami, FL	Hewlett Packard, SCORE, Administaff LP, MasterCard International, American Airlines, FedEx, eAgency, Aflac, AMD, Lockheed Martin Aeronautics, Chevron
Project Restore HOPE/Small Business	12/05	12/30/06	Call Centers	Operation HOPE, Inc.
Business Leadership Workshop Series	12/1/05	2/7/06	Freeport, NY	Nassau County Office of Minority Affairs, Office of Economic Development and Freeport Memorial Library
Fundamentals of Retirement Income Planning	11/29/05	5/18/06	Washington, DC	Fidelity Brokerage
Development of Educational Products; Loss Control Guide and Disaster Recovery Guide	10/05	10/07	Columbus, OH	Nationwide Mutual Insurance Company
Minority Enterprise Development Week Brunch	11/17/05	11/17/05	Los Angeles, CA	U.S. Department of Commerce, MBDA City of Los Angeles
HUBZONE Forums	11/05	12/2/05	South Paris, Farmington, Skowhegan, Dover-Foxcroft, Presque Isle, Houlton, and Machias, ME	The Office of Olympia Snowe

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**Appendix IX (cont.)  
List of Events/Activities Where SBA Used its Cosponsorship Authority\*  
Small Business Act, Section 4(h)  
October 1, 2005, through March 31, 2006**

Name/Subject of Event	Date Event Begins	Date Event Ends	Location of Event	Name(s) of Cosponsor(s)
Federal Contracting Matchmaking Event	11/14/05	11/14/05	San Juan, PR	Municipality of San Juan
MED Week Awards Reception, MED Week Presentation of Awards, A Series of Small Business Workshop and Business Expo	11/14/05	11/18/06	Cranston, RI	Hispanic American Chamber of Commerce
Strategies for Winning Government Contracts: Practical Tips and Hands-On-Help for Small Business	2/2/06	2/2/06	Burlington, VT	VT Agency of Transportation, VT Dept. of Buildings and General Services, VT Department of Economic Development, VT Agency of Natural Resources, VT Manufacturing Extension Center, VT SBDC and the Federal Highway Administration
Procurement Matchmaking Symposium and Awards Luncheon	10/27/05	10/27/05	El Paso, TX	El Paso Hispanic Chamber of Commerce and El Paso Community College
Disaster Readiness Workshops for Small Business	2/28/06	4/27/06	Cranston, RI	Central Rhode Island Chamber of Commerce, Cranston Chamber of Commerce, Newport County Chamber of Commerce, Newport County Chamber of Commerce, Code Red Business Continuity Services, LLC

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**Appendix IX (cont.)  
List of Events/Activities Where SBA Used its Cosponsorship Authority\*  
Small Business Act, Section 4(h)  
October 1, 2005, through March 31, 2006**

Name/Subject of Event	Date Event Begins	Date Event Ends	Location of Event	Name(s) of Cosponsor(s)
Disaster Recovery Assistance for Small Businesses Affected by Hurricanes Katrina and Rita	10/05	9/30/06	New Orleans, LA	University of Louisiana at Monroe, The Good Work Network, Urban League of Greater New Orleans-Women's Business Resource Center
Small Business Symposium	10/22/05	10/22/05	Lynchburg, VA	Liberty University
SBA New York Monthly Small Business Success Series	10/6/05	3/16/06	New York, NY	KIP Business Report

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# Appendix

## Appendix X Legal Actions Summary October 1, 2005, through March 31, 2006

<b>State</b>	<b>Program</b>	<b>Alleged Violation(s) Prosecuted</b>	<b>Legal Action</b>	<b>Investigated Jointly With:</b>
CA	BL	The former owner of a grocery market submitted altered Federal income tax returns as part of his loan application for a \$1 million SBA-guaranteed loan.	Former owner sentenced to 12 months and one day in prison, 5 years probation, a \$10,000 fine, and \$197,463.76 in restitution.	FBI
CA	BL	The owner of a telecommunications firm provided false information about his company's financial condition, number of employees, and length of time in existence during the loan application process for a \$50,000 SBA Express loan.	Owner sentenced to 5 years probation, \$50,000 in restitution, and a \$200 fine.	GCPD
DC	SBIC	The former manager of a Small Business Investment Company (SBIC) converted for personal use money received from the SBA. The SBIC was licensed and funded by SBA to lend money to start-up technology businesses.	Owner sentenced to 70 months in prison, 5 years supervised release, a \$1,001 fine, and restitution of over \$1.9 million.	FBI
DC	GC	A company, providing technology products and services to the Government, misrepresented its size status on its application for inclusion on GSA's Multiple Award Schedule.	Company paid a \$1 million civil settlement.	GSA/OIG
IL	BL	The former president of a gas station/convenience store, who obtained a \$160,000 SBA-guaranteed loan, was charged with falsely claiming to be a U.S. citizen on multiple loan application documents.	Former president was indicted and subsequently arrested.	DHS/ICE
IL	BL	The former owner of an electrical supply store allegedly falsified a company tax return and forged his accountant's signature. The former owner's actions were done in an effort to assist the prospective buyers in securing an SBA-guaranteed loan of \$1.1 million to purchase the business.	Owner charged by criminal information.	FBI



# Appendix

**Appendix X (cont.)  
Legal Actions Summary  
October 1, 2005, through March 31, 2006**

<b>State</b>	<b>Program</b>	<b>Alleged Violation(s) Prosecuted</b>	<b>Legal Action</b>	<b>Investigated Jointly With:</b>
IL	BL	An SBA loan packager and an attorney were involved in a multi-faceted fraud scheme relating to a \$1.25 million SBA business loan for the purchase of an Illinois restaurant.	Loan packager sentenced to 1 year probation with 6 months home detention and electronic monitoring. He was also ordered to cease any further involvement in SBA programs and to pay a \$2,400 fine. The attorney received 12 months plus one day in prison, 2 years supervised release, and a \$40,000 fine.	FBI, IRS-CID
IL	BL	The president of a graphic art studio agreed to create a counterfeit U.S. Certificate of Naturalization for an SBA loan applicant. The applicant was attempting to secure a \$594,000 SBA loan through the 504 loan program. The applicant and his wife were previously indicted.	President pled guilty.	DHS/ICE
MI	BL	The president and secretary of a gas station and convenience store falsely represented that they made an equity injection of \$130,000 in order to obtain a \$1.175 million SBA-guaranteed loan. The president was previously charged with falsely claiming to be a U.S. citizen on his loan application.	President and secretary pled guilty.	DHS/ICE

## Appendix

**Appendix X (cont.)  
Legal Actions Summary  
October 1, 2005, through March 31, 2006**

<b>State</b>	<b>Program</b>	<b>Alleged Violation(s) Prosecuted</b>	<b>Legal Action</b>	<b>Investigated Jointly With:</b>
MI	BL	The president and secretary of an auto service center and a former owner of a construction company allegedly conspired to obtain a \$1.1 million SBA-guaranteed loan for the service center. The three are charged with falsely claiming that the construction company had completed \$210,000 in repairs and renovations to the auto service center prior to the loan closing.	All three defendants indicted and warrants issued for their arrest.	DHS/ICE
MI	BL	The president of a gas station and convenience store allegedly failed to disclose his criminal record when applying to assume an existing SBA-guaranteed loan of about \$640,000.	President indicted.	DHS/ICE
MO	BL	The former president and secretary of a child care center falsified the required equity injection in order to obtain a \$311,000 SBA-guaranteed loan.	Former president and secretary debarred from participating in Federal programs/procurement transactions for a period of 3 years.	None
NV	BL	Co-owners of four floral shops submitted fraudulent applications for six SBA Express loans using false identity information and financial data.	Both owners ordered to pay joint restitution of \$200,000.	DSDS, LVPD, USSS
NY	DL	In the wake of the 9/11 terrorist attacks, the owner of a New York business applied for, and received, a \$646,900 SBA disaster loan for his company, a seller of motor vehicles and parts to the United Nations. Instead of paying off vendors as he had agreed to do, the borrower allegedly forged the endorsement of the vendors in order to use the funds for a new business he had started.	Owner indicted. One vendor charged by criminal information.	USPIS

## Appendix

**Appendix X (cont.)  
Legal Actions Summary  
October 1, 2005, through March 31, 2006**

<b>State</b>	<b>Program</b>	<b>Alleged Violation(s) Prosecuted</b>	<b>Legal Action</b>	<b>Investigated Jointly With:</b>
NY	DL	A former attorney received an SBA disaster loan for \$247,000 based on his claim of lost revenue as a result of the 2001 terrorist attacks in New York City. The attorney claimed he was not able to utilize his downtown office for 6 weeks due to its proximity to the World Trade Center. The investigation revealed that his firm was never located at the address he provided.	Former attorney sentenced to 18 months in prison, 3 years supervised release, and ordered to pay \$18,500 in outstanding restitution.	IRS
NY	DL	When applying for disaster loans of \$216,800 and \$80,000, the owner of two telecommunications firms misrepresented that his companies were located at the World Trade Center on September 11, 2001.	Owner was sentenced to 3 years probation and ordered to pay \$80,000 in restitution.	USPIS
NY	DL	A woman submitted disaster loan applications to SBA and FEMA, falsely representing that her furniture and car had been destroyed by debris from the World Trade Center terrorist attacks on September 11, 2001.	Woman sentenced to 4 months home confinement, 3 years probation, and \$1,168 in restitution.	DHS/OIG
PR	GC	An attorney allegedly interfered with and obstructed the investigation into illegal kickback payments made by his client, an SBA 8(a) engineering contractor. His client previously pled guilty to paying kickbacks to a former restaurant manager in exchange for electrical contract jobs, and is awaiting sentencing.	Attorney convicted by jury trial on conspiracy and obstruction charges. Restaurant manager convicted by jury trial and sentenced to 1 year and 1 day in prison and 2 years supervised release.	GSA/OIG

## Appendix

**Appendix X (cont.)  
Legal Actions Summary  
October 1, 2005, through March 31, 2006**

<b>State</b>	<b>Program</b>	<b>Alleged Violation(s) Prosecuted</b>	<b>Legal Action</b>	<b>Investigated Jointly With:</b>
SC	DL	The owner of a manufactured home sales dealership obtained a disaster loan for \$487,600 for economic injuries resulting from the 9/11 terrorist attacks. The owner is charged with falsely representing that his finance company was located in New York City and had stopped financing manufactured homes due to the attacks.	Owner indicted.	FBI
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 convicted by jury trial.	None
TX	BL	A borrower for a food mart fraudulently obtained with his brother a \$1 million SBA-guaranteed loan and a \$390,000 companion loan. The borrower represented that he used personal assets to purchase real estate for the food mart. Bank records indicate the borrower received a majority of the money from his brother who already had an SBA-guaranteed loan.	Borrower sentenced to 3 years probation and a \$5,000 fine. His brother was sentenced to 3 years probation and a \$71,000 fine. Both have been debarred from doing business with SBA.	DHS/ICE
TX	BL	When applying for a \$286,200 SBA-guaranteed loan, a borrower for a convenience store falsely claimed to be a U.S. citizen, failed to disclose a pending lawsuit, falsified the origin of the cash injection, and provided false documentation.	Borrower sentenced to 18 months probation.	DHS/ICE, TEXAS-ABC

# Appendix

**Appendix X (cont.)  
Legal Actions Summary  
October 1, 2005, through March 31, 2006**

<b>State</b>	<b>Program</b>	<b>Alleged Violation(s) Prosecuted</b>	<b>Legal Action</b>	<b>Investigated Jointly With:</b>
TX	BL	A restaurant owner inflated personal property values and net worth to influence financial institutions to approve two SBA-guarantied loans and a bank line of credit totaling \$1.078 million. He then utilized financial proceeds from the loans for personal expenses.	Owner sentenced to 5 years probation and ordered to pay over \$1.1 million in restitution.	FBI, IRS
TX	BL	A loan broker, an escrow company owner, a relative of a borrower, and several other co-conspirators falsely obtained nine SBA loans totaling \$9.5 million for convenience stores. SBA's guarantied portion was over \$6.5 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 when applying for loans.	Loan broker sentenced to 41 months in prison and 3 years probation. Escrow company owner sentenced to 60 months in prison and 3 years supervised release. The relative of borrower sentenced to 15 months in prison and 2 years supervised release. These defendants were ordered to pay a total of \$11,813,127 jointly with two other co-conspirators.	FBI
TX	BL	A business owner allegedly falsified the capital injection to obtain a \$640,000 SBA-guarantied loan to purchase several food stores, and then transferred ownership of the properties without notifying the SBA.	Owner and a co-conspirator were charged in a criminal complaint.	TEXAS-ABC
UT	BL	Three corporate officers of a landscape company allegedly failed to disclose owing delinquent payroll taxes when they applied for two separate SBA loans totaling \$470,100.	All three indicted.	None

# Appendix

## Appendix X (cont.) Legal Actions Summary October 1, 2005, through March 31, 2006

State	Program	Alleged Violation(s) Prosecuted	Legal Action	Investigated Jointly With:
VA	GC	The former president and vice president of a construction company conspired to make misrepresentations to SBA in order to maintain the company's 8(a) eligibility status. They also conspired with the general manager of an environmental services company to provide false hazardous environmental training certificates to the government.	Former president sentenced to 5 months in prison and a \$1 million fine; his construction company was ordered to pay a \$500,000 fine. Former vice president received 21 months in prison and a \$1.5 million fine. Former general manager received 3 months in prison and a \$10,000 fine. In addition, the vice president and the environmental services company have been suspended from future Government contracting.	FBI, DCIS, EPA-CID, Army-CID, NASA/OIG, DCAA
VI	DL	The 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.	First owner was sentenced to 10 months in prison, 3 years supervised release, and \$150,000 in restitution. The other owner received 1 year of probation and a \$100 fine.	DHS/OIG

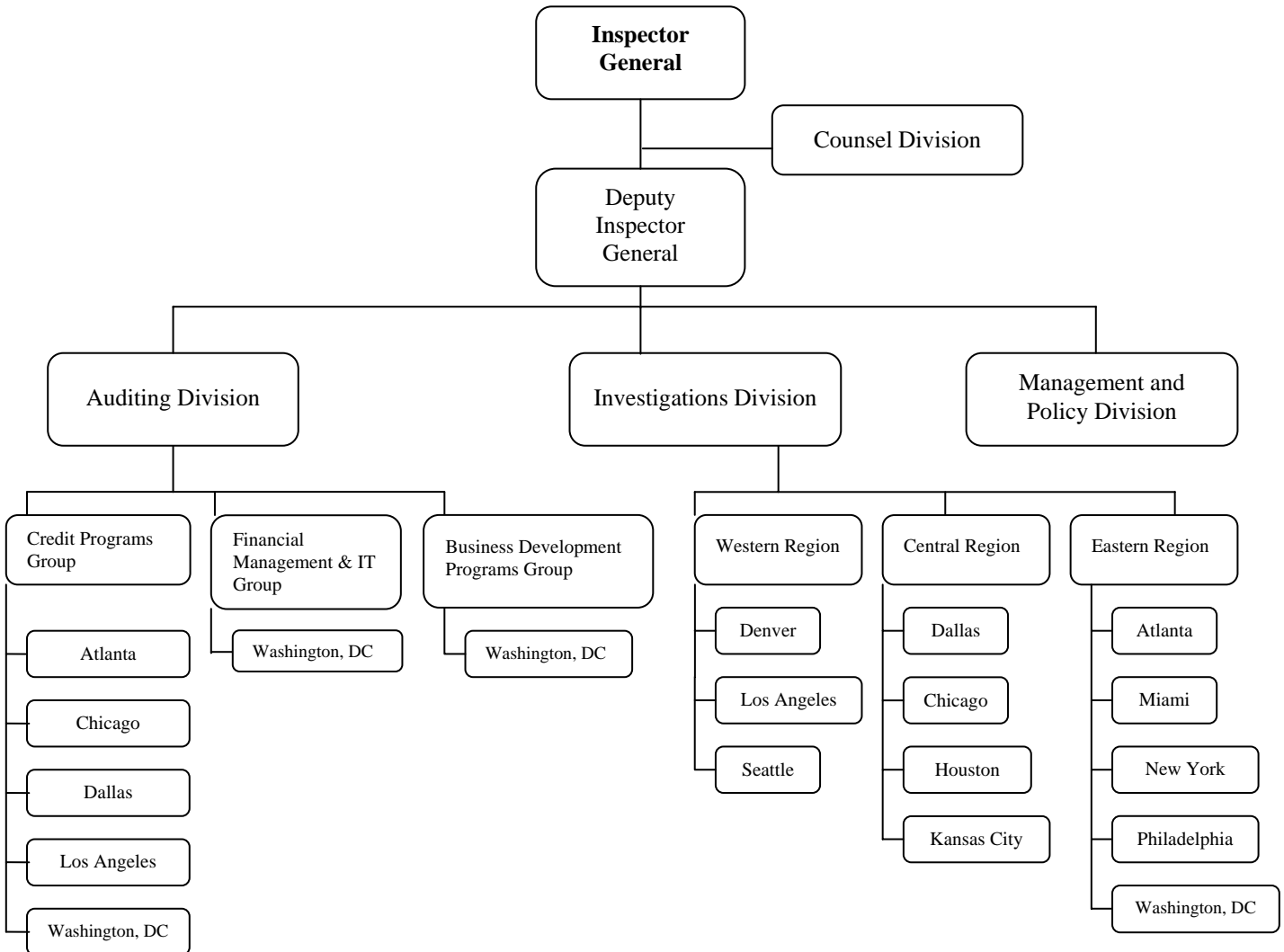
**Program Codes:** BL=Business Loans; DL=Disaster Loans; GC=Government Contracting and Section 8(a) Business Development **Joint-investigation Federal Agency Acronyms:** DCAA=Defense Contract Audit Agency; Army-CID=Army Criminal Investigation Division; DCIS=Defense Criminal Investigative Service; DHS/ICE=Department of Homeland Security/Immigration and Customs Enforcement; DHS/OIG=Department of Homeland Security OIG; DSDS=Department of State Diplomatic Security; EPA-CID=Environmental Protection Agency Criminal Investigation Division; FBI=Federal Bureau of Investigation; GCPD=Glendale California Police Department; GSA/OIG=General Services Administration OIG; IRS-CID=Internal Revenue Service Criminal Investigation Division; LVPD=Las Vegas Police Department; NASA/OIG=National Aeronautics and Space Administration OIG; TEXAS-ABC=Texas Alcoholic Beverage Commission; USPIS=United States Postal Inspection Service; USSS=United States Secret Service

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# Appendix

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## Appendix XI Small Business Administration Office of Inspector General







# Make A Difference

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

## CALL

1-800-767-0385 (Toll Free)

## Write or Visit

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

Or E-mail Us at [OIG@SBA.GOV](mailto:OIG@SBA.GOV)

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