

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

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## Semiannual Report to Congress Fall 2007



April 1, 2007 – September 30, 2007

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

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

October 2007

I am pleased to present the U.S. Small Business Administration (SBA) Office of Inspector General (OIG) Fall 2007 Semiannual Report to Congress. This report provides a summary of the OIG's activities from April 1, 2007 through September 30, 2007.

During this reporting period, the OIG issued 15 reports with recommendations for improving Agency operations, reducing fraud and unnecessary losses, and recovering funds. In addition, OIG investigations led to 53 indictments and 42 convictions for defrauding the Federal Government. We also reviewed 77 legislative, regulatory, policy, procedural, and other proposals concerning the SBA programs, providing many substantive comments.

We continued to devote substantial resources to audits and investigations related to the 2005 Gulf Coast hurricanes. We issued seven reports that disclosed a number of critical problems and issues related to SBA's response to the hurricanes. In addition, working in concert with the Hurricane Katrina Fraud Task Force, we had made 26 arrests and had obtained 29 indictments and 22 convictions since the inception of the task force. One audit was initiated based on employee complaints that the Agency unnecessarily canceled loans to meet production standards. We found that of almost 12,000 loans that were canceled during a two-week period in September 2006, nearly 8,000 were canceled without providing borrowers with proper advance notification. In most cases, SBA canceled loans after making only one attempt to contact the borrowers. Several borrowers we contacted were upset that their loans were canceled and felt SBA pressured them into making on-the-spot decisions. In July, I testified before the Senate Committee on Small Business and Entrepreneurship regarding this review and other OIG audit and investigative efforts in the aftermath of the Gulf Coast hurricanes.

In January 2007, arrest warrants were issued for an Executive Vice President of Business Loan Center, LLC (BLX) and 18 other individuals, not employed by BLX, for allegedly making over \$76 million in fraudulent loans to unqualified loan applicants. This joint investigation with the U.S. Secret Service resulted in a number of guilty pleas and other judicial actions during this reporting period. In addition, the OIG initiated an audit of SBA's oversight of BLX that identified problems with the manner in which SBA addressed performance and compliance issues with the company's lending activities.

Lastly, we are privileged to have an SBA leadership team that understands and supports the work of the OIG. Their aggressive leadership in focusing on responsive actions to address audit recommendations, as well as ensuring substantial progress on addressing the Agency's Top Management Challenges, as identified by the OIG, is greatly appreciated. Therefore, I would like to thank Administrator Preston and Deputy Administrator Carranza for their strong support of our work. I look forward to continuing to work with SBA's leadership team in carrying out the OIG's mission to fight waste, fraud, and abuse and promote greater government efficiency.

Eric M. Thorson  
Inspector General

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# Overview of SBA and the OIG

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# Overview of SBA and the OIG

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## The Small Business Administration

The mission of the Small Business Administration (SBA) under the Small Business Act, as amended, is to maintain and strengthen the Nation's economy by enabling the establishment and vitality of small businesses and by assisting in the economic recovery of communities after disasters. The Agency's Fiscal Year (FY) 2008 – 2013 Strategic Plan has three programmatic strategic goals that broadly define what the Agency and its programs are trying to accomplish: The strategic goals are "Expand America's ownership society, particularly in underserved markets"; "Provide timely financial assistance to homeowners, renters, nonprofit organizations and businesses affected by disaster"; and "Improve the economic environment for small business." A fourth strategic goal, "Ensure management and organizational excellence to increase responsiveness to customers, streamline processes, and improve compliance and controls," defines the responsibility of the Agency's executive leadership and support functions to help accomplish the programmatic goals.

SBA is organized around four key functional areas: financial assistance (e.g., loan programs); contracting assistance; technical assistance (e.g., entrepreneurial development); and disaster assistance. The Agency also represents small businesses through an independent advocate and an ombudsman. SBA headquarters is located in Washington, D.C., while its business products and services are delivered with the help of 10 regional offices, 68 district offices, 4 Disaster field offices, and a vast network of resource partners in all 50 States, the District of Columbia, Puerto Rico, American Samoa, the U.S. Virgin Islands, and Guam. SBA's appropriation for FY 2007 is \$571 million. As of September 30, 2007, SBA had 2,181 employees, including Office of Inspector General (OIG) personnel but excluding disaster-funded employees. There were 2,849 temporary and permanent disaster employees, excluding contractors.

## The Office of Inspector General

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

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

- **The Auditing Division** performs financial, information technology and other mandated audits, program performance reviews, and internal control assessments, and oversees audits by contractors to promote the economical, efficient, and effective operation of SBA programs.
- **The Investigations Division** manages a program to detect and deter illegal and/or improper activities involving SBA programs, operations, and personnel. The criminal investigations staff carries out a full range of traditional law enforcement functions. The security operations staff ensures that all Agency employees have the appropriate background investigations and security clearances for their duties. They also conduct the name check program, which provides SBA officials with character-eligibility information on loan applicants and other potential program participants.

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## Overview of SBA and the OIG

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- **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's headquarters is located in Washington, DC., and has field staff located in Atlanta, GA, Chicago, IL, Dallas, TX, Detroit, MI, Denver, CO, Herndon, VA, Houston, TX, Kansas City, MO, Los Angeles, CA, Miami, FL, New Orleans, LA, New York, NY, Philadelphia, PA, Tacoma, WA, and Washington, DC.

An organization chart for the OIG can be found in Appendix XI.

### OIG Work During This Reporting Period

As of September 30, 2007, the OIG had 105 staff on-board. The OIG's FY 2007 appropriation was \$15.3 million, including a \$1.5 million transfer for disaster assistance oversight activities. In addition, a supplemental appropriation during FY 2006 provided the OIG with \$5 million in "no-year" funds for Gulf Coast hurricane disaster oversight.

During this reporting period, OIG activities focused on the two strategic goals in our FY 2006-2011 Strategic Plan: "Improving the economy, efficiency, and effectiveness of SBA programs and operations," and "Promoting and fostering integrity in SBA programs and operations." Using this framework, the OIG concentrated on critical risks facing SBA, including: risks of financial losses due to SBA's downsizing, centralization, and limited oversight and controls; risks to SBA's performance of its statutory mission to promote small business development and Government contracting; and 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 hurricanes that hit the Gulf Coast during 2005. The OIG has undertaken a series of reviews of the management of SBA's disaster assistance process, the loan application approval process, loan disbursement activities, use of proceeds, and SBA's loan processing system, known as the Disaster Credit Management System (DCMS). The OIG has also directed significant investigative efforts toward detecting and deterring fraud related to the SBA Disaster Loan program.

OIG efforts and accomplishments during the second half of FY 2007 are summarized in this report. Audit and other reports issued during this reporting period are listed in Appendix I. Investigative actions are summarized in Appendix X. Copies of this report and other OIG reports and work products are available on the OIG's website at <http://www.sba.gov/ig/igreadingroom.html>.

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# Significant OIG Activities

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## Disaster Loans

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

On August 29, 2005, Hurricane Katrina devastated the Gulf Coast regions of Louisiana, Mississippi, and Alabama. It was quickly followed by Hurricanes Rita and Wilma, creating further loss of lives and property in Florida and Texas. As of September 30, 2007, SBA had approved almost 120,000 disaster loans – totaling almost \$7 billion<sup>1</sup> – in the aftermath of the Gulf Coast hurricanes, and had fully disbursed more than 110,000 disaster loans – totaling almost \$5.7 billion. Including loans that had been partially disbursed, the Agency made full or partially disbursements on 98.8 percent of the approved loans, for a total of almost \$6.1 billion.

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

### **\$1.5 Billion in Loans Were Awarded to Applicants Who Lacked Repayment Ability**

The magnitude of the Gulf Coast hurricane disasters significantly increased the need for SBA disaster loan assistance. SBA received over 400,000 disaster loan applications, which created a considerable backlog and resulted in loan processing delays. In response to the delays, SBA authorized the Expedited Loan Program as a pilot in November 2005 to accelerate the underwriting of disaster loans. The program was extended four times. The program used credit scores and a series of critical questions to underwrite loans and make general loan approvals. Nearly 45 percent of all Gulf Coast disaster loans made by SBA were approved under the expedited procedures.

*In response to the delays, SBA authorized the Expedited Loan Program as a pilot in November 2005 to accelerate the underwriting of disaster loans.*

The OIG initiated an audit to determine whether the expedited loan application process resulted in appropriate loan approvals. Loan decisions under the Expedited Loan Program were not based on cash flow analyses, as required under standard processing procedures. Instead, loan approvals were based primarily on credit scores, regardless of an applicant’s income level and expenses.

*A statistical sample of 76 loans found that 32 percent were made to applicants who lacked repayment ability.*

A statistical sample of 76 loans found that 32 percent were made to applicants who lacked repayment ability. Based on these results, the OIG projected that 21,802 loans, totaling \$1.5 billion, were awarded to high-risk applicants

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<sup>1</sup> These numbers reflect original applications approved (160,513, totaling \$10.9 billion) net of loans subsequently canceled, withdrawn, increased, and decreased.



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## Significant OIG Activities

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who may not be able to repay their loans. These loan applications would not have been approved if they had been processed under standard loan processing procedures. For example, a \$36,700 home loan was approved for a borrower who had a negative cash flow, which would have disqualified him under standard loan processing procedures. The sample results were similar to a Quality Assurance Review (QAR) conducted by the Agency in June 2006, which found that 28 percent of the applicants processed under the Expedited Loan Program potentially could not repay their loans. Consequently, there is a high probability that a significant number of loans processed under expedited procedures will default. In addition, had these borrowers been declined for loans, SBA would have referred them to the Federal Emergency Management Agency (FEMA) for possible grant assistance.

*...there is a high probability that a significant number of loans processed under expedited procedures will default.*

The OIG recommended that SBA review all canceled loans that were approved under expedited procedures to identify applicants who lacked repayment ability, notify those applicants of their potential eligibility for FEMA assistance, and make the appropriate FEMA referrals. The OIG also recommended that the Agency review the creditworthiness of borrowers associated with undisbursed home loans and refer those borrowers to FEMA, as appropriate. SBA agreed to contact as many of these borrowers as possible.

### **SBA Did Not Secure Its Interest in Collateral on \$368 Million in Disaster Loans**

In response to a complaint, the OIG initiated an audit to determine whether SBA secured its interest in collateral prior to disbursing loan proceeds. At the time of the audit, SBA's Disaster Assistance Processing and Disbursement Center in Fort Worth, Texas, had a backlog of 4,970 unprocessed checks from borrowers for collateral and filing fees. A review of a statistical sample of the unprocessed checks disclosed that SBA disbursed approximately \$7.3 million on 76 percent of the loans reviewed without properly securing all of the loan collateral. Based on the sample results, the OIG projected that about \$368 million was disbursed without proper collateralization. Not perfecting liens in a timely manner increases the Agency's risk of losing its lien position to other creditors.

*...approximately 52 percent of the checks in the backlog were over 90 days old and needed to be replaced by the borrowers*

A variety of problems led to the under-collateralization of loans. These problems included the acceptance of documents that were subsequently determined to be legally insufficient, the separation of documents from checks received from borrowers to pay for lien filing fees that could not be re-matched once the documents

were ready for filing, and a backlog of checks that were too old to process or had incorrect information. For example, approximately 52 percent of the checks in the backlog were over 90 days old and needed to be replaced by the borrowers. In other instances, checks were written either for the wrong amount or to the wrong payee. As a result, checks had to be returned to borrowers and replacement checks issued before the collateral could be secured. While the audit was limited to unprocessed checks on hand as of January 18, 2007, the OIG believed that improperly securing collateral was a systemic issue that extended beyond those loans examined in the audit as many of the underlying reasons for the problems relate to how the Processing and Disbursement Center processes loan disbursements.

*...checks had to be returned to borrowers and replacement checks issued before the collateral could be secured.*

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## Significant OIG Activities

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The OIG recommended that SBA perfect the collateral on the loans identified during the audit, review all loans associated with the backlog of checks to ensure that collateral on these loans was perfected, ensure that required legal sufficiency reviews of appropriate security instruments and other closing documents are conducted prior to disbursements, and pursue an automated means of securing borrower payment for collateral recording and filing fees. Overall, the Agency was responsive to the audit recommendations, reporting that it had perfected collateral on the loans identified during the audit, reduced the number of checks on hand to 440 as of October 14, 2007, and implemented a title check tracking and accountability system to more accurately record and monitor the status of in-house checks.

### **SBA Terminated Nearly 8,000 Approved Loans without Notifying Borrowers in Advance**

In response to complaints received from two former SBA employees, the OIG conducted an audit of SBA's cancellation of approved disaster assistance loans to victims of the Gulf Coast hurricanes. The complainants alleged that SBA unnecessarily canceled approved loans to meet production standards for either closing or disbursing loans.

The OIG reported that SBA's Customer Service Center in Buffalo, New York, canceled 11,893 loans during the first two weeks of September 2006. Of those, 7,752 loan were canceled without providing borrowers advance notice of the pending cancellation and without contacting them by phone. SBA's Customer Service Center canceled the loans, in most cases, after making only one attempt to contact the borrowers, instead of the three attempts they were instructed to make by SBA's Fort Worth Processing and Disbursement Center. When borrowers could not be reached and their loans were canceled, SBA incorrectly annotated its records to show that the borrowers requested the cancellations (the incorrect entries were caused by limitations on how entries could be coded in DCMS.) SBA then sent the borrowers cancellation notices after the fact, in some cases stating that the borrowers directed SBA to cancel their loans.

After the initial cancellations, SBA made another attempt in October 2006 to contact borrowers who had not previously been reached. Of the borrowers who were successfully contacted, 1,195 requested that their loans be reinstated.

The OIG contacted borrowers associated with 66 canceled loans to obtain their perspective on the loan cancellations. Several of the borrowers were upset with their loans being canceled and felt SBA pushed them into making on-the-spot decisions. They believed that they were not given adequate time to produce loan closing documents to prevent their loans from being canceled and ultimately were pressured into canceling. Although borrowers were later notified that their loans could be reinstated, reinstatement could not occur unless the borrowers could show that SBA's cancellation action was in error or could provide justification that SBA should reinstate the loans. Additionally, borrowers were required to submit all of the required documents for loan closing. This was problematic for some borrowers because they still did not have all the needed closing documents, were relocating and didn't have mortgages on the new property, or were waiting for infrastructure to be restored to areas where they planned to rebuild their homes or businesses.

*Several of the borrowers... felt SBA pushed them into making on-the-spot decisions.*

The audit also identified borrowers who were approved for loans even though they lacked repayment ability and may have been eligible for FEMA grants. These individuals subsequently had their loans

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## Significant OIG Activities

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*...these borrowers could be precluded from receiving all of the Federal assistance to which they may have been entitled.*

canceled, but because they were approved for SBA loans, could not apply for FEMA assistance. Consequently, these individuals received neither SBA loans nor FEMA grants. In the absence of SBA action to refer them to FEMA, these borrowers could be precluded from receiving all of the

Federal assistance to which they may have been entitled.

The OIG recommended that SBA reconsider its loan policy on reinstatement deadlines for the 6,557 canceled Gulf Coast hurricane loans that were not reinstated and notify the borrowers that extensions may be granted for reinstatement, as appropriate. Also, the OIG recommended that SBA review the four canceled loans identified in the report where the borrowers did not have repayment ability, notify the borrowers, and refer them to FEMA for grant assistance, if appropriate. The SBA agreed to review canceled loans that should have been declined and refer them to FEMA where appropriate.

### Results of Quality Assurance Reviews Were Altered

Applications for physical disaster loans require on-site inspections to verify disaster losses. These inspections are referred to as loss verifications. The initial damage estimates for disasters that occur within the continental United States are conducted by loss verifiers assigned to Office of Disaster Assistance (ODA) Field Inspection Teams. In February 2005, a group of SBA employees assigned to ODA was determined to be the Most Efficient Organization (MEO) under an A-76<sup>2</sup> competition and was awarded a 5-year “contract” to conduct initial loss verifications. The OIG initiated a review of a complaint from an employee that QARs of individual loss verifications conducted by the MEO were inappropriately altered so that required performance metrics could be met.

The review found that 72 of 246 QARs conducted in July 2006 had been materially altered. As a result, the exception rate for the QARs significantly decreased – from an unacceptable rate of 4.8 percent to an acceptable rate of 0.6 percent. In addition, while copies of the original QARs were available from the complainants, SBA could not produce the originals, which may have been destroyed. The OIG concluded that the QAR process was compromised when a senior official was allowed to alter the results in order for the MEO to avoid penalties and to retain work under the A-76 contract. Also, because ODA both managed the MEO and performed the QAR, it lacked the independence needed to fairly evaluate the MEO’s performance.

*...the QAR process was compromised when a senior official was allowed to alter the results...*

The OIG recommended that responsibility for conducting QARs be reassigned to an SBA organization outside of ODA, guidance be developed to require QAR officials to document reasons for exceptions and any changes to the initial QAR results, and the MEO’s involvement in the QAR process be limited to the resolution of issues associated with the final QAR results. Finally, the OIG recommended that a new QAR be performed. The Agency reported that it is taking steps to improve the QAR process and has performed a new QAR of the loss verification process.

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<sup>2</sup> Refers to OMB Circular A-76, Performance of Commercial Activities.

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## Significant OIG Activities

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### **SBA Generally Did Not Disburse Funds Contrary to Borrowers' Wishes**

On October 2, 2006, SBA initiated a "90-in-45" campaign with a goal of disbursing funds and reducing a backlog of 90,000 Gulf Coast Hurricane loans within 45 days. As part of the "90-in-45" campaign, SBA established production goals to monitor employees' performance. The OIG received multiple complaints about the expedited loan processing activities at Fort Worth Processing and Disbursement Center. One complaint alleged that loan proceeds were disbursed contrary to borrowers' wishes and without necessary documentation. The complainant also alleged that SBA pressured case managers to rapidly make disbursements to meet production goals and gave cash awards to teams with the greatest number of disbursements.

Regarding the first complaint, the OIG contacted 208 borrowers and found only 7 instances where disbursements were made contrary to borrowers' wishes. In two instances, checks were mailed to the borrowers without any prior notification. In the other five instances, borrowers asked SBA not to disburse the funds or to delay the disbursements, but the funds were disbursed by SBA anyway. Six borrowers returned the loan disbursements. Only one borrower decided to keep the funds. In all cases when borrowers returned the checks, loan balances were appropriately reduced.

Regarding the second complaint, the OIG found that SBA established daily production goals and distributed awards to recognize and reward employees who made the largest number of disbursements,

*SBA established production goals ...which may have inappropriately influenced case managers to disburse funds that borrowers did not want.*

but had not performed an analysis to determine whether the Processing and Disbursement Center could reasonably meet the production goals without sacrificing customer service and adherence to SBA loan requirements. While the goals were intended to get disaster funds in the hands of borrowers more quickly, they may have inappropriately influenced case

managers to disburse funds that borrowers did not want. Because many case managers held temporary positions, production goals became an issue of job security. For example, one temporary case manager stated that most case managers were fearful that if they did not disburse enough loans, they would be replaced.

The OIG recommended SBA ensure, where borrowers are undecided about the loan or have not been in recent contact, that an attempt is made to contact the borrower prior to disbursement to determine whether disaster funds are still needed. The OIG also recommended that SBA ensure, in future campaigns, that performance goals and associated awards are based on reasonable time frames that consider customer service and legal requirements. The Agency generally agreed with the recommendations.

### **SBA Properly Identified and Modified Most Disaster Loans that Duplicated Benefits Provided by HUD Grants**

The SBA OIG, in coordination with the Department of Housing and Urban Development (HUD) OIG, conducted an audit to determine whether SBA loans related to the 2005 Gulf Coast hurricanes that duplicated disaster benefits provided by HUD Community Development Block Grants were properly identified and modified to prevent or detect duplication of benefits. The audit focused on SBA's processing of modifications to disaster loans that were made to reduce loan balances by amounts awarded through HUD grants administered by the Louisiana Road Home Program and the Mississippi Homeowners Assistance Grant Program. As of May 2007, SBA had processed 3,681 modifications –

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## Significant OIG Activities

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totaling \$172 million – to reduce disaster loan amounts as a result of the HUD grant program. SBA had also received remittances totaling \$131 million from both the Louisiana Road Home Program and the Mississippi Homeowners Assistance Grant Program to reduce SBA loan balances.

The OIG reviewed 172 grants and found that SBA generally complied with provisions of the Stafford Act related to preventing or detecting duplicate benefits within SBA's Disaster Loan program. Of the 172 grants, 108 duplicated benefits provided by SBA disaster loans. All but two of those loans were correctly modified. One loan was erroneously reduced by SBA. After the funds had been received, SBA realized that it had requested the remittance in error and re-disbursed the funds to the borrower. The second loan was erroneously reduced through a remittance that was incorrectly sent to SBA by Mississippi. After the OIG brought this to SBA's attention, SBA reinstated the loan.

The OIG concluded that the relatively few loans that were incorrectly modified did not constitute a major breakdown in internal controls. Consequently, no recommendations were made.

### **8(a) Contracts Were Either Not Reported to SBA or Reported but Not Recorded by District Offices**

The OIG conducted an audit of 8(a) contracts related to Gulf Coast reconstruction as a result of congressional interest in determining whether small, minority-owned businesses were receiving Gulf Coast contracts. The OIG reviewed 8(a) contracts from the two largest Federal agencies procuring contracts for Gulf Coast reconstruction: the Department of Homeland Security (DHS) and the Department of Defense (DoD). As of September 30, 2006, DHS and DoD accounted for approximately 80 percent of the contract dollars obligated to 8(a) firms for Gulf Coast reconstruction, or about \$548 million.

The OIG reviewed 60 8(a) contracts over \$1 million from DHS and DoD to determine if approvals were received from SBA to accept 8(a) contracts and whether agencies were reporting the procurements to SBA as required by their partnership agreements with SBA. Based on limited information available in the 60 contract files, the OIG could not determine whether DHS and DoD were properly offering the contracts, or whether SBA was properly accepting them. However, the OIG found that 31 of the 60 contracts awarded were either not reported to SBA or were reported, but had not been entered by district office staff into the Agency's database – the Servicing and Contracting System/Minority Enterprise Development Center Office Repository (SACS/MEDCOR). The validity of 8(a) contract data continues to be at risk because SACS/MEDCOR ceased operation on April 30, 2007, and now resides in an interim system. The integrity of the information contained within the interim system is unknown by the OIG.

*...31 of the 60 contracts awarded were either not reported to SBA or were reported, but had not been entered by district office staff into the Agency's database...*

The OIG recommended that SBA notify agencies with partnership agreements that they are required to provide a copy of any contract, as defined in FAR 2.101, including basic contracts, orders, modifications, and purchase orders, to the SBA servicing district office within 15 days of the date of the award. The SBA agreed and reported that it has revised its partnership agreements with procuring agencies to include appropriate language. The OIG also recommended that SBA provide training to Business Development Specialists on how to enter information into the successor database(s) to SACS/MEDCOR, and ensure that all data in the current database is accurate and verified before migrating to its successor database(s).

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## Significant OIG Activities

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### SBA Did Not Maximize Recovery on at least \$360.3 million in Delinquent Disaster Loans

The OIG conducted an audit to determine if the SBA maximized its recovery of delinquent pre-Katrina disaster loans through collateral liquidations and by referral to the U.S. Treasury for debt collection. The audit disclosed that SBA did not maximize recovery on a projected \$360.3 million in delinquent disaster loans. SBA did not actively pursue a projected \$261.5 million in delinquent loans because of conflicting guidance in its operating procedures and did not transfer a projected \$24.7 million in delinquent loans to Treasury because the loans were improperly coded. The OIG also determined that SBA did not refer to Treasury all responsible parties on a projected \$74.1 million of charged-off loans because the loans were not coded properly and that loan details, such as the name and identification numbers, were not entered into the Portfolio Management Treasury Offset System database.

The OIG recommended that SBA revise its Standard Operating Procedures (SOPs) and clarify existing guidance to better explain the requirements of the Debt Collection Act. The OIG further recommended that SBA implement controls to ensure that the liquidation of collateral and assets are actively pursued to the fullest extent possible at the Disaster Loan Liquidation Center, and that loans are properly coded and transferred to Treasury and/or the Liquidation Center in accordance with the Debt Collection Act.

### Multi-Agency Task Force Pursues Gulf Coast Hurricane Fraud

Largely as a result of participation with other law enforcement entities on the Hurricane Katrina Fraud Task Force, the OIG has made 26 arrests and has obtained 29 indictments and 22 convictions from the task force's inception through September 30, 2007. As disaster loans come due after the initial 12-month deferral of payments, the OIG anticipates more allegations of fraud and potential loss to SBA. OIG cases related to the Gulf Coast hurricanes include the following.

- A certified public accountant (CPA) made false statements to several lenders in Louisiana so that they would approve four non-SBA loans totaling approximately \$2.9 million. She impersonated an SBA employee and falsely represented that SBA disaster loans had been approved and committed for businesses controlled by her employer. The CPA pled guilty to making false statements relating to loan and credit applications. This case was referred by the DHS OIG. The OIG is conducting this investigation jointly with the U.S. Secret Service.
- An individual fraudulently represented an address as his primary residence on disaster assistance applications filed with four government agencies in order to receive funds to which he was not entitled. *An individual fraudulently represented an address as his primary residence on assistance applications filed with four government agencies...* He was approved for a nearly \$79,000 loan from SBA, of which \$10,000 was disbursed. He also received nearly \$9,600 from FEMA, and about \$300 from the U.S. Department of Agriculture (USDA). The man was sentenced to five months incarceration, five months home confinement, two years supervised release, a \$3,000 fine, and restitution of over \$20,000, of which over \$8,000 will be used to pay off the remainder of his SBA loan. Based on a DHS OIG referral, the OIG conducted the investigation jointly with the DHS OIG, the USDA OIG, and the Mississippi State Auditor's Office.

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## Significant OIG Activities

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- A Florida couple provided false statements on their disaster assistance application and during the loss verification inspection. As a result, they received \$50,000 of an approved \$112,500 loan from SBA. They had stated that their primary residence was in Mississippi when in fact they lived in Florida and were not affected by any of the hurricanes. The couple also received over \$6,700 from FEMA. The husband and wife pled guilty to making false claims and statements. The OIG is conducting this joint investigation with the Federal Bureau of Investigation (FBI) and the Mississippi State Auditor's Office.
- A California couple allegedly provided false statements regarding the location of their primary residence in an attempt to receive undeserved benefits from various agencies. The couple was approved for a nearly \$122,000 SBA disaster loan, a \$100,000 Mississippi state grant, and over \$12,000 from FEMA. They were indicted for conspiracy, fraudulent claims, false statements, theft of public funds, wire fraud, submitting a false loan and credit application, and civil forfeiture. The OIG conducted this investigation jointly with the DHS OIG and the Mississippi State Grant Authority.

### **Inspector General Testifies on SBA's Efforts after Hurricanes Rita and Katrina**

On July 25, 2007, the Inspector General (IG) testified before the Senate Committee on Small Business and Entrepreneurship on the effectiveness of SBA's efforts to cope with the aftermath of Hurricanes Rita, Wilma and Katrina. The testimony covered several of the audits and reviews discussed above, including Improperly Canceled Disaster Loans, QARs of Loss Verifications, and the Expedited Loan Program.

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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 of almost \$84 billion. With more than 4,900 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 which cannot be obtained elsewhere. This program is vulnerable to fraud and unnecessary losses because it relies on numerous third parties (e.g., borrowers, loan agents, and lenders) to complete loan transactions. Approximately 87 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. Between 2001 to 2006, SBA's staffing decreased by more than 29 percent while the number of direct and guaranteed loans increased by more than 50 percent. As SBA has placed more responsibility and independence on its lenders, the need for OIG oversight has increased significantly.

Another vehicle for capital, the 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. The program is being revamped because it cost about \$2 billion more than anticipated from FY 1993 to FY 2004. Finally, small and emerging contractors who cannot obtain surety bonds through regular commercial channels can apply for SBA bonding assistance under the Surety Bond Guarantee program.

### Ongoing Investigation of Major Loan Fraud

During the previous reporting period, arrest warrants were issued for 19 individuals in connection with a scheme in which a lender's former executive vice president and others conspired to fraudulently qualify loan applicants for SBA-guaranteed loans. The scheme involved as many as 76 fraudulent loans totaling over \$76 million. A common aspect to a number of these cases was the falsification of equity injection. During this reporting period, this joint investigation with the U.S. Secret Service resulted in the following guilty pleas and judicial actions.

- A company president conspired with his brother and others to fraudulently qualify himself for a \$990,000 SBA-guaranteed loan to be used to purchase a gas station and convenience store from his brother's company in Detroit. The object of the scheme was to refinance and consolidate the financially troubled Detroit company's delinquent debts by using proceeds from the loan made to the "straw buyer." To accomplish this, the conspiracy used a false sales agreement, an inflated purchase price, and a bogus down payment. The loan defaulted, and SBA paid over \$719,000 to the lender. The company president was sentenced to one year and one day in federal prison and ordered to pay almost \$659,000 in restitution to an SBA lender. The restitution will be a joint obligation with his brother, who has pled guilty but has not yet been sentenced.
- Two borrowers and a seller were indicted for conspiracy, false statements, and aiding and abetting in connection with a scheme to present false equity injection documents to a lender in order to obtain SBA-guaranteed loans for the purchase of two different businesses. The first borrower allegedly used false equity injection documents to obtain a \$1.4 million SBA-



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## Significant OIG Activities

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guaranteed loan. The seller verified the false documents, thus allowing the borrower to obtain the loan. The loan defaulted and SBA paid a claim of nearly \$1,038,000. The second borrower allegedly used false equity injection documents to obtain a \$1,310,000 SBA-guaranteed loan to purchase a different business. The seller again verified the false equity injection documents, which allowed the borrower to obtain the loan. This defaulted loan resulted in the SBA paying a claim of nearly \$877,000.

*The loan defaulted and SBA paid a claim of nearly \$1,038,000.*

- A former assistant vice president of a bank supplied false verifications of deposit for loan applicants and gave a loan broker unpaid-for cashier's checks to be used for loan closings. She pled guilty to conspiracy and misapplication of bank funds and admitted giving the loan broker four unfunded official checks totaling more than \$2.8 million.
- The owner of an oil company was charged with making false statements related to a \$1,212,000 SBA-guaranteed loan. The false statements concerned his employment history, the ownership of the oil company, the amount of cash he had on hand, and the fact that his brother had given him a gift of \$363,000 to satisfy the equity injection requirement for the loan.
- The president and the secretary of a gas station and convenience store were each sentenced to one year probation and a \$2,500 fine in connection with falsely representing that they had made a \$130,000 equity injection in order to obtain a \$1,175,000 SBA-guaranteed loan. Despite the falsified equity injection, the individuals continued to make payments on their loan, and the collateral was appraised for more than the outstanding loan balance, resulting in the court viewing this as a "no loss" case.
- An individual was indicted for conspiracy, false statements, and aiding and abetting. She allegedly conspired with others to defraud SBA by obtaining an \$825,000 SBA-guaranteed loan for her brother-in-law, who was the owner and intended operator of the business. She also allegedly overstated her financial status, provided false information about the source of a \$250,000 equity injection, and made misrepresentations on the management resume. The OIG is conducting this joint investigation with the U.S. Secret Service.

### **SBA's Oversight of Business Loan Center, LLC**

As a result of the OIG investigation mentioned in the previous article, the OIG initiated an audit of the SBA's oversight of Business Loan Center, LLC (BLX). The OIG investigation resulted in the arrest of a BLX Executive Vice President and 18 other individuals, not employed by BLX, for allegedly making over \$76 million in fraudulent loans to unqualified loan applicants.

*The audit identified problems with the manner in which SBA addressed performance and compliance issues...and SBA's actions to protect government funds once deficiencies were identified.*

related to BLX's performance. Despite these recurring problems, SBA continued to renew BLX's delegated lender status and SBA took no actions to restrict BLX's ability to originate loans or to mitigate

The audit identified problems with the manner in which SBA addressed performance and compliance issues with BLX's lending activities and SBA's actions to protect government funds once deficiencies were identified. Since 2001, SBA's oversight activities identified recurring and material issues

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financial risks through the purchase review process. The audit also determined that the organizational placement of SBA's Office of Lender Oversight (OLO) presented a potential conflict because OLO did not have compatible goals with the organization to which it reports, and that SBA lacked clear enforcement policies. The OIG recommended that SBA take certain actions to mitigate the risk posed by BLX, identify actions to address the potential organizational conflict, and develop more definitive guidance on enforcement actions.

### **SBA Has Not Fully Realized the Benefits of the Loan and Lender Monitoring System or Used the Data to Drive Risk-Based Decisions**

In 1996, Congress passed the Small Business Programs Improvement Act, which required SBA to establish a risk management database that provides timely and accurate information to identify loan underwriting, collections, recovery, and liquidation problems. In FY 2003, SBA contracted with Dun & Bradstreet for the Loan and Lender Monitoring System (L/LMS) to provide the Agency with the information necessary to assess and manage risk in its loan portfolio. SBA uses predictive financial models to develop composite ratings that reflect SBA's assessment of the potential risk to the government from lenders' SBA portfolio performance.

The OIG initiated an audit to determine whether the L/LMS generates lender ratings that correspond to actual lender performance and the extent to which SBA uses lender ratings to manage the risk in the section 7(a) program. The audit disclosed that, although the rating system generates the information needed by SBA to assess lender risk, the Agency's method of assigning risk based on lender scores is inadequate for conducting effective portfolio and lender oversight. Because SBA arbitrarily limits the number of lenders that could be considered "high-risk" to no more than 10 percent of the lenders in each peer group, it excluded large groups of lenders with poor historical performance from being considered a priority for oversight attention. In addition, the Agency conducted on-site reviews of only those lenders with guaranteed loan portfolios of \$10 million or more, regardless of their risk ratings. Consequently, smaller lenders with high-risk ratings were not reviewed on-site. The Agency also had not shared lender risk ratings with SBA offices responsible for purchasing loan

*...the Agency's method of assigning risk based on lender's scores was inadequate for conducting effective portfolio and lender oversight.*

*...it excluded large groups of lenders with poor historical performance from being considered a priority for oversight attention.*

guaranties. The ratings would help purchase officials identify those lenders with above-average default rates and high-risk lending practices whose purchase requests require closer scrutiny.

The OIG also found that the Agency had not yet developed or implemented comprehensive loan-monitoring policies and procedures to: (1) define acceptable lender performance and risk tolerance levels that require corrective actions be taken by the lenders; (2) identify enforcement actions that will be taken when the risk tolerance limits are violated; or (3) describe how data generated by L/LMS will be incorporated into mission activities agency-wide and reflected in credit models used by the Agency for financial reporting.

The OIG recommended that SBA: (1) establish a method for assigning risk ratings that more accurately reflect the risk profiles of the lenders; (2) develop an on-site review plan for all high-risk 7(a) lenders with guaranteed loan portfolios in excess of \$4 million; distribute L/LMS data to offices involved in

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purchasing loan guaranties; (3) share lender risk ratings with SBA offices that make guaranty purchase decisions; and (4) develop loan-monitoring policies and procedures that define acceptable lender performance and risk tolerance levels.

### **SBA Purchased Guaranties without Determining Whether Lenders Had Originated, Serviced, and Liquidated Loans in Accordance With SBA Requirements and Prudent Lending Procedures**

Section 7(a) loan purchase reviews are performed by the National Guaranty Purchase Center (NGPC) in Herndon, Virginia. The guaranty purchase process involves a review of the purchase request and relevant documentation to evaluate whether a lender materially complied with program rules and regulations in determining whether to honor a guaranty. These reviews help ensure that SBA does not make improper payments. Under the Improper Payments Information Act, SBA must annually examine and report the rate of improper payments. In FY 2006, SBA estimated this rate to be 1.56 percent.

The OIG examined purchase procedures used by the NGPC to determine whether they were effective in identifying lender deficiencies in order to prevent erroneous payments. The audit disclosed that SBA purchased guaranties without adequately analyzing documentation or obtaining sufficient information needed to assess whether lenders originated, serviced, and liquidated loans in accordance with SBA requirements and prudent lending practices. Based on the results of sampled loans, the OIG projected that SBA made approximately \$36 million in erroneous payments on loans with purchase reviews completed between October 1, 2004, and May 31, 2005. These erroneous payments equated to an improper payment rate of 17 percent, a rate significantly higher than the 1.56 percent reported by SBA. The major deficiencies identified involved lenders not verifying borrower equity injection, not adequately documenting the use of proceeds, not properly securing collateral, and not verifying repayment ability.

*...SBA made approximately \$36 million in erroneous payments on loans with purchase reviews completed between October 1, 2004 and May 31, 2005...*

The audit also disclosed that staffing problems and an overly aggressive emphasis on expediting and increasing purchase production at the NGPC had adversely impacted the quality of purchase decisions. A high rate of staff turnover in FY 2006 left the NGPC with unfilled vacancies and largely inexperienced loan officers to review purchase requests. The NGPC had only three individuals to perform supervisory oversight of nearly 3,000 purchase reviews. As a result, supervisors either did not review purchase requests performed by inexperienced loan officers or did not identify deficiencies the loan officers missed.

*...staffing problems and an overly aggressive emphasis on expediting and increasing purchase production...adversely impacted the quality of purchase decisions.*

The task of performing adequate purchase reviews is expected to become more challenging in the future because the Agency established a goal to increase its loan production by 15 percent by the end of FY

2007 without identifying the additional resources to handle the increased loan production and resulting increases in purchase requests.

The OIG recommended that SBA perform more thorough reviews on selected purchase requests using a sample-based approach. The sampling plan would need to consider each lender's performance, and the dollar value of the errors found in the sample would need to be projectable to the lender's portfolio as a basis for recovery for all loans in the lender's universe. In addition, the OIG recommended that SBA ensure future purchase decisions receive the proper supervisory review and that an evaluation is made of

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the quality of decisions made under the new process to assess the level of risk associated with streamlining efforts and its impact on the improper payment rate reported in the Agency's budget.

### **Dishonest Loan Agents Continue to Harm SBA Loan Programs**

A loan agent is paid by a prospective borrower or a lender to prepare the documentation for an SBA loan application and/or refer the borrower to a lender (or vice versa). Although reputable loan agents have linked small businesses to sources of capital, dishonest agents have perpetrated frauds involving hundreds of millions of dollars in loans. Moreover, loans associated with loan agent fraud often default for nonpayment, thus increasing losses in the loan guaranty program.

For example, in the \$77 million scheme described previously, an OIG investigation determined that a loan agent, a corporate secretary of an auto service center, and the corporate president conspired to fraudulently obtain a \$1.1 million SBA-guaranteed

*...a loan agent, a corporate secretary...and the corporate president conspired to fraudulently obtain a \$1.1 million SBA-guaranteed loan.*

loan. The three individuals made or caused false statements to be made to SBA by claiming that \$210,000 in repairs and renovations to the auto service center had been completed prior to loan closing. The business defaulted on the loan and SBA paid a claim of over \$789,000 to the lender. The loan agent is a fugitive and is believed to have returned to his native country. The corporate secretary pled guilty to conspiracy, and charges against the corporate president and the loan agent are pending.

The OIG's FY 2007 Management Challenges Report identified loan agent fraud as one of the top challenges for the Agency and made recommendations to deter loan agent abuse. For example, SBA does not currently know the magnitude of the loan agent problem because it collects little information about loan agent involvement with its loans. The Agency needs to systematically identify all loan agents and track their association with individual loans. This is critical to identifying corrupt loan agents, since loan agents have opportunities for contacts with multiple lenders and due diligence in loan processing varies greatly among lenders.

### **SBA Official Violates Ethics Rules and Allegedly Commits Fraud in Obtaining SBA-Guaranteed Loan**

An SBA branch office manager was indicted for making false statements to an SBA lender and to SBA. He allegedly submitted a false personal financial statement to a lender in connection with an \$80,070 loan application, purporting to own \$235,000 in stock when he knew the stock had little value. He also allegedly made false statements to SBA on his financial disclosure report by failing to disclose both the SBA-guaranteed loan and his management role in the business for which the loan was obtained. These omissions were significant because conflict of interest and ethics rules would have prohibited his receiving the SBA-guaranteed loan due to his position with the Agency. The OIG is conducting this joint investigation with the FBI.

### **OIG Investigations Uncover a Variety of Fraudulent Tactics in SBA's Loan Guaranty Programs**

To fraudulently obtain – or induce others to obtain – SBA-guaranteed loans, criminals resort to a variety of methods, such as: submitting fraudulent documents; making fictitious asset claims; manipulating property values; and failing to disclose debts, prior criminal records, or other SBA-backed loans. In

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addition, borrowers sometimes use loan proceeds contrary to the terms of the loans. These practices increase the likelihood of financial loss to SBA and its lenders. The following examples, in addition to those discussed above, reveal the techniques individuals use to fraudulently acquire SBA loans.

- An Internet-based company in Virginia induced over 900 people to fall victim to a major scam by promising, among other things, to provide a comprehensive business plan and an SBA-guaranteed loan in exchange for a fee of at least \$3,500. OIG Investigative efforts disclosed that the business plans were worthless and that only one or two businesses ever received an SBA-guaranteed loan. The company's former owner was sentenced to 84 months in prison and 3 years supervised release, and was ordered to pay over \$2,755,000 in restitution along with a co-defendant. The owner was also ordered to pay, independently from the co-defendant, nearly \$218,000 to the Internal Revenue Service (IRS) and was prohibited from engaging in any financial businesses. He had previously pled guilty to mail fraud, engaging in a monetary transaction in criminally derived property, and tax evasion. This case was based on a referral from SBA's Richmond District Office. The OIG conducted this joint investigation with the U.S. Postal Inspection Service and the IRS.

*OIG Investigative efforts disclosed that the business plans were worthless and that only one or two businesses ever received an SBA-guaranteed loan.*
- An OIG investigation found that most of a \$1 million SBA-guaranteed loan made to a now defunct electronic imaging company, for the purpose of purchasing equipment from a machinery company, was instead used for unauthorized purposes, including buying out a former partner, paying taxes, and making unauthorized payments to the two principals of the machinery company. All three individuals agreed to enter into the Pre-Trial Intervention program. The imaging company principal agreed to 200 hours of community service and \$25,000 restitution to SBA, and the two machinery company principals each agreed to 100 hours of community service and \$50,000 restitution to SBA.
- A joint investigation by the OIG and FBI revealed that a New York business owner used a false Social Security number when applying for SBA-guaranteed loans for two of his businesses and failed to disclose over \$257,000 in outstanding Federal and state tax liens. Based on this false information, a loan of \$1,550,000 was approved for one business, and a loan of \$100,000 was approved for the second business. The owner pled guilty to bank fraud and bankruptcy fraud. The bankruptcy charge relates to the owner's false statements on a bankruptcy document. The OIG is conducting this joint investigation with the FBI.
- The former owner of a dump truck hauling business in the State of Washington made false statements to SBA and to a federally-insured bank regarding his company's tax liability in order to obtain a \$750,000 SBA-guaranteed loan. He hid the proceeds from converted collateral and avoided payments to the IRS for past due payroll taxes by failing to disclose assets. He pled guilty to bank fraud, bankruptcy fraud, and evasion of payments to the IRS. Per the plea agreement, he agreed to forfeit the proceeds from the unlawful activity (including an approximately \$68,000 investment account) and to pay a monetary judgment of nearly \$158,000. After receiving a referral from the participating lender, the OIG conducted this joint investigation with the FBI and IRS.

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### False Claims of Citizenship Persist in SBA Loan Programs

As discussed in previous semiannual reports, some prospective borrowers, either individually or with the help of dishonest loan agents, falsely claim U.S. citizenship when applying for SBA-guaranteed loans.

*...some prospective borrowers, either individually or with the help of dishonest loan agents, falsely claim U.S. citizenship when applying for SBA-guaranteed loans.*

These loans often default quickly, with millions of dollars at risk. Moreover, loans to such borrowers can deprive honest loan applicants (citizens as well as non-citizens who legally reside in the U.S.) of access to SBA-backed financing.

For example, a part owner of a deli caterer in Utah falsely claimed to be a U.S. citizen and used a false Social Security number to obtain a \$135,000 SBA-guaranteed loan. In addition, the owner of a Mexican restaurant in Utah falsely claimed to be a U.S. citizen to obtain a \$30,000 SBA-guaranteed loan. Both men entered into pretrial diversion for making a false statement on a loan application and each are required to make payments on their SBA loans and to notify their pretrial diversion supervisor before acquiring any additional debt. The OIG is conducting this joint investigation with Immigration and Customs Enforcement and the Social Security Administration OIG.

### Fraud Results in Major Surety Bond Loss

As a result of an OIG investigation, the president of a now defunct construction firm in the State of Washington was indicted for mail fraud and false statements on a loan application. The construction company obtained SBA-guaranteed surety bonds in order to perform public works contracts for state and city governments. The president defrauded SBA and a surety company by falsely stating that his company was out of funds when, in fact, he had diverted contract proceeds of approximately \$87,000 to his personal use. This apparent shortfall forced the surety company to pay contract owners on defaulted jobs. In turn, because SBA's surety bond program guarantees 70 percent of the surety company's losses, the Agency suffered losses of over \$500,000. The company president also made false statements to a financial institution regarding the source of the down payment on his home. The National Insurance Crime Bureau (NICB) referred this case to the OIG, which is conducting this investigation jointly with the FBI and NICB.

### Falsified Capital Injection Remains a Serious Problem

According to SBA procedures, borrowers are required to inject available capital towards a project being financed by an SBA-guaranteed loan. Capital injection represents a borrower's own financial stake in a business, in addition to the loan. Because a borrower has something personal to lose, he or she is less likely to default on a loan. Unfortunately, to circumvent SBA's capital injection requirement, borrowers are increasingly falsifying the amount of their capital injection.

*...borrowers are increasingly falsifying the amount of their capital injection.*

For example, to obtain \$500,000 and \$1,100,000 SBA-guaranteed loans, a Texas businessman conspired with two family members by submitting fraudulent business loan applications and supporting documents that falsified their total required capital injection of \$260,000. Thus far, the two family members have pled guilty to conspiracy to commit wire fraud after having been charged in connection with fraudulent

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wire transfers of money from two federally-insured banks to two title companies. The OIG conducted this joint investigation with the FBI.

### **OIG Alerts Agency and Lenders about Organized SBAExpress Fraud**

The OIG issued an information notice to alert SBA employees and lenders about the increase in potentially fraudulent SBAExpress loans. The notice identifies indicators of fraud involving both

*The notice identifies indicators of fraud involving both borrowers and loan agents.*

borrowers and loan agents. For example, loan agents may focus on a particular ethnic group or recent immigrants in order to recruit prospective borrowers. In addition, the agent and/or borrower may submit multiple

loan applications simultaneously to different lenders for the same borrower. To help reduce fraud, the notice discusses actions that lenders can take, including verifying the existence of business borrowers through various listings of commercial entities and making a positive identification of the borrowers.

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

SBA's Section 8(a) Business Development program offers a broad scope of assistance to socially and economically disadvantaged firms. Regulations permit 8(a) companies to form beneficial teaming partnerships, and allow Federal agencies to streamline the contracting process. SBA has also implemented the Mentor-Protégé program to allow new 8(a) companies to learn from experienced businesses. These businesses teach 8(a) and other small companies how to compete for the Federal contracting opportunities as a result of public-private partnerships. Program goals require 8(a) firms to maintain a balance between their commercial and government business. The overall program goal is to graduate firms which experience sufficient success to be able to thrive in a competitive business environment.

In addition, SBA provides assistance to existing and prospective small businesses through a variety of counseling and training services, offered by partner organizations. Among these are Small Business Development Centers (SBDCs), the Service Corps of Retired Executives (SCORE), and Women's Business Centers (WBCs). Most of these are grant programs that require effective and efficient management, outreach, and service delivery.

### **SBA District Offices Did Not Follow SBA Regulations When Determining Whether Companies Qualified as Small for 8(a) Procurements**

The OIG conducted an audit of 8(a) size determinations made by SBA's district offices. Size determinations are a key control for ensuring that only small businesses are considered for government preference contracts. Reports by the OIG, congressional staff, and the Government Accountability Office have continued to identify instances where large businesses received contracts intended for small businesses.

The OIG surveyed SBA district offices to determine if they followed SBA regulations when determining whether companies qualified as small for 8(a) procurements. Under SBA regulations, size determinations must be based on payroll records from the preceding 12 months for employee-based size standards, and on tax returns for revenue-based standards. The OIG's review, however, determined that the district offices surveyed generally did not follow SBA regulations in making both employee and revenue-based size determinations. Of those surveyed, 68 percent relied instead on data contained in SBA's Servicing and Contracting System (SACS) or from annual reviews to determine the size of companies under employee-based standards. This was because reviewing payroll records was time consuming and 8(a)'s use of manual payroll systems made it

*...district offices surveyed generally did not follow SBA regulations in making both employee and revenue-based size determinations...*



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difficult to determine the average number of employees. In addition, 83 percent of district offices surveyed reported using tax returns just 62 percent of the time when making revenue-based determinations. District offices instead relied on financial statements, as tax returns are frequently not available when companies filed late. Also, 28 percent of the district offices were improperly calculating revenues for companies that were in business for less than 3 years. Instead of averaging a business concern's receipts based on the method specified in SBA regulations, district offices relied on revenue information in SACS that did not accurately estimate average revenues.

The OIG recommended that SBA: simplify the method and data used to calculate a business concern's average number of employees; require certified statements from the 8(a) company's accountant, financial officer, or similar official as to its revenues, along with supporting financial statement data, when a company has not filed a Federal income tax return to determine the size of the 8(a) company based on revenue; and ensure that district office QARs include an examination of a sample of size determinations to ensure that district offices are properly performing them. The Agency generally concurred with the recommendations.

### **SBA's Oversight of Contractor Compliance with Subcontracting Plans is Limited**

The OIG initiated a review of SBA's Subcontracting Assistance Program to evaluate SBA's effectiveness in ensuring that large contractors comply with applicable laws in developing and implementing their subcontracting plans. The review also assessed the extent to which SBA, through its Commercial Market Representatives (CMRs), was adequately identifying, developing, and marketing small businesses to large contractors to assist them in obtaining contracts.

The OIG surveyed all six of SBA's Government Contracting area offices to determine the results of the compliance reviews conducted for FY 2006. The review focused on the CMRs' on-site compliance reviews because they are the main focus of the CMRs and can significantly impact the way a large contractor administers its small business program. The review also examined each office's efforts to market small businesses to large contractors.

The review found that SBA performed only limited oversight of large prime contractors' subcontracting plans, which resulted in billions of subcontracts escaping oversight. In FY 2006, only 968 of an estimated 2,200 large prime contractors were reviewed. Of the 968 reviews SBA performed, 24 percent were performed on-site, and the rest were desk reviews of prime contractors' self-reported

*...SBA performed only limited oversight of large prime contractors' subcontracting plans, which resulted in billions of subcontracts escaping oversight.*

achievements or other off-site reviews. While off-site reviews save the Agency time and resources, they are not the best tool for ensuring that small businesses receive subcontracts because SBA does not review underlying documentation supporting the prime contractor's claims.

In addition, SBA has sharply curtailed the ancillary subcontracting assistance activities of its CMRs. The declining number of CMRs and increasingly part-time nature of their role has restricted the Agency's activities under the Subcontracting Assistance Program. The number of full-time CMRs decreased from 24 in 1992 to 5 in 2006, while the number of part-time CMRS increased from 3 to 35 over the same period. The review disclosed that CMRs were not strategically deployed based on the volume of

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contracting activity in each geographic area, which further impeded SBA's ability to effectively provide oversight of prime contractors' subcontracting plans.

SBA also lacked a strategic or annual performance plan for the program, as required by the Government and Performance Results Act, to establish performance goals for measuring the effectiveness of the program and assign responsibilities for goal achievement.

The OIG recommended that SBA develop an annual performance plan for the Subcontracting Assistance Program that establishes performance goals for measuring effectiveness of all key program activities, and assigns responsibility for achieving the goals. The plan should also address how CMRs will be deployed and the percentage of time that part-time CMRs are expected to devote to the program to ensure adequate coverage of prime contractors. The OIG also recommended that SBA submit annual reports on the Federal government's subcontracting goal achievements more timely, including the number and dollar value of subcontracts awarded to small businesses, as required by law.

### **Bribery Scheme Results in Multiple Indictments**

Six individuals were indicted for conspiracy, bribery, kickbacks in a public contract, wire fraud, disclosure of confidential bid information, money laundering, and other charges in connection with a multimillion dollar bribery scheme involving fixed contracts between DoD and SBA certified 8(a) firms.. The defendants – an 8(a) firm's owner and an employee, three government officials, and an official's son – allegedly committed these acts to ensure that the 8(a) company received government contracts. For example, five defendants allegedly derived approximately \$1 million in graft from a contract for computer cable upgrades, and the sixth defendant allegedly was paid \$200,000 for accounting services. Moreover, one official allegedly used his influence to steer over \$1.6 million in equipment and support contracts to the 8(a) company in exchange for a share of the contract proceeds. In addition to criminal charges, the indictment also seeks a \$1.2 million judgment. The OIG is conducting this joint investigation with the FBI, IRS, U.S. Army Criminal Investigation Division, General Services Administration OIG, Department of Interior OIG, and the Defense Criminal Investigative Service as part of an FBI task force investigating 8(a) firms that illegally act as pass-through companies for larger firms that perform the actual work on 8(a) contracts.

*...one official allegedly used his influence to steer over \$1.6 million in equipment and support contracts to the 8(a) company in exchange for a share of the contract proceeds.*

### **Embezzlement Includes Use of Phony 8(a) Firms**

A National Archives and Records Administration (NARA) property management official and a contractor allegedly conspired to embezzle over \$958,000 from a NARA facility in Maryland. The official allegedly used his NARA government purchase card to pay three businesses purportedly operated by the contractor for goods and services that were never provided or were provided at inflated prices. The businesses were listed on contracting documents as 8(a) firms, but there was no record of 8(a) certification with SBA. Moreover, the businesses did not have any offices or employees. The official and the contractor were each indicted

*A National Archives and Records Administration (NARA) property management official and a contractor allegedly conspired to embezzle over \$958,000...*

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for theft of government property, aiding and abetting, and conspiracy. This case was initiated based on a referral from NARA. The OIG is conducting this investigation jointly with the NARA OIG.

### **Multi-Agency Effort Uncovers SBDC Kickback Scheme**

A former assistant state director for the organization that administered the Small Business Development Center (SBDC) program for California was sentenced to sixty months probation, six months house arrest, 1,500 hours of community service, and over \$98,000 in restitution as a result of her guilty plea for false statements and deprivation of right to honest services. In addition, SBA previously submitted a claim to the State of California for over \$1.2 million in reimbursement because of this official's activities. The assistant director had been responsible for disbursing federal funds to the network of SBDCs in southern California. Between 1999 and 2003, she received kickbacks from SBDC contractors, who in turn received contracts without competitive bids. She also diverted monies intended for SBDC projects to her own benefit. The SBA OIG conducted this investigation jointly with the HUD OIG and the FBI.

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

In December 2004, Congress amended Section 21(a)(7) of the Small Business Act to restrict the disclosure of information regarding individuals or small businesses that have received assistance from an SBDC, and further restrict the Agency's use of such information. The provision also requires the Agency to issue regulations regarding disclosures of such information for use in conducting financial audits or SBDC client surveys. To date, however, SBA has not issued these regulations. In addition, paragraph 21(a)(7)(C)(iii) states that, until the issuance of such regulations, any client survey and the use of such information shall be approved by the Inspector General, who shall include such approval in the OIG's Semiannual Report to Congress. The Agency reported that there were no SBDC surveys requiring OIG approval during this reporting period.

### **Assistant Inspector General Testifies on SBA's Grant Program for Women's Business Centers**

On September 20, 2007, the Assistant Inspector General (AIG) for Auditing testified before the Senate Committee on Small Business and Entrepreneurship regarding the SBA's grant program for Women's Business Centers (WBC). Under this program, eligible organizations can obtain Federal grants to create and operate centers that provide training and counseling services to women who own businesses or contemplating business ownership. The WBCs have voiced significant concerns about delays in grant payments made by the SBA.

At the Committee's request, the OIG reviewed the timeliness of SBA grant disbursements. The testimony covered preliminary findings regarding the extent of payment delays, their causes, and possible solutions. The OIG has found that payment delays were largely attributable to the lack of coordination and communication between SBA's program and grants offices. The AIG discussed opportunities that exist to streamline the grant award process to enable WBCs to apply for funding earlier in the year.

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# Significant OIG Activities

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## Agency Management

### E-applications System Lacks Adequate Security Operating Procedures and Backup Capability

The OIG initiated an audit of SBA's E-applications system, an internet-based system that processes applications for the 8(a) and Small Disadvantaged Business (SDB) certification programs. The purpose of this audit was to determine (1) whether data stored in E-applications complied with applicable laws, rules, and regulations governing security of government data and Personally Identifiable Information, and (2) whether controls over data transferred between E-applications and SBA's Electronic 8(a) Review System were sufficient to ensure the complete and accurate transfer of information. The E-applications system, which was implemented in November 2004, is contractor-owned and operated, and interfaces with SBA's Electronic 8(a) Review System. The goal of the system is to reduce the application processing time by allowing applicants to receive and submit 8(a) and SDB applications electronically, and by providing 8(a) program personnel with a tool to quickly evaluate and approve applications and identify those applications which require further review.

The OIG's review determined that the system's security safeguards over sensitive government data were inadequate and did not meet Federal Information Security Management Act (FISMA), Federal Information Processing Standards (FIPS) Publication 200, or National Institute of Standards and Technology (NIST) requirements. For example, SBA had not developed or implemented standard security operating procedures for E-applications. Also, the contractor that operates the system lacked data backup and recovery capability, leaving SBA data vulnerable to loss or misuse.

*...the system's security safeguards over sensitive government data were inadequate...*

System controls were also insufficient to ensure the complete and accurate transfer of information from E-applications to SBA's Electronic 8(a) Review System. For example, system interfaces did not have sufficient data validation and verification controls to ensure the integrity of data transferred. These controls were not required in the contract to build the E-applications system. As a result, SBA lacked assurance that complete and accurate data was transferred from E-applications to SBA's Electronic 8(a) Review System.

*...SBA lacked assurance that complete and accurate data was transferred from E-applications to SBA's Electronic 8(a) Review System.*

FISMA and FIPS Publication 200 require formalized system security plans for Federal information systems, including contractor hosted systems. However, reviews performed by SBA since 2004 have identified significant unresolved security vulnerabilities in the E-applications system. For example, SBA conducted a review prior to deployment of the E-applications system which disclosed that the vendor had not defined and implemented standard operating procedures to ensure the security of the system. SBA reported this condition as a vulnerability and required the vendor to develop procedures to implement SBA's security policies by December 31, 2005. As of the end of the reporting period, security procedures had not been developed or implemented, and SBA had not held the contractor accountable.

Following a site visit in 2006, SBA identified several unremediated data backup and disaster recovery vulnerabilities, which placed E-applications data at risk of misuse or loss.

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## Significant OIG Activities

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The OIG recommended that SBA: modify the existing contract with the vendor to require the development of security procedures to implement SBA's security policies, a disaster recovery plan, a backup data storage site, and an alternate data processing site; establish controls to ensure data entered into E-applications is accurately transferred to the Electronic 8(a) Review System; and validate the accuracy of data already transferred to the system. The Agency generally concurred with the recommendations and stated that it would migrate the E-Applications system from the vendor site to an Agency system within 60 to 90 days in order to place the system in an environment that is compliant with security, data backup, and disaster recovery requirements.

### **Number of Overdue Management Decisions has Decreased**

The Inspector General Act requires Federal agencies to make decisions on all audit findings and recommendations within a maximum of six months of report issuance. Program officials may agree, disagree, or seek alternative actions to the recommendations. To reduce the number of overdue management decisions, the OIG revised its final audit and recommendation reporting process to require that the Agency provide management decisions on recommendations made in OIG reports at the time that it transmits its comments on the draft reports. During this reporting period, management decisions were made for all but 6 of the 37 recommendations for which management decisions were overdue as of March 31, 2007 – a reduction in overdue management decisions of almost 84 percent. In all, management decisions were made for 81 recommendations during this reporting period.

### **SBA Identified and Addressed Improper Acceptance of Cash**

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

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

Section 4(h) of the Small Business Act, as amended, requires the OIG to report to Congress on a semi-annual basis regarding the Agency's use of its authority in connection with cosponsorships and fee-based Administration-sponsored events. SBA's Office of Strategic Alliances provided information to the OIG related to cosponsorships, including the names, dates, and locations of the cosponsored events, and the names of the cosponsors. As shown in Appendix IX, between April 1, 2007 and September 30, 2007, there were 35 cosponsored events. SBA reported that it did not conduct any fee-based Administration-sponsored events during this period.

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# Significant OIG Activities

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## Other Significant OIG Activities

### Character Screening Diminishes Potential Program Fraud

The OIG's Office of Security Operations ensures that participants in programs involving business loans, disaster assistance loans, Section 8(a) certifications, surety bond guarantees, small business investment companies, and certified development companies meet SBA character standards. To accomplish this, the security staff utilizes name checks and, where appropriate, fingerprint checks to determine criminal background information. During this semiannual reporting period, the OIG processed 1,775 external name check requests for these programs.

*As a result of OIG referrals during this reporting period, SBA business loan program managers declined 42 applications totaling over \$17 million and disaster loan program officials declined 16 applications totaling over \$1 million.*

Based on data from its on-line connection with the FBI, the OIG also refers applicants who appear ineligible because of character issues to program officials for adjudication. As a result of OIG referrals during this reporting period, SBA business loan program managers declined 42

applications totaling over \$17 million and disaster loan program officials declined 16 applications totaling over \$1 million. Approximately \$288 million in loans have been declined during the last 10 years due to character eligibility issues, thus making credit available to other applicants who had no such issues.

In addition, based on OIG efforts during this period, the Section 8(a) program declined 6 applications for admission, and the Surety Bond Guarantee program declined 1 application for admission. The OIG also initiated 169 background investigations and issued 29 security clearances for Agency employees and contractor personnel required to have clearances, adjudicated 33 background investigative reports, and coordinated with the Office of Disaster Assistance to adjudicate 149 derogatory background investigation reports. Finally, the OIG processed 1,284 internal name check requests for Agency activities such as success stories, Small Business Person of the Year nominees, and disaster assistance new hires.

### OIG Recommends Debarments

The OIG believes that it is in the public interest to debar parties who have a history of fraud, or otherwise lack business integrity, from conducting business with the Federal Government. Accordingly, the OIG has adopted a proactive program to identify SBA program participants that have demonstrated a lack of business integrity and submit debarment recommendations to the SBA. During this reporting period, the OIG submitted 11 debarment recommendations to the Agency.

*During this reporting period, the OIG submitted 11 debarment recommendations to the Agency.*

The OIG recommended that SBA debar an individual who devised a scheme to fraudulently obtain money from the government following the September 11, 2001 terrorist attacks. The OIG investigation determined that the individual falsely claimed to have lived in the vicinity of the World Trade Center and that the individual's belongings were destroyed by debris when the Center towers collapsed. In reality, the individual never resided at the claimed residence and, at the time of the attacks, no longer owned some of the belongings claimed to have been destroyed. Based on the OIG's recommendation, the Agency issued a notice of proposed debarment to the individual.

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## Significant OIG Activities

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The OIG also recommended that SBA debar an individual for submitting false statements on a Personal Financial Statement (PFS) when applying for a \$1.5 million SBA guaranteed loan. The OIG investigation determined that the individual substantially overvalued the assets claimed on the PFS and falsely claimed to have never filed for bankruptcy. The Agency also agreed with this OIG recommendation and issued a notice of proposed debarment.

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

As part of its oversight of Agency programs and operations, each year the OIG reviews a large number of SBA-proposed regulations, operating procedures and other directives to determine whether the Agency is implementing adequate controls and whether the proposed action could lead to increased waste, fraud, abuse or inefficiencies. Frequently, OIG comments identify material weaknesses and lead to significant improvements in the quality of the proposed action. During the reporting period, the OIG reviewed 77 proposed actions and submitted comments on 38 of these initiatives.

During this reporting period, the OIG identified significant concerns and, through agency adoption of OIG recommendations, prompted more robust controls in and enhancements of various agency directives. For example, OIG comments led to strengthening of proposals arising under the 7(a) program, such as the Patriot Express and Lender Advantage pilot initiatives, and improvements to proposed revisions of SBA lender oversight regulations. In addition, the OIG noted material weaknesses in commenting on several important procurement directives, such as proposed revisions to SBA's size and 8(a) program regulations,

*...the OIG submitted comments identifying key recommendations to promote accountability and oversight in proposed procedures...*

and intended modifications to 8(a) program operating procedures regarding the mentor-protégé program, the annual review process, and performance of surveillance reviews of procuring agency oversight of 8(a) program compliance. As

another example, the OIG submitted comments identifying key recommendations to promote accountability and oversight in proposed procedures governing the acceptance of cash gifts from external parties and the administration of cosponsored events.

### **OIG Fraud Awareness Briefings**

During this reporting period, the OIG conducted 13 fraud awareness presentations for over 1,000 representatives of lending institutions, SBA, other federal and local agencies, and law enforcement organizations. Topics included loan agent and lender fraud, as well as fraud indicators in SBA's loan, 8(a), government contracting, and surety bond programs.

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# Statistical Highlights

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## 6-Month Productivity Statistics April 1, 2007, through September 30, 2007

Summary of Office-Wide Dollar Accomplishments	Totals
A. Potential Investigative Recoveries and Fines .....	\$7,123,781
B. Loans/Contracts Not Approved or Canceled as Result of Investigations.....	\$3,304,724
C. Loans Not Made as a Result of Name Checks .....	\$18,079,468
D. Disallowed Costs Agreed to by Management .....	\$356,643
E. Recommendations that Funds Be Put to Better Use Agreed to by Management .....	\$31,980,000
<b>Total</b> .....	<b>\$60,844,616</b>

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

A. Reports Issued .....	15
B. Recommendations Issued .....	48
C. Dollar Value of Costs Questioned.....	\$36,407
D. Dollar Value of Recommendations that Funds Be Put to Better Use .....	\$31,980,000
E. Collections as a Result of Questioned Costs .....	\$41,666

### Audit and Report Follow-up Activities

A. Recommendations for which Management Decisions were made During the Reporting Period .....	81
B. Disallowed Costs Agreed to by Management .....	\$356,643
C. Dollar Value of Recommendations that Funds Be Put to Better Use Agreed to by Management .....	\$31,980,000
D. Recommendations without a Management Decision at End of Reporting Period .....	28

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

A. Legislation Reviewed .....	2
B. Regulations Reviewed.....	4
C. Standard Operating Procedures and Other Issuances* Reviewed .....	71
<b>Total</b> .....	<b>77</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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## 6-Month Productivity Statistics April 1, 2007, through September 30, 2007

### Indictments, Convictions, and Case Activity

A. Indictments from OIG Cases .....	53
B. Convictions from OIG Cases.....	42*
C. Cases Opened .....	43
D. Cases Closed.....	34

### Investigations Recoveries and Management Avoidances

A. Potential Recoveries and Fines as a Result of OIG Investigations .....	\$7,123,781
B. Loans/Contracts Not Approved or Canceled as Result of Investigations.....	\$3,304,724
C. Loans Not Approved as a Result of the Name Check Program .....	<u>\$18,079,468</u>
<b>Total.....</b>	<b>\$28,507,973</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.....	1

### Program Actions Taken as a Result of Investigations

A. Debarments Recommended to the Agency .....	11
B. Debarments Pending at the Agency .....	17
C. Proposed Debarments Issued by the Agency .....	8
D. Final Debarments Issued by the Agency .....	0
E. Proposed Debarments Declined by the Agency .....	0

### OIG Hotline Operation Activities

A. Total Fraud Line Calls/Letters.....	204
B. Total Calls/Letters Referred to Investigations Division .....	31
C. Total Calls/Letters Referred to SBA or Other Federal Investigative Agencies.....	45
D. Total Calls/Letters Referred to Other Entities.....	38
E. Total Calls/Letters Needing No Action.....	90

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\* Includes one indictment/conviction that occurred in a previous period but was not reported.

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# Statistical Highlights

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## Full Year Productivity Statistics October 1, 2006, through September 30, 2007

### Office-Wide Dollar Accomplishments

### Totals

A. Potential Investigative Recoveries and Fines .....	\$20,791,370
B. Loans/Contracts Not Approved or Canceled as Result of Investigations.....	\$9,717,113
C. Loans Not Made as a Result of Name Checks .....	\$39,680,038
D. Disallowed Costs Agreed to by Management .....	\$27,567,922
E. Recommendations that Funds Be Put to Better Use Agreed to by Management .....	\$31,980,000
<b>Total.....</b>	<b>\$129,736,443</b>

### Efficiency and Effectiveness Activities

A. Reports Issued .....	34
B. Recommendations Issued .....	138
C. Dollar Value of Costs Questioned.....	\$28,009,202
D. Dollar Value of Recommendations that Funds Be Put to Better Use .....	\$31,980,000
E. Collections as a Result of Questioned Costs .....	\$1,057,423

### Follow-up Activities

A. Recommendations for which Management Decisions were made During the Reporting Period .....	155
B. Disallowed Costs Agreed to by Management .....	\$27,567,922
C. Dollar Value of Recommendations that Funds Be Put to Better Use Agreed to by Management .....	\$31,980,000
D. Recommendations without a Management Decision at End of Reporting Period .....	28

### Legislation/Regulations/ SOPs/Other Reviews

A. Legislation Reviewed .....	6
B. Regulations Reviewed .....	17
C. Standard Operating Procedures and Other Issuances* Reviewed .....	113
<b>Total.....</b>	<b>136</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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## Full Year Productivity Statistics October 1, 2006, through September 30, 2007

### Summary of Indictments, Convictions, and Case Activity

A. Indictments from OIG Cases .....	80*
B. Convictions from OIG Cases.....	62*
C. Cases Opened .....	99
D. Cases Closed.....	65

### Summary of Recoveries and Management Avoidances

A. Potential Recoveries and Fines as a Result of OIG Investigations .....	\$20,791,370
B. Loans/Contracts Not Approved or Canceled as Result of Investigations.....	\$9,717,113
C. Loans Not Approved as a Result of the Name Check Program .....	\$39,680,038
<b>Total.....</b>	<b>\$70,188,521</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.....	1

### Program Actions Taken as a Result of Investigations

A. Debarments Recommended to the Agency .....	17
B. Debarments Pending at the Agency .....	23
C. Proposed Debarments Issued by the Agency .....	12
D. Final Debarments Issued by the Agency .....	6
E. Proposed Debarments Declined by the Agency .....	1

### OIG Hotline Operation Activities

A. Total Fraud Line Calls/Letters.....	370
B. Total Calls/Letters Referred to Investigations Division .....	61
C. Total Calls/Letters Referred to SBA or Other Federal Investigative Agencies.....	55
D. Total Calls/Letters Referred to Other Entities .....	101
E. Total Calls/Letters Needing No Action.....	153

\* Includes one indictment that occurred in a previous period but was not reported.

\*\* Includes two convictions that occurred in a previous period but were not reported.

# Appendices

## Appendix I OIG Reports Issued April 1, 2007 through September 30, 2007

Title	Report Number	Issue Date	Questioned Costs	Funds for Better Use
<i>Disaster Loans</i>				
Audit of Borrower Acceptance of Disbursements	7-20	4/17/07	\$0	\$0
Securing Collateral for Disaster Loan Disbursements	7-22	5/9/07	\$0	\$0
Duplicate Benefit Adjustments to Disaster Assistance Loans Associated with Housing and Urban Development Grants	7-25	5/15/07	\$0	\$0
Audit of Liquidation of Disaster Loans	7-26	6/1/07	\$0	\$0
Quality Assurance Reviews of Loss Verifications	7-29	7/23/07	\$0	\$0
Report of the Cancellation of Approved Disaster Loans to Individuals and Businesses Impacted by the Gulf Coast Hurricanes	7-30	9/7/07	\$0	\$0
The Quality of Loans Processed Under the Expedited Disaster Loan Program	7-34	9/28/07	\$0	\$31,980,000
<b>Program Subtotal</b>	<b>7</b>		<b>\$0</b>	<b>\$31,980,000</b>
<i>Small Business Access to Capital</i>				
SBA's Use of the Loan and Lender Monitoring System	7-21	5/2/07	\$0	\$0
Guarantee Purchase Process for Section 7(a) Loans at the National Guaranty Purchase Center	7-23	5/8/07	\$36,407	\$0
SBA's Oversight of Business Loan Center, LLC	7-28	7/11/07	\$0	\$0
ICW Group	7-32	9/27/07	\$0	\$0
<b>Program Subtotal</b>	<b>4</b>		<b>\$36,407</b>	<b>\$0</b>
<i>Small Business Development, Contracting, Education, and Training</i>				
Review of SBA's Monitoring and Support of 8(a) Procurements Related to the Gulf Coast hurricanes of 2005	7-24	5/10/07	\$0	\$0
Size Determinations Made By District Offices	7-27	6/27/07	\$0	\$0
Review of SBA's Subcontracting Assistance Program	7-33	9/28/07	\$0	\$0
<b>Program Subtotal</b>	<b>3</b>		\$0	\$0
<i>Agency Management</i>				
Audit of E-Application System	7-31	9/27/07	\$0	\$0
<b>Program Subtotal</b>	<b>1</b>		<b>\$0</b>	<b>\$0</b>
<b>TOTALS (all programs)</b>	<b>15</b>		<b>\$36,407</b>	<b>\$31,980,000</b>

# Appendices

## Appendix II OIG Reports with Questioned Costs

		Reports	Recommend- ations*	Questioned Costs**	Unsupported Costs**
A.	No management decision made by March 31, 2007	4	4	\$1,354,394	\$1,073,715
B.	Issued during this reporting period	2	2	\$36,407	\$0
	Universe from which management decisions could be made in this reporting period – <b>Subtotals</b>	6	6	\$1,390,801	\$1,073,715
C.	Management decision(s) made during this reporting period	4	4	\$356,643	\$0
	(i) Disallowed costs			\$356,643	\$0
	(ii) Costs not disallowed			\$0	\$0
D.	<b>No management decision made by September 30, 2007</b>	<b>2</b>	<b>2</b>	<b>\$1,034,158</b>	<b>\$1,073,715</b>

\* 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.

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

## 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, 2006***	1	1	\$293,823
B.	Issued during this reporting period	1	1	\$31,980,000
	Universe from which management decisions could be made in this reporting period – <b>Subtotals</b>	2	2	\$32,273,823
C.	Management decision(s) made during this reporting period	1	1	\$31,980,000
	(i) Recommendations agreed to by SBA management	1	1	\$31,980,000
	(ii) Recommendations not agreed to by SBA management	0	0	\$0
D.	<b>No management decision made by September 30, 2007</b>	<b>1</b>	<b>1</b>	<b>\$293,823</b>

\* Reports may have more than one recommendation.

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

# Appendices

## Appendix IV OIG Reports with Non-Monetary Recommendations

		Reports	Recommendations
A.	No management decision made by September 30, 2006***	17	56
B.	Issued during this reporting period	14	45
	Universe from which management decisions could be made in this reporting period – <b>Subtotals</b>	31	101
C.	Management decision(s) made (for at least one recommendation in the report) during this reporting period	22	76
D.	<b>No management decision made (for at least one recommendation in the report) by September 30, 2007 *</b>	<b>9</b>	<b>25</b>

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

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

## Appendix V OIG Reports From Prior Semiannual Periods with Overdue Management Decisions as of September 30, 2007

Title	Report Number	Date Issued	Status
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 the Contract Bundling Process	5-20	5/20/05	Agency has not responded to four recommendations made in the report.
Audit of an SBA-Guaranteed Loan	6-22	5/17/06	Agency has not responded to one recommendation in the report.

# Appendices

## Appendix VI OIG Reports Without Final Action as of September 30, 2007

Report Number	Title	Date Issued	Date of Management Decision	Final Action Target Date
0-14	7(a) Service Fee Collections	3/30/00	8/22/00	12/31/04
0-30	SBA's Administration of Minority Business Enterprise Legal Defense and Education Fund Cosponsorship	9/30/00	3/26/01	**
2-18	SBA's Information Systems Controls – FY 2001	5/6/02	6/1/03	12/1/03
2-29	Audit of Internal Control Over Colson Services Corporation's Contract as Central Servicing Agent for SBA's Certified Development Company Loan Program	9/16/02	12/12/02	8/15/08
3-08	SBA's Oversight of the Fiscal Transfer Agent for the 7(a) Loan Program	1/30/03	4/15/07	6/30/07
3-20	SBA's Information System Controls for FY 2002	3/31/03	9/30/03	4/30/04
3-30	Early Default Card Systems, Inc	6/19/03	12/21/04	6/30/07
3-34	SBA's Compliance with JFMIP Property Management System Requirements	7/23/03	***	**
3-35	National Women's Business Council	7/28/03	***	12/31/05
4-13	Audit of an Early Defaulted Loan	3/2/04	4/6/04	6/30/07
4-16	SBA's Administration of the Procurement Activities of Asset Sale Due Diligence Contracts and Task Orders	3/17/04	***	5/2/05
4-22	Business Development Provided by SBA's 8(a) Business Development Program	6/2/04	7/14/04	**
4-28	Audit of an SBA-Guaranteed Loan	7/9/04	10/6/04	6/30/07
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	4/15/07	6/30/07
4-40	Audit of a SBA Guaranteed Loan to Elatec Technology Corporation and HK Equipment, Inc.	9/13/04	4/5/06	6/30/07
4-41	Audit of Selected SBA General Support Systems	9/10/04	***	**
4-42	Audit of SBA's Email System	9/10/04	***	**
4-43	Audit of Early Defaulted Loan to Big Z Travel Center	9/17/04	4/5/07	6/30/07

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

# Appendices

## Appendix VI OIG Reports Without Final Action as of September 30, 2007

Report Number	Title	Date Issued	Date of Management Decision	Final Action Target Date
4-44	SBA-Sponsored and Cosponsored Events Conducted by District Offices	9/24/04	***	9/30/05
5-04	Review of the Small Disadvantaged Business Certification Program	11/4/04	4/1/05	9/30/05
5-12	Audit of SBA's Information Systems Controls – FY 2004	2/24/05	***	**
5-14	SBA Small Business Procurement Awards are not Always Going to Small Business	2/24/05	8/17/06	6/30/07
5-20	Audit of the Contract Bundling Process	5/20/05	5/23/06	12/30/06
5-23	SBA's Administration of its Special Appropriation Grants	9/24/04	***	**
5-24	Criteria For Overcoming The Presumption of Social Disadvantage is Needed	9/28/05	***	**
5-28	Review of SBA Procedures For Cash Gifts	9/30/05	2/23/06	6/30/06
6-01	Independent Evaluation of SBA's Information Security Program	10/7/05	***	**
6-04	Audit of SBA's FY 2005 Financial Statements	11/14/05	5/10/06	**
6-10	FY 2005 Financial Statements Management Letter	1/18/06	***	**
6-18	The Central Contractor Registration Needs To Be Modified	3/21/06	4/3/06	9/30/06
6-19	Review of A Company's 8(A) Business Development Program Eligibility	3/30/06	8/16/06	9/30/06
7-03	Audit of SBA's FY 2006 Financial Statements	11/15/06	12/15/06	6/30/07
7-06	Audit of an SBA-Guaranteed Loan to Just a Cut Lawn Care, Inc	12/28/07	1/30/07	6/30/07
7-08	Audit of the SBAExpress and Community Express Loan Purchase and Liquidations Process	12/29/06	12/4/06	**
7-11	Audit of SBA's F/S Management Letter	1/17/07	***	**
7-13	Review of the Small Business Administration's Protection of Sensitive Agency Information	2/09/07	***	**
7-16	Vulnerability Technology Security Assessment	3/6/07	3/7/07	**
7-27	Size Determinations Made by District Offices	6/27/07	7/18/07	**

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



# Appendices

**Appendix VII**  
**Summary of Significant Recommendations**  
**From Prior Semiannual Reporting Periods**  
**Without Final Action as of September 30, 2007\***

Report Number	Date Issued	Recommendation	Date of Management Decision	Final Action Target Date
2-18	5/6/02	Develop an Agency-wide information security plan to establish and implement the policies, procedures and practices for the following: (1) full integration of the information security approach and implementation process; (2) coordination among program offices to support their security needs; (3) guidance to the program office to implement information system security controls; and (4) methods to monitor the effectiveness of each part of information technology security.	6/28/02	3/1/05
3-08	1/30/03	Initiate a new procurement action for fiscal transfer agent activities and terminate the existing contract with the fiscal transfer agent when a new contract can be enacted.	12/10/03	3/31/06
3-08	1/30/03	Review fiscal transfer agent activities and identify contract costs for fees and services. Report these contract costs in proposed Master Reserve Fund financial statements so future fiscal transfer agent contracts will have historical cost data for comparison purposes.	10/15/03	3/31/06
4-16	3/17/04	Develop and implement procedures to monitor contractor compliance with the 50 percent rule when applicable.	5/12/04	5/02/05
4-16	3/17/04	Ensure the amount of subcontracting is reviewed and documented in the contract file for awards of 8(a) and small business set-aside contracts and task orders to small businesses.	5/12/04	5/02/05
4-16	3/17/04	Revise SOP on Procurement and Grants Management as soon as possible, incorporate policies to address the outstanding items described above within six months of the issuance of this report.	5/12/04	5/02/05
4-28	7/9/04	Seek recovery of \$142,549 from the 7(a) lender.	10/6/04	3/31/05

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

# Appendices

**Appendix VII**  
**Summary of Significant Recommendations**  
**From Prior Semiannual Reporting Periods**  
**Without Final Action as of September 30, 2007\***

Report Number	Date Issued	Recommendation	Date of Management Decision	Final Action Target Date
4-36	8/10/04	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	Develop and implement procedures to ensure that Small Disadvantaged Business 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

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**Appendix VII**  
**Summary of Significant Recommendations**  
**From Prior Semiannual Reporting Periods**  
**Without Final Action as of September 30, 2007\***

Report Number	Date Issued	Recommendation	Date of Management Decision	Final Action Target Date
5-12	2/24/05	For all SBA internal and contractor supported general support systems and major applications, e.g., Egan Mainframe, SBA and Corio UNIX, Network and Windows 2000; Loan Accounting System (LAS), Sybase, Mainframe, Joint Accounting and Administration Management System (JAAMS) Oracle, and related application functions: (1) develop and document policies and procedures clearly outlining what activities should be logged, who should be responsible for reviewing logs, what the logs should be reviewed for, how often logs should be reviewed, and how long logs should be retained; (2) assign responsibility within the Office of the Chief Information Officer for the review of application and general support system security logs; and (3) retain audit logs for a sufficient period of time (at least 90 days).	4/13/05	3/31/06
7-03	11/15/06	Ensure that system owners for DCMS, FRIS, JAAMS and LAS standardize software change requests and that software change testing documentation is developed in a more consistent and complete manner.	6/29/07	10/30/07
7-06	12/28/06	Seek recovery \$28,660 from the lender on the guaranty paid.	1/30/07	6/30/07
7-08	12/29/06	Determine if lender actions warrant a denial of liability on \$14,232 in guaranties associated with the two loans that were either missing a Form 1919 or where the form was incomplete; and \$9,015 on guaranty.	12/4/07	5/31/07
7-08	12/29/06	Determine if loan proceeds on the 45 loans sampled during our audit were used in accordance with the terms of the loan authorizations, and take appropriate corrective actions.	12/4/07	5/31/07

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

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**Appendix VII**  
**Summary of Significant Recommendations**  
**From Prior Semiannual Reporting Periods**  
**Without Final Action as of September 30, 2007\***

<b>Report Number</b>	<b>Date Issued</b>	<b>Recommendation</b>	<b>Date of Management Decision</b>	<b>Final Action Target Date</b>
7-08	12/29/06	Recover \$7,414 from a lender that awarded an SBA loan to an ineligible company.	12/4/07	5/31/07
7-08	12/29/06	Review the 2,729 loans for compliance with SBA rules and regulations and improper payments.	12/4/07	5/31/07
7-08	12/29/06	Recover \$27,134 for the two purchased SBA Express loans reviewed for which the lender failed to disclose material facts.	12/4/07	5/31/07

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

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## Appendix VIII Summary of Significant Recommendations April 1, 2007 through September 30, 2007

Report Number	Title	Date Issued	Recommendation
7-20	Audit of Borrower Acceptance of Disbursements	4/17/07	Ensure in future campaigns that performance goals and associated awards are based on reasonable time frames that consider customer service and legal requirements.
7-21	SBA's Use of the Loan and Lender Monitoring System	5/2/02	Establish a method, based on a specific standard or other metrics, for assigning risk ratings that more accurately reflect the risk profiles of lenders.
7-21	SBA's Use of the Loan and Lender Monitoring System	5/2/02	Develop an on-site review plan or agreed-upon-procedures for all high-risk 7(a) lenders with guaranteed loan portfolios in excess of \$4 million.
7-23	Guarantee Purchase Process for Section 7(a) Loans at the National Guaranty Purchase Center	5/8/07	Seek recovery of \$36,407 on the guaranties paid on the 6 loans listed in the report.
7-23	Guarantee Purchase Process for Section 7(a) Loans at the National Guaranty Purchase Center	5/8/07	Develop a plan to improve the quality of purchase reviews performed by the National Guaranty Purchase Center and ensure purchase decisions undergo adequate supervisory review.
7-23	Guarantee Purchase Process for Section 7(a) Loans at the National Guaranty Purchase Center	5/8/07	Include in its A-123 report on management controls the level of risk associated with the purchase review process and describe the risk in reporting its estimate of improper payments in the Agency's budget.
7-24	Review of SBA's Monitoring and Support of 8(a) Procurements Related to the Gulf Coast hurricanes of 2005	5/10/07	Notify procuring agencies that have partnership agreements with SBA that, according to those partnership agreements, they are required to provide a copy of any contract, as defined in FAR 2.101, including basic contracts, orders, modifications, and purchase orders, to the SBA servicing district office within 15 working days of the date of award.
7-26	Audit of Liquidation of Disaster Loans	6/1/07	Develop and implement procedures to ensure that all the names and identification numbers of delinquent borrowers are entered into the SBA database and transferred to Treasury.

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## Appendix VIII Summary of Significant Recommendations April 1, 2007 through September 30, 2007

Report Number	Title	Date Issued	Recommendation
7-26	Audit of Liquidation of Disaster Loans	6/1/07	Follow up on the 88 loans that were miscoded or which did not identify all responsible parties to ensure that Treasury was sent the correct or missing information.
7-28	SBA's Oversight of Business Loan Center, LLC	7/11/07	Take further action to mitigate the risk posed and to promote consistent and uniform enforcement actions by developing standard operating procedures to complement revised 13 CFR that describe circumstances under which it will suspend or revoke PLP authority or how it will do so.
7-28	SBA's Oversight of Business Loan Center, LLC	7/11/07	Take further action to mitigate the risk posed and to promote consistent and uniform enforcement actions by identifying actions needed to address the potential conflict resulting from Office for Lender Oversight's and Office of Financial Assistance's placement in Office of Capital Access.
7-29	Quality Assurance Reviews of Loss Verifications	7/23/07	Pursue a reassignment of Quality Assurance Reviews (QAR) responsibilities to an SBA organization outside of Office of Disaster Assistance.
7-29	Quality Assurance Reviews of Loss Verifications	7/23/07	Consider disciplinary action against the SBA supervisor who altered the QAR results.
7-30	Report of the Cancellation of Approved Disaster Loans to Individuals and Businesses Impacted by the Gulf Coast Hurricanes	9/27/07	Reconsider the Agency's loan policy on the reinstatement deadline for the 6,557 canceled Gulf Coast hurricane loans that were not reinstated (7,752 loans canceled less the 1,195 that were reinstated) and notify the borrowers that extensions may be granted for reinstatement, as appropriate.
7-31	Audit of E-Application System	9/27/07	Establish appropriate controls to ensure data entered into E-Application is accurately transferred to the Electronic 8(a) Review System.
7-33	Review of SBA's Subcontracting Assistance Program	9/28/07	Submit annual reports on the Federal government's subcontracting goal achievements more timely, including the number and dollar value of subcontracts awarded to small businesses, as required by law.

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## Appendix VIII

### Summary of Significant Recommendations April 1, 2007 through September 30, 2007

<b>Report Number</b>	<b>Title</b>	<b>Date Issued</b>	<b>Recommendation</b>
7-34	The Quality of Loans Processed Under the Expedited Disaster Loan Program	9/28/07	Review all 20,708 canceled loans that were approved under expedited procedures to identify applicants who lacked repayment ability, notify those applicants of their potential eligibility for FEMA assistance, and make the appropriate FEMA referrals
7-34	The Quality of Loans Processed Under the Expedited Disaster Loan Program	9/28/07	Initiate proposed action to review the creditworthiness of borrowers associated with the 615 undisbursed home loans and refer those borrowers to FEMA, as appropriate.

## Appendices

**Appendix IX**  
**Events/Activities Where SBA Used its Cosponsorship Authority\***  
**Small Business Act, Section 4(h)**  
**4/1/2007 through 9/30/2007**

<b>Name/Subject of Event</b>	<b>Event Start Date</b>	<b>Event End Date</b>	<b>Location of Event</b>	<b>Name(s) of Cosponsor(s)</b>
Translation from English to Chinese & Printing of the Small Business Start-Up Kit	4/13/07	5/24/07	San Francisco, CA	United Commercial Bank
Recognizing Excellence in Small Business	4/19/07	4/17/07	Columbus, OH	Business Development Finance Corp, Huntington National Bank, JP Morgan Chase
Small Pharmaceutical Business Educational Forum	4/25/07	4/10/07	College Park, MD	Food and Drug Administration's Center for Drug Evaluation and Research (FDA)
SBA Expo, Business Matchmaker & Small Business Week Awards Luncheon Buffalo/Niagara	5/9/07	5/7/07	Buffalo, NY	SCORE Buffalo Niagara, Business First
SBA/VA Small Business Summit	5/15/07	5/14/07	Miami, FL	U.S. Department of Veterans Affairs
National Technology Leadership Summit	5/21/07	5/15/07	Washington, DC	Association of Women's Business Centers
Small Business Week Breakfast and Awards Ceremony	5/23/07	4/24/07	Hato Rey, PR	Puerto Rico Bankers Association
Small Business Week Awards Dinner	5/23/07	5/16/07	Claymont, DE	Wilmington Local Development Corp., DelVal Business Finance Corp. and Chesapeake Business Finance Corp.
Small Business Week Awards Luncheon	5/30/07	5/30/07	Los Angeles, CA	Los Angeles Chamber of Commerce
Connecticut XPO For Business	6/7/07	5/29/07	Hartford, CT	Connecticut Business and Industry Association; Connecticut Small Business Development Center, Central Connecticut State University Institute of Technology & Business Development
SBA Comes to Suffolk County	6/15/07	5/21/07	Stony Brook, NY	Small Business Development Center at Stony Brook University, Long Island High Technology Incubator, Inc.

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



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**4/1/2007 through 9/30/2007**

<b>Name/Subject of Event</b>	<b>Event Start Date</b>	<b>Event End Date</b>	<b>Location of Event</b>	<b>Name(s) of Cosponsor(s)</b>
Disaster Preparedness Workshop	7/13/07	6/28/07	Richmond, VA	Greater Richmond Chapter, American Red Cross
SBA/HOBY International Business and Entrepreneurship Program	7/22/07	5/14/07	Washington, DC	Hugh O'Brian Youth Leadership (HOBY)
8 <sup>th</sup> Annual Small Business Resource Fair	8/16/07	7/25/07	Denver, CO	Denver Public Library, Minority & Women Chambers' Coalition, CO SBDC, CO Minority & Women-Owned Business Office, Denver SCORE Chapter
Spirit of Small Business 07 Awards Luncheon	8/16/07	7/30/07	Santa Barbara, CA	Pacific Coast Business Times
Business Women's Forum	9/20/07	5/24/07	Hartford, CT	Waterbury Regional Chamber of Commerce and Post University
Operation SAVE: Serving America's Veteran Entrepreneurs	9/27/07	9/7/07	Flint, MA	Citizen's First State Bank, MI SBDC at Macomb County and VetBizCentral of Flint MI
Franchising Workshop	10/12/07	9/24/07	Culpeper, VA	Culpepper County Chamber of Commerce
Mt. Gilead Full Gospel International Ministries Symposium	10/20/07	9/24/07	Richmond, VA	Mt. Gilead Full Gospel International Ministries
Vermont's 11 <sup>th</sup> Annual Women's Economic Opportunity Conference	11/3/07	7/30/07	Randolph, VT	The Office of US Senator Patrick Leahy, VT SBDC, US Department of Labor, Women's Bureau, VT Agency of Transportation, VT Commission on Women, Women's Agricultural Network, VT Department of Economic Development, VT WBC, VT Attorney General, VT Department of Labor, VT Manufacturing Extension Center, VT Works for Women, VT Business Education Corporation, VT Agency of Human Services, Office of Economic Opportunity, VT Interactive Television, US Department of Agriculture

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**Small Business Act, Section 4(h)**  
**4/1/2007 through 9/30/2007**

<b>Name/Subject of Event</b>	<b>Event Start Date</b>	<b>Event End Date</b>	<b>Location of Event</b>	<b>Name(s) of Cosponsor(s)</b>
The Presidents FORUM	11/14/07	7/11/07	Washington, DC	The Entrepreneurship Institute
NY XPO For Business Trade Show	11/28/07	7/31/07	New York, NY	Event Management
Lunch and Learn (Brown Bag) Seminars	4/07 - 12/07	4/26/07	Fargo, ND	West Fargo Chamber of Commerce and West Fargo Public Library
AMERICAN EAST Conference for SBA Lenders	8/26/07 - 8/28/07	7/25/07	Newport, RI	RI Small Business Development Center at Johnson & Wales University
Business Basics for Entrepreneurs	8/28/07, 9/6/07, 9/12/07, 9/17/07, 9/25/07	7/19/07	Decatur, GA	DeKalb County Public Library
3rd Annual Service Disabled & Veteran-Owned Small Business Conference – Contacts for Contract Opportunities	8/29/07- 8/31/07	5/24/07	Albuquerque, NM	Santa Fe Community College thru NM SBDC, NM Department of Veterans Services
Business Basics for Entrepreneurs	6/19/07 - 8/21/07	6/15/07	Atlanta, GA	The Atlanta-Fulton Public Library System
Lunch and Learn (Brown Bag) Seminars	6/26/07 - 12/18/07	6/22/07	Fargo, ND	Homebuilders Association of Fargo-Moorhead
Smart Business Talk WNET Roundtable Workshops; Business Exchange Matchmaking Event	6/26/07 - 11/27/07	6/15/07	Atlanta, GA	Women's Employment Opportunity Project, Inc.
Hispanic Small Business Development Conference	5/2/07, 5/9/07, 5/16/07, 5/23/07, 5/30/07, 6/6/07	4/26/07	Elmont, NY	Circulo de la Hispanidad, Inc., La Fuerza Unida CDC, Nassau County on behalf of the Office of Minority Affairs
The Government Contractor Workshop Series	5/23/07, 6/13/07, 9/19/07	5/11/07	Baltimore, MD	Greater Baltimore Urban League

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**Small Business Act, Section 4(h)**  
**4/1/2007 through 9/30/2007**

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Women's Network for Entrepreneurial Training Roundtables	9/1/07 - 8/31/08	7/25/07	Powell & Cody, WY	First National Bank & Trust
Los Angeles Regional Business Preparedness Summit	9/11/07 - 9/12/07	9/10/07	Studio City & Los Angeles, CA	Los Angeles County Department of Public Health, Los Angeles Chamber of Commerce, Valley Industry & Commerce Association
Block Island Small Business Day	9/25/07 - 9/30/09	8/22/07	Block Island, RI	Block Island Chamber of Commerce, Block Island Tourism Council
Your Small Business Resources	9/6/07, 9/25/07	7/31/07	Daly City, CA	City of Daly City and Community Development, Daly City Business Enterprise Center, Daly City Public Library- Westlake and San Francisco Small Business Development Center

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## Appendix X Legal Actions Summary April 1, 2007 through September 30, 2007

State	Program	Alleged Violation(s) Prosecuted	Legal Action	Investigated Jointly With
AL	DL	The owner of a charter plane company produced fraudulent documents showing that SBA had released its lien against two properties being held as collateral on his \$177,800 SBA disaster loan. The owner received \$92,526 from the sale of the properties, which should have been paid to the SBA as collateral for his September 11 economic injury loan.	Owner pled guilty.	IRS/CI, AAPD
CA	BL	A borrower allegedly provided a false social security number and false citizenship information when applying for a \$35,000 SBA Express loan, as well as for two real estate loans.	Borrower charged in state court via a felony complaint.	LAPD, CDOI, DHS/ICE
CA	SBDC	A former high-ranking state official, who administered the Small Business Development Center (SBDC) program for the SBA in California, received kickbacks from SBDC contractors. In return, the contractors were awarded contracts without competitive bids.	Former official sentenced to 60 months probation, 6 months house arrest, and \$98,376 in restitution. One contractor sentenced to 60 months probation and a \$2,000 fine. Second contractor sentenced to 60 months probation and 30 days in a halfway house. All three ordered to perform 1000 hours or more of community service.	FBI, HUD/OIG
FL	BL	When applying for a \$1.5 million 7(a) loan, a former hotel owner neglected to disclose on his SBA Statement of Personal History that he was a convicted felon.	Former owner sentenced to 3 years supervised release, 6 months home detention, and \$269,000 restitution.	None

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## Appendix X Legal Actions Summary April 1, 2007 through September 30, 2007

State	Program	Alleged Violation(s) Prosecuted	Legal Action	Investigated Jointly With
IL	BL	A husband and wife conspired to bribe an SBA official in order to influence the award of a \$594,000 SBA 504 loan for their interstate trucking firm. The husband offered the official a \$5,000 bribe in exchange for overlooking the fact that he falsely claimed to be a U.S. citizen on his loan application.	Wife pled guilty and was sentenced to one year probation. Husband pled guilty and is awaiting sentencing.	DHS/ICE
IL	BL	The former owner of an electrical supply firm provided false tax returns for his company in order to induce a lender and the SBA to approve a \$1.1 million loan to a couple wanting to purchase the business.	Former owner sentenced to one year and one day in prison, three years supervised release, and \$512,464 in restitution.	FBI
LA	DL	A certified public accountant (CPA) impersonated an SBA employee and provided false documentation in order to obtain non-SBA loans totaling approximately \$2.9 million for her employer.	CPA indicted, pled guilty, and is awaiting sentencing.	USSS
MD	GC	A government employee is alleged to have used his government purchase card to pay for goods and services that were never provided or provided at inflated prices. The three businesses, from which purchases were made, were all purportedly operated by the same contractor and listed on contracting documents as being 8(a) certified, but SBA has no record of such certifications.	Government employee and contractor both indicted.	NARA/OIG
MD	GC	A former West Virginia state official allegedly provided confidential bid information to an SBA 8(a) firm, in exchange for money and other things of value, in order to influence the awarding of contracts. A project supervisor of that 8(a) firm allegedly allowed improper removal and storage of asbestos containing material on government contracts.	State official and project supervisor of 8(a) firm charged by criminal information.	FBI, NCIS, IRS/CI, EPA/CID

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## Appendix X Legal Actions Summary April 1, 2007 through September 30, 2007

State	Program	Alleged Violation(s) Prosecuted	Legal Action	Investigated Jointly With
MI	BL	Three individuals allegedly presented false equity injection documents to a non-bank lender as a condition of obtaining two SBA-guaranteed loans for the purchase of gas stations/convenience stores. The two loans total over \$1.7 million.	Three individuals indicted.	USSS
MI	BL	An individual made false statements concerning his employment history, financial resources, and the source of his equity injection when applying for a \$1,212,000 SBA-guaranteed loan.	Individual charged by criminal information and pled guilty.	USSS
MI	BL	An individual conspired with his brother and others to fraudulently acquire a \$990,000 SBA-guaranteed loan issued by a non-bank lender. The conspiracy was furthered through the use of a false sales agreement, an inflated purchase price, and a bogus equity injection. The purpose of the scheme was to refinance and consolidate delinquent debts owed by one brother's business using proceeds from the loan made to the other brother who acted as a "straw buyer."	One brother pled guilty and was sentenced to one year and one day in federal prison, 24 months probation, and restitution of \$658,809. This restitution is to be paid jointly with the other brother, who has pled guilty but has not yet been sentenced.	USSS
MI	BL	The president and the secretary of an auto service center conspired with a loan broker to fraudulently acquire a \$1.1 million SBA-guaranteed loan issued by a non-bank lender. In order to falsely satisfy the loan's equity injection requirement, the individuals claimed that \$210,000 in repairs and renovations had been made to the auto repair center before the loan closing.	President pled guilty and was sentenced to 2 years probation. Secretary pled guilty and was sentenced to 3 years probation. Both were ordered to pay joint restitution of \$529,591. The loan broker is a fugitive and charges against him remain pending.	USSS

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## Appendix X Legal Actions Summary April 1, 2007 through September 30, 2007

State	Program	Alleged Violation(s) Prosecuted	Legal Action	Investigated Jointly With
MI	BL	An individual allegedly provided false information concerning her financial status and the required equity injection to obtain an \$825,000 SBA-guaranteed loan, in name only, for her brother-in-law who was the owner and intended operator of the business.	Individual indicted.	USSS
MI	BL	A former bank official participated in a scheme to defraud the SBA by supplying false verifications of deposit for loan applicants and giving a loan broker unfunded official checks totaling more than \$2.8 million.	Former bank official pled guilty.	USSS
MI	BL	An individual conspired with others to obtain a \$1,335,000 SBA-guaranteed loan from a non-bank lender to purchase a gas station and convenience store. The individual claimed he was going to be the sole owner of the business when, in fact, he had an undisclosed partner.	Individual pled guilty. Two co-conspirators have been charged but remain fugitives.	USSS
MI	BL	The owner of a gas station and convenience store conspired with others to fraudulently obtain a \$944,000 SBA-guaranteed loan by acting as a “straw purchaser” and using counterfeit bank statements, cashier’s checks, a certificate of deposit, and a gift affidavit to document a bogus capital injection.	The owner and a co-conspirator pled guilty.	USSS
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 \$1,175,000 SBA-guaranteed loan.	Each sentenced to one year probation and a \$2,500 fine. No restitution ordered since the loan remains current.	USSS

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## Appendix X Legal Actions Summary April 1, 2007 through September 30, 2007

State	Program	Alleged Violation(s) Prosecuted	Legal Action	Investigated Jointly With
MO	IA	An SBA branch manager is alleged to have submitted a false Personal Financial Statement in connection with an application for an \$80,070 SBA Express loan and to have failed to disclose this SBA loan on his Confidential Financial Disclosure Report. Agency conflict of interest and ethics rules should have prohibited the manager from receiving this SBA Express loan due to his position with SBA.	Manager arrested, indicted, and placed on administrative leave.	FBI
MS	DL	An individual provided false statements regarding the location of his primary residence and his marital status in an attempt to receive duplicate benefits. He received \$12,000 from the SBA.	Individual indicted and pled guilty.	DHS/OIG, USDA/OIG, MSAO
MS	DL	When applying for an SBA personal property disaster loan, an individual falsely stated that property in his rented room had sustained damage as a result of Hurricane Katrina.	Loan denied due to poor credit history. Individual indicted and pled guilty.	DHS/OIG, USDA/OIG, FBI
MS	DL	An individual made false statements regarding his residency in an attempt to receive a \$208,300 loan from the SBA for Gulf Coast Hurricane benefits to which he was not entitled.	The individual only received the initial disbursement of \$10,000 and has pled guilty.	DHS/OIG, MSAO
MS	DL	A man and his wife provided false statements regarding their residency in an attempt to receive Gulf Coast Hurricane benefits to which they were not entitled. The couple received \$50,000 of the approved \$112,500 loan from the SBA.	Couple indicted and pled guilty.	FBI, MSAO
MS	DL	A husband and wife are alleged to have provided false statements regarding the location of their primary residence in an attempt to receive disaster benefits to which they were not entitled. They were approved for a \$121,900 SBA disaster loan, as well as benefits from other agencies.	Couple indicted.	DHS/OIG, MSGA



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## Appendix X Legal Actions Summary April 1, 2007 through September 30, 2007

State	Program	Alleged Violation(s) Prosecuted	Legal Action	Investigated Jointly With
MS	DL	An individual claimed his secondary address as his primary residence in an attempt to fraudulently receive disaster assistance funds. He was approved for a \$78,900 loan from SBA, of which the initial \$10,000 had been disbursed.	Individual pled guilty and was sentenced to 5 months in prison, 5 months home confinement, 2 years supervised release, a \$3,000 fine, and restitution of \$20,011.	DHS/OIG, USDA/OIG, MSAO
NJ	BL	A principal of a now defunct electronic imaging company obtained a \$1 million SBA-guaranteed loan for the purpose of purchasing machinery. The investigation found that instead of purchasing machinery, he used most of the proceeds for unauthorized purposes, including buying out a former partner, paying taxes, and making unauthorized payments to the two owners of the machinery dealer.	The principal of the imaging company, as well as the owners of the machinery dealer, entered the Pretrial Intervention Program requiring them to perform community service and pay restitution totaling \$125,000.	NJAG
NY	BL	An individual used a false Social Security number and failed to disclose outstanding tax liens when applying for two SBA-guaranteed loans totaling \$1,650,000.	Individual pled guilty	FBI
NY	BL	Fifteen individuals allegedly used false identification documents to obtain bank loans, mortgage loans, credit cards, and sell and transport stolen vehicles. Some of the loans obtained in this scheme included <i>SBAExpress</i> loans.	Fifteen individuals indicted and arrested.	FBI, NYSAGO
OH	BL	A former restaurant owner falsely stated that he was a U.S. citizen on his application for a \$50,000 <i>SBAExpress</i> loan.	Former owner sentenced to 1 year and 1 day in prison, 3 years supervised release, a \$3,000 fine, and forfeiture of the restaurant property or \$100,000.	DHS/ICE

# Appendices

## Appendix X Legal Actions Summary April 1, 2007 through September 30, 2007

State	Program	Alleged Violation(s) Prosecuted	Legal Action	Investigated Jointly With
SD	BL	The part-owner of a marina provided false tax returns in support of an application for a \$239,000 SBA 504 loan to purchase property and build a new marina.	Part-owner pled guilty to IRS charges.	IRS/CI
TX	GC	Six individuals are involved in a multimillion dollar bribery scheme centered on fixed contracts between the Department of Defense and SBA-certified 8(a) firms.	Six individuals charged in a 47-count indictment. The indictment also seeks a monetary judgment of \$1.2 million. Three of the six have pled guilty.	FBI, IRS/CI, USA/CID, GSA/OIG, DOI/OIG, DCIS
TX	BL	Seven individuals conspired to devise a scheme to fraudulently obtain an SBA-guaranteed loan of \$2.4 million to finance the purchase of a warehouse. The scheme involved misrepresenting the purchase price of the property, falsifying part of the equity injection, and laundering approximately \$473,000 of the loan proceeds.	One individual sentenced to 60 months in prison, 3 years supervised release, and a \$3,000 fine; another sentenced to 1 year probation. Three have fled the country and remain fugitives. One has been previously sentenced, and another awaits sentencing.	TCPA/CID
TX	BL	The president of a lumber company and her common-law husband are alleged to have falsely claimed ownership of several vacant lots and offered these lots to SBA as collateral in order to obtain a \$25,800 Economic Injury Disaster Loan.	Couple arrested and indicted.	HCSO SLPD
TX	BL	Three family members conspired to submit fraudulent documentation relating to the capital injections required to obtain two SBA-guaranteed loans totaling \$1.6 million.	Three individuals indicted; two pled guilty.	FBI

# Appendices

## Appendix X Legal Actions Summary April 1, 2007 through September 30, 2007

State	Program	Alleged Violation(s) Prosecuted	Legal Action	Investigated Jointly With
TX	BL	The owner of a convenience store used an alias name when applying for and receiving a \$1,070,000 SBA guaranteed loan.	Owner indicted, pled guilty, and was sentenced to time already served and deportation to his home country.	DHS/ICE, SSA/OIG
UT	BL	Four individuals were involved in three separate schemes in which they provided false identity information when applying for SBA loans, totaling over \$200,000, to purchase or build restaurants.	Four individuals entered into the Pretrial Diversion Program and are required to keep payments current on their SBA loans.	DHS/ICE, SSA/OIG
VA	BL	The former president of a consulting firm and his wife were involved in an internet scam to lure business owners into applying for SBA loans. For a fee of at least \$3,500, the firm guaranteed to provide a comprehensive business plan and an SBA-guaranteed loan to its customers.	Former president sentenced to 84 months in prison, 3 years supervised release, and restitution of \$2,755,281, to be paid jointly with his wife, and an additional \$217,779, to be paid individually. Wife sentenced to 36 months in prison and 3 years supervised release.	USPIS, IRS
WA	SB	The president of a now defunct construction firm falsely stated to a surety company that his firm was out of funds when, in reality, he had diverted contract proceeds of approximately \$87,000 for his personal use. This resulted in the surety company paying the firm's subcontractors and suppliers on defaulted jobs. SBA suffered a loss of over \$500,000 since it guarantees 70% of the surety company's losses.	President indicted.	FBI, NICB

# Appendices

## Appendix X Legal Actions Summary April 1, 2007 through September 30, 2007

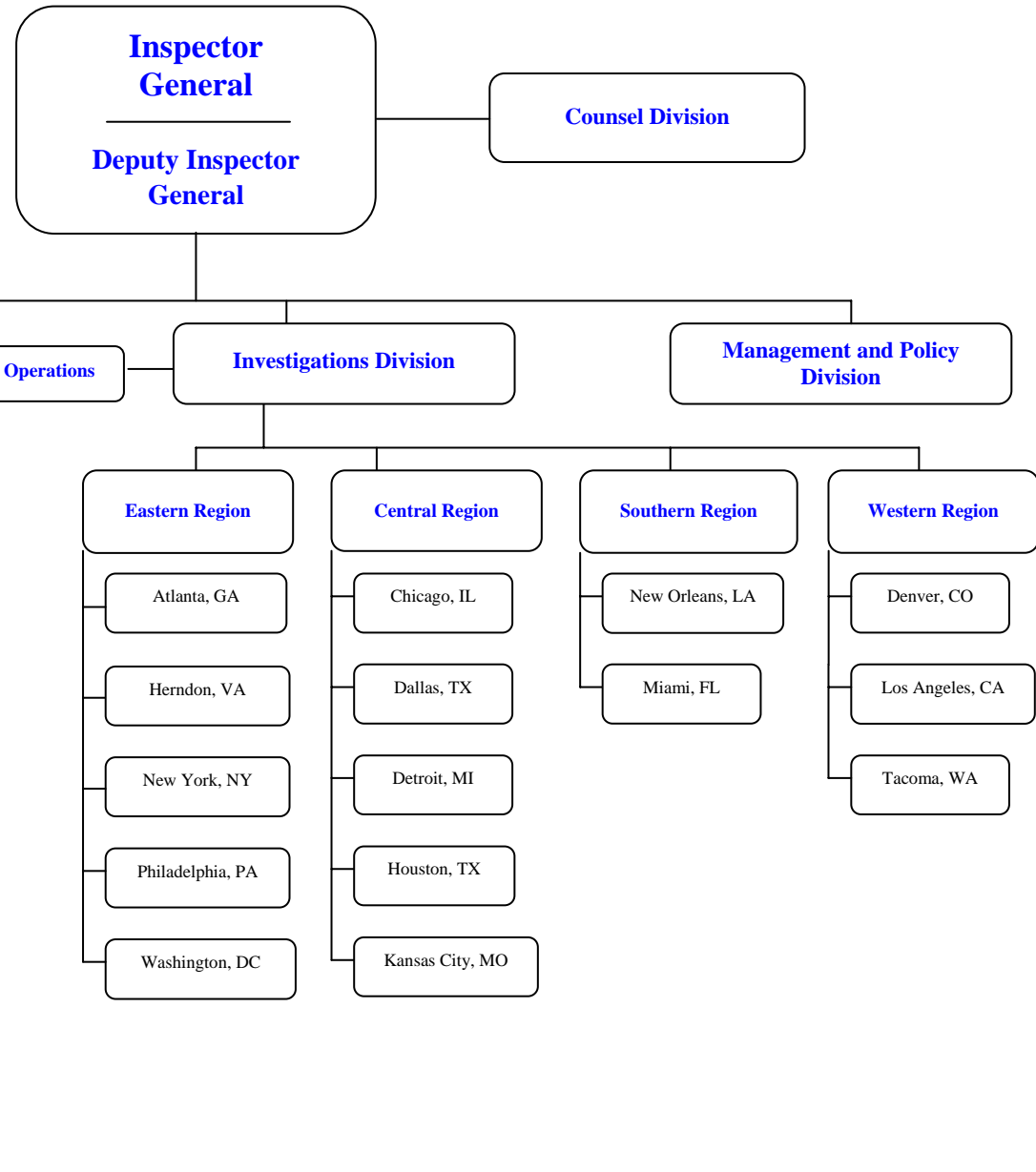
State	Program	Alleged Violation(s) Prosecuted	Legal Action	Investigated Jointly With
WA	BL	The former owner of a hauling business made false statements to the bank and SBA regarding his company's tax liability in order to obtain a \$750,000 SBA-guaranteed loan. He then sold SBA collateral, hid the proceeds of the sale, and laundered those proceeds.	Former owner pled guilty.	FBI, IRS/CI

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

**Joint-investigation Federal Agency Acronyms:** AAPD=Auburn Alabama Police Department; CDOI=California Department of Insurance; DCIS=Defense Criminal Investigative Service; DHS/ICE=Department of Homeland Security/Immigration and Customs Enforcement; DHS/OIG=Department of Homeland Security/OIG; DOI/OIG=Department of Interior/OIG; EPA/CID=Environmental Protection Agency/Criminal Investigations Division; FBI=Federal Bureau of Investigation; GSA/OIG=General Services Administration/OIG; HCSO=Hardin County Sheriff's Office; HUD/OIG=Department of Housing and Urban Development/OIG; IRS/CI=Internal Revenue Service/Criminal Investigations; LAPD=Los Angeles Police Department; MSAO=Mississippi State Auditor's Office; MSGA= Mississippi State Grant Authority; NARA/OIG=National Archives and Records Administration/OIG; NCIS=Naval Criminal Investigative Service; NICB=National Insurance Crime Bureau; NJAGO=New Jersey Attorney General's Office; NYSAGO=New York State Attorney General's Office; SLPD=Sour Lake Police Department; SSA/OIG=Social Security Administration/OIG; TCPA/CID=Texas Controller of Public Accounts/Criminal Investigative Division; USA/CID=United States Army/Criminal Investigations Division; USDA/OIG=U.S. Department of Agriculture/OIG; USPIS=United States Postal Inspection Service; USSS=United States Secret Service



**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.