U.S. Small Business Administration

Office of Inspector General

Congressional Budget Justification

Fiscal Year 2013

February 2012

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Overview

In fulfillment of the Inspector General Act, the Small Business Administration (SBA) Office of Inspector General (OIG) provides auditing, investigative, and other services to support and assist SBA in achieving its statutory mission.

The SBA was established to maintain and strengthen the nation's economy by protecting the interests of and assisting small businesses, and by helping families and businesses recover from disasters. While SBA's programs are essential to strengthening America's economy, the Agency faces a number of challenges in carrying out its mission, including fraudulent schemes affecting all SBA programs, significant losses from defaulted loans, procurement flaws that allow large firms to obtain small business awards, excessive improper payments, and outdated legacy information systems. Of note, in recent years, SBA's disbursements for guaranties on defaulted loans have increased significantly. In Fiscal Year (FY) 2007, SBA paid about $1 billion for guaranties on defaulted loans. In FY 2010, such disbursements were almost $5 billion, and in FY 2011, guaranty disbursements totaled $3.4 billion. The OIG has found that defaulted loans, especially those that default in the early stages, are often indicative of problems with the loan origination, to include lender negligence or fraud. Moreover, as a result of statutory changes in 2010, the size of loans that SBA guarantees more than doubled from $2 million to $5 million. With this increase in loan value, the OIG believes that additional fraud schemes will occur with greater loss of taxpayer dollars.

The OIG is requesting a $3.1 million increase over the FY 2012 enacted level. The additional resources are needed by the OIG to effectively target early defaulted loans for fraud and lender negligence and to increase the capacity of our investigative personnel. In particular, the additional resources will allow the OIG to:

- Establish a dedicated Early Defaulted Loan Review Group to identify problem loans. When lender negligence is found, this group will recommend non-payment of the guaranty (or recovery if the guaranty is already paid), target the most offending lenders to attain corrective actions, and identify trends for operational improvement by SBA. When suspected fraud is identified, those loans will be investigated. The additional resources will be used to hire auditors, investigators, and analysts and pay for related travel and other expenses.

- Enhance investigative capacity. As discussed below, the OIG handles an average of 250 criminal and civil fraud investigations per year and annually obtains multiple indictments and convictions and recoveries of tens of millions of dollars; however, resource constraints have precluded the OIG from initiating or continuing a number of investigations. For example, over the last four years the OIG has administratively closed 272 allegations—with potential losses estimated at over $172 million—which may have met prosecutorial thresholds but could not be further investigated due to a lack of resources. Also, over the last three years the OIG proactively identified over 688 suspect loans—with values estimated at over $636 million—that contained characteristics typical of problem loans. Due to limited resources, these loans could not be further reviewed to identify lender deficiencies or indications of fraud. In comparison, as of December 31, 2011, the OIG had 127 open cases related to SBA loan programs (other than disaster loans) with potential dollar losses of about $316 million. Additional investigative support personnel (i.e. non-criminal investigators or financial analysts) will increase investigative capacity and allow more effective utilization of existing investigative resources in a cost effective manner.

- Enhance the OIG's Hotline operations. During FY 2011, 550 Hotline complaints were received by the OIG. Also during FY 2011, 169 complaints were referred to the OIG's Investigations Division and 168 complaints were referred to SBA or other Federal investigative agencies. As of September 30, 2011, 163 complaints were being reviewed by Hotline staff for possible referral or other resolution. The OIG currently has one professional staff member assigned full-time to the Hotline functions. Additional staff resources are required to adequately analyze incoming complaints for possible referral for investigation or other resolution.

The funding requested for FY 2013 will also enable the OIG to continue to address critical areas and issues, including:

- Working an active caseload of about 250 criminal and civil fraud investigations of potential loan and contracting fraud and other wrongdoing. Many of these investigations involve multiple suspects. (Continuing the success of the OIG in prosecuting complex, multimillion dollar fraudulent financial schemes, during FY 2011, OIG investigations resulted in 69 indictments, 47 convictions, and more than $60 million in civil fraud settlements, potential recoveries, fines, and loans/contracts not being approved or being canceled.)

- Conducting audits and reviews of high-risk SBA activities with a focus on systemic, programmatic, and operational vulnerabilities. (During FY 2011, the OIG issued 24 reports with 136 recommendations for improving the Agency's operations, recovering improper payments, and reducing fraud and unnecessary losses in SBA programs.)

- Contracting with an Independent Public Accountant to perform the audit of the SBA's financial statements.

- Providing oversight and monitoring of the SBA's Information Technology (IT) security and application development activities including new systems under development and the Agency's compliance with the Federal Information Security Management Act (FISMA). OIG reports have identified systemic problems with SBA's IT systems.

- Performing required background investigations for SBA employees to achieve a high level of integrity in the Agency's workforce and adjudicating SBA employees and contractors for issuance of Personal Identity Verification (PIV) cards pursuant to Homeland Security Presidential Directive 12 (HSPD-12) background investigation requirements.

- Reviewing proposed revisions to SBA regulations, policies and procedures, and other directives with an emphasis on strengthening internal controls to preclude wasteful, confusing, or poorly-planned initiatives.

- Promoting debarments, suspensions, and other administrative enforcement actions to foster integrity in SBA programs. (During FY 2011, OIG investigations and recommendations contributed to 54 administrative enforcement actions.)

- Conducting name checks and, where appropriate, fingerprint checks on program applicants to prevent known criminals and wrongdoers from participating in SBA programs. (During FY 2011, loans not approved as a result of the OIG's name check program totaled more than $24 million.)

FY 2013 Budget Request

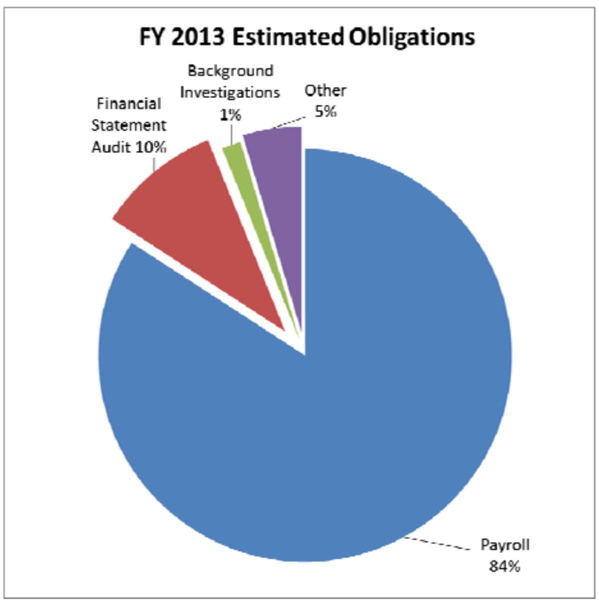
SBA's financial and operational risks are increasing. For example, as noted above, in the 7(a) and 504 programs, the maximum allowable guarantee per loan has grown from $2 million to $5 million (for manufacturers in 504 loan program, up to $5.5 million), thus dramatically expanding the potential exposure to the taxpayer. This exposure, combined with a growing portfolio and limited Agency oversight, increases the possibility of future losses. As noted earlier, SBA's payments of guaranties on defaulted loans have increased significantly—from $1 billion in FY 2007 to $5 billion in FY 2010 and $3.4 billion in FY 2011. In addition, SBA contracting programs continue to be subject to fraud and weak federal oversight. Finally, shortcomings in the Agency's IT systems may hinder SBA's ability to effectively manage its programs.

To address these risks, the OIG is requesting an increase in its budget. For FY 2013, the OIG requests a total of $20.4 million—a direct appropriation of $19.4 million and $1.0 million to be transferred from the SBA's Disaster Loan program account for work on disaster program issues.

FY 2013 Budget Request

Dollars in Millions	FY 2011 Actual	FY 2012 Enacted	FY 2013 Request	FY 2013 Increase/ (Decrease)
New Budget Authority	$16.3	$16.3	$19.4	$3.1
Transfer from Disaster Loan Program Account	1.0	1.0	1.0	--
Total	**$17.3**	**$17.3**	**$20.4**	**$3.1**

The majority of the funds requested for FY 2013 will be used for (1) salary and benefits for approximately 112 OIG employees; (2) the annual audit of the Agency's financial statements by an Independent Public Accountant; and (3) background investigations for SBA employees in public trust and national security positions.



Critical Risks Facing the SBA

Within available resources, the OIG must focus on the most significant risks to the SBA and the taxpayer. Critical risks facing the SBA are summarized below. Many of these risks are addressed in the OIG's Report on the Most Serious Management and Performance Challenges Facing the SBA, which the OIG issues annually in accordance with the Reports Consolidation Act of 2000.

Risks Due to Limited Oversight and Controls in SBA Lending Programs

The SBA faces a heightened risk of losses and improper payments due to expedited loan processing initiatives and its considerable reliance on outside financial institutions over which the Agency does not always exercise adequate oversight. This trend has been exacerbated by significant increases in loan volume and loan defaults in recent years. For instance, in FY 2007, SBA paid about $1 billion in loan guaranties, while in the past 2 years SBA has paid over $8 billion in guaranty claims. OIG activities relating to SBA lending in the past several years have been about the same as it was in FY 2007, including audits and investigations of lending activities, because resources have remained largely unchanged for the OIG during this time period.

The Agency's business loan programs include (1) the Section 7(a) program, in which the SBA guarantees loans to small businesses made by lenders, and (2) the Section 504 program, in which the SBA guarantees repayment of debentures that are sold by Certified Development Companies (CDCs) to investors to create funds for loans to small businesses. The majority of loans made under the 7(a) program are made with little or no review by the SBA prior to loan approval because the Agency has delegated most of the credit decisions to lenders originating these loans.

Audits of early defaulted loans and improper payments have noted a number of lender errors in originating loans, whereby the loans do not meet SBA's requirements. In those instances, SBA should not pay the guaranty but frequently does. Furthermore, OIG reviews have detected vulnerabilities in recent changes to the SBA's Standard Operating Procedure for the 7(a) program. These changes include a new provision that allows financing of large amounts of intangible assets, including goodwill, in change-of-ownership transactions where the entire equity injection can be provided in the form of seller take-back financing. The OIG also has identified Management Challenges relating to the Agency's controls in the guaranty purchase process, oversight of lenders and CDCs, oversight of loan agent participation in the 7(a) program, and improper payments under the 7(a) program.

In addition, numerous OIG criminal investigations have identified fraud by borrowers, loan agents, lenders, and other participants in SBA business loan programs. Criminals fraudulently obtain—or induce others to obtain—SBA-guaranteed loans through a variety of techniques, such as submitting fraudulent documents, making fictitious asset claims, manipulating property values, using loan proceeds contrary to the terms of the loans, and failing to disclose debts or prior criminal records. The result is a greater chance of financial loss to the Agency and its lenders.

Adding to these risks, in 2010 the amount of 7(a) loans subject to an SBA guaranty was increased in 2010 from $2 million to $5 million, and 504 loans were increased from $2 million to $5 million for regular projects, and from $4 million to $5.5 million for manufacturing-related projects. These higher loan limits are likely to attract additional attention by criminals and increase the consequences of improper decisions by lenders and the SBA.

Through the Disaster Loan program, the SBA makes direct loans to homeowners and businesses harmed by disasters to fund repair or replacement of damaged property and to businesses to provide needed working capital. This program is vulnerable to fraud and unnecessary losses because (1) loan transactions are often expedited in order to provide quick relief to disaster victims; (2) lending personnel hired in connection with a disaster declaration may lack sufficient training or experience; and (3) the volume of loans may overwhelm SBA resources and its ability to exercise careful oversight of lending transactions. OIG reviews of the SBA's loan processing activities have disclosed significant problems in making, disbursing, servicing, and liquidating disaster loans, as well as an excessive rate of improper payments. OIG investigations have led to numerous convictions of disaster loan borrowers for making fraudulent statements to obtain loans or misusing loan proceeds. The OIG has identified a Management Challenge relating to improper payments in the Disaster Loan program.

Under the Small Business Investment Company (SBIC) program, the SBA licenses and funds venture capital firms that provide financial assistance to small businesses. The SBA is at risk for significant losses in this program due to the deterioration in the economic environment, the decline in asset values of participating securities, and the increasing amount of debenture obligations made by the Agency. Past OIG investigations have identified fraud by certain SBIC managers and others participating in this program.

Risks Affecting the SBA's Oversight of Contracts for Small and Disadvantaged Businesses

The Small Business Act directs the SBA to promote the award of Federal contracts to small businesses and firms owned by disadvantaged individuals (such as minorities, service-disabled veterans, women, firms from areas of low economic activity, and others). For FY 2010 (the last year for which a final number is available), the SBA reported that small and disadvantaged firms were awarded nearly $98 billion government-wide in prime contracting assistance. OIG audits and investigations have identified numerous instances where firms that do not meet the criteria to be either "small" or "disadvantaged" have improperly obtained contracts under these SBA contracting programs. In addition, the Government Accountability Office (GAO) has recently issued a series of reports documenting that ineligible companies had been admitted to these SBA contracting assistance programs or were seeking set-aside contracts. These improprieties have resulted from a variety of factors, including fraud by company managers; excessive control over small or disadvantaged firms by large companies or non-disadvantaged individuals; weak oversight by the SBA and Federal procurement personnel; and regulatory ambiguities and loopholes. The OIG has identified Management Challenges for the SBA to promote integrity in small business contract awards and oversight of the Section 8(a) Business Development program.

Risks Associated with the SBA's Information Security Controls and Other Operations

The SBA's IT systems play a vital role in the management of the Agency's operations and programs, including a nearly $100 billion loan portfolio. OIG audits and other reviews have identified serious shortcomings in the SBA's information systems and related security controls. Most critical, the SBA's principal data processing and data collection tool for loan servicing, monitoring, and accounting—the Loan Accounting System—uses significantly outdated technology that increases vulnerability and security issues. This outdated technology undercuts the SBA's ability to meet the expanding requirements of new initiatives, such as the Small Business Jobs Act of 2010, and the reporting requirements of the Credit Reform Act. Additional OIG reviews have found that the SBA has not fully implemented adequate oversight of its IT systems, has not established an effective process to remediate security vulnerabilities; and has not developed an effective process to upgrade IT capabilities. The OIG has issued Management Challenges recommending corrective action in the SBA's IT security and acquisition processes.

OIG Oversight Activities

Through audits, investigations, and other efforts, the OIG reviews critical aspects of the SBA's programs and operations to improve the Agency's efficiency and effectiveness. The OIG prioritizes its reviews in response to legislative mandates or requests from sources outside the OIG, or through OIG assessments of the SBA's risks and vulnerabilities. An important aspect of this work is identifying and following up on the SBA's major management and performance challenges, as required by the Reports Consolidation Act. In addition, the OIG increasingly focuses available resources on specific legislative and other mandates.

The OIG also supports the SBA's mission by detecting, investigating, and deterring fraud and other wrongdoing in the Agency's programs and operations. OIG activities also help to ensure that SBA employees, loan applicants, and program participants possess a high level of integrity. This is critical to the proper administration of the SBA's programs because it helps ensure that SBA resources are utilized by those who deserve and need them the most.

FY 2011 Accomplishments

During FY 2011, the OIG issued 24 reports containing 136 recommendations for improving SBA operations, reducing fraud and unnecessary losses, and recovering funds. In addition, OIG investigations led to 69 indictments and 47 convictions of subjects who defrauded the government. In all, OIG efforts resulted in more than $120 million in total monetary recoveries and savings during FY 2011. The monetary recoveries resulted from court-ordered and other investigative recoveries and fines. The savings resulted from disallowed costs and recommendations that funds be put to better use, both agreed to by management, and loans/contracts not made as a result of investigations and name checks. The OIG's accomplishments during FY 2011 are discussed in more detail in the Statistical Highlights section of this document and in the OIG's *Fall 2011 Semiannual Report to Congress*.

FY 2012/2013 Planned Activities

During FY 2012 and FY 2013, in addition to conducting audits and reviews that are required by statutes and other directives, the OIG will continue to focus on the most critical risks facing the SBA. Several areas of emphasis are discussed below.

Financial Assistance

Over the last several years, losses in the SBA's loan programs have increased substantially due to current economic conditions, lender errors in processing loans, and corrupt individuals employing a variety of schemes to defraud the SBA and its lenders. Some of the increase in SBA losses correlates to similar root causes seen in the mortgage industry, such as limited SBA oversight of lenders and loan agents, poor lender loan processing, unscrupulous borrowers, and complicit brokers and lenders. The SBA paid guaranty claims of almost $5 billion in FY 2010 and over $3.4 billion in FY 2011.

The increased funding requested for FY 2013 will be used by the OIG to more effectively address the growing financial losses in SBA lending due to lender errors and various fraud schemes. The OIG will establish an Early Defaulted Loan Working Group to perform in-depth analyses of loans that default within 18 months of final disbursement. From this, OIG will either make recommendations for loan guaranty adjustments, or if fraud is apparent, conduct criminal investigations to refer suspected fraud for prosecution. OIG will also assess trends of lending problems. The OIG has performed such activities in the past, but it has been limited due to resource constraints.

The OIG will also continue its national initiative to detect fraud committed by loan agents, such as packagers and brokers. A loan agent is sometimes hired by an applicant or lender to assist the applicant in obtaining an SBA loan. Although honest loan agents help small businesses gain access to capital, some dishonest ones have perpetrated fraudulent schemes involving tens of millions of dollars in loans. These fraudulent loans often default for non-payment, and the SBA is forced to use taxpayer funds to purchase the guaranteed portions of the loans. In a recent case, three loan brokers and their company were indicted for conspiring to provide false information to SBA in order to obtain SBA loans. This is a complex loan fraud scheme involving over 51 loans valued at $37 million. Over the past decade, the OIG has obtained convictions and guilty pleas on numerous cases involving loan agent fraud on SBA-guaranteed loans, totaling in excess of $358 million.

The OIG will conduct a review of improper payments in the 7(a) program to determine if previous recommendations have been implemented to address deficiencies in the SBA's reporting and recovery of improper payments. In addition, the OIG will conduct a review of the examination process for the SBIC program. The OIG will continue to conduct audits of business loans that default quickly because past work has shown that, frequently, such loans were not properly originated and that effective controls and procedures were not in place to prevent improper payments. The OIG also will audit (1) SBA's loan origination process to determine its effectiveness and (2) the reliability of data in the Agency's Loan Accounting System.

Government Contracting and Business Development

The SBA directs significant efforts toward helping small businesses obtain Federal contracts and providing other business development assistance. The SBA's Office of Government Contracting and Business Development is tasked with helping small businesses obtain a fair proportion of Federal contracting opportunities and helping small, disadvantaged, and women-owned businesses build their potential to compete more successfully in a global economy. During FY 2012 and FY 2013, the OIG will focus on the SBA's oversight of and current issues affecting Government Contracting and Business Development programs, including investigating allegations that ineligible companies are fraudulently benefitting from these programs (as of December 31, 2011, the OIG had 59 open government contracting cases, with potential dollar losses of over $1.6 billion based on the total dollar value of the contracts). The funding requested for FY 2013 will allow the OIG to continue investigating fraudulent schemes to take improper advantage of SBA's contracting assistance programs.

In a recent investigation, six individuals, involved in a $21 million bribery scheme related to a $1.3 billion contract with the Army Corp of Engineers, were indicted.   The types of companies involved in this scheme included those eligible for 8(a), Service-Disabled Veteran-Owned, and Alaskan Native Corporation contracts. This case was described by the U.S. Attorney for Washington, D.C. as "one of the most brazen corruption schemes in the history of federal contracting."

Aside from such losses, there are other reasons to be concerned about government contracting programs.

- There has been a high level of congressional interest in small businesses receiving a fair share of Federal contracts. The OIG will continue to assess whether the SBA is taking adequate steps to ensure the integrity of small business contracting, with an emphasis on issues such as the accuracy of reporting small business contract activity, large businesses being classified as small businesses, adherence to regulations to protect small businesses, training of government contracting personnel, deterring fraudulent acquisition of government contracts, and bundling of contracts.

- The Section 8(a) Business Development program continues to be susceptible to major vulnerabilities. These include limited program oversight; inequitable distribution of contracting opportunities among participants; a lack of reasonable, measurable, consistent, and mandatory criteria pertaining to economic disadvantage; a lack of implemented criteria defining business success for purposes of program graduation; and misrepresentation by companies as small, minority-owned, or disadvantaged businesses to gain an unfair advantage in the Federal marketplace. The OIG will continue to review these issues and the SBA's management of the Section 8(a) program.

- The Historically Underutilized Business Zone (HUBZone) program provides Federal contracting assistance to small businesses located in economically distressed areas with the intent of stimulating economic development. The Service-Disabled Veteran-Owned Small Business (SDVOSB) program provides more opportunities in Federal contracting for disabled veterans who own small businesses. The GAO has identified significant control weaknesses in these programs that have allowed ineligible firms to receive millions of dollars in contracts. The OIG will examine the SBA's claim that it has implemented a more rigorous HUBZone certification process in the hopes of preventing ineligible firms from achieving certification. In addition, the OIG plans to review the HUBZone decertification process once the SBA completes its reengineering of this process in FY 2012. The OIG also will continue to pursue prosecution, civil fraud recovery, and debarment of contractors who improperly obtain HUBZone, SDVOSB, and other preferential contracts.

Financial Management and Information Technology

The OIG will continue to oversee the audits of the SBA's financial statements, as well as FISMA and Federal Information Systems Controls Audit Manual (FISCAM) reviews, which are conducted by an Independent Public Accountant under a contract with the OIG. The OIG also will expand its review of the SBA's compliance with the Improper Payments Elimination and Recovery Act. The OIG anticipates that the scope of financial statement audits will continue to expand as a result of growing direct and guaranteed loan portfolios, new mandates of the Small Business Jobs Act, and increases in the number of programs that are subject to the provisions of the Credit Reform Act.

The OIG also will continue to monitor systems development activities related to improvements to the SBA's Loan Management and Accounting System, a system that is critical to SBA's ability to administer its loan portfolio, which in FY 2011 totaled $70 billion. OIG efforts will include determining whether adequate System Development Lifecycle Controls are in place as the SBA endeavors to move its batch COBOL systems from the mainframe to a new hosting environment. As threats to disrupt cyber-based systems continue to escalate, the Agency must take steps to improve controls to prevent outages and loss of sensitive data and to ensure the continuity of mission critical operating systems. The OIG will conduct audits to assess the security of the SBA's computer operating system, network, and hosted applications by performing assurance reviews. The OIG also will review the sufficiency of SBA resources used to manage computer security, maintain systems, provide technical support, and administer security training.

Disaster Assistance

OIG audits will continue to focus on loan origination, disbursement, repayment, servicing, and liquidation activities related to disaster loans. Such audits may assess whether the SBA processed homeowner and business loan applications in accordance with the Agency's procedures, verified uses of loan proceeds before loans were fully disbursed, and appropriately identified duplicate benefits. The OIG also will continue to investigate allegations of unauthorized use of loan proceeds; overstatement of financial losses; material false statements in the application process; false/counterfeit supporting documentation; and false assertions regarding primary residency in affected areas at the times of the disasters. As of December 31, 2011, the OIG had 38 open cases involving disaster loans with potential dollar losses of over $12.4 million.

From FY 2006 through FY 2011, the OIG, in conjunction with the National Center for Disaster Fraud, produced 81 arrests, 95 indictments, and 87 convictions related to wrongdoing in SBA's Disaster Loan program. Moreover, OIG investigations in the disaster area to date have resulted in over $5.5 million in court-ordered restitution and related recoveries. The OIG has also assisted SBA in denying almost $4.5 million in loans to potentially fraudulent borrowers

Agency Management Challenges

As required by the Reports Consolidation Act, the OIG annually develops a Report on the Most Serious Management and Performance Challenges Facing the SBA. The Management Challenges focus on areas that are particularly vulnerable to fraud, waste, error, and mismanagement, or otherwise pose a significant risk and generally have been the subject of one or more OIG or GAO reports. The OIG will continue to identify serious Management Challenges facing the SBA and will work throughout the year with Agency management to resolve identified issues as quickly and efficiently as possible.

Security Operations

The OIG's Office of Security Operations will continue processing name checks and, where appropriate, fingerprint checks to ensure that applicants meet certain character standards before participating in programs involving business loans, disaster assistance loans, Section 8(a) certifications, surety bond guarantees, SBICs, and CDCs. As a result of OIG referrals during FY 2011, SBA business loan program managers declined 55 applications totaling nearly $24.3 million, and disaster loan program officials declined 11 applications totaling over $380,000, due to character issues of loan applicants. In addition, the Section 8(a) program declined 24 applications for admission and the Surety Bond Guaranty program declined 1 application for admission. Nearly $300 million in loans have been declined during the last 10 years due to character problems identified by the OIG, thereby making credit and SBA assistance available to other applicants with no such issues. The OIG will also perform required background investigations for covered SBA employees and adjudicate SBA employees/contractors for issuance of PIV cards pursuant to HSPD-12 background investigation requirements. During FY 2011, the OIG initiated 482 background investigations and issued 52 security clearances for SBA employees and contractors.

Review of Proposed Regulations and Initiatives

As part of the OIG's proactive efforts to promote accountability and integrity and reduce inefficiencies in SBA programs and operations, the OIG reviews changes that SBA is proposing to make to its program directives such as regulations, internal operating procedures, policy notices, and SBA forms that are completed by the public. Frequently, the OIG identifies material weaknesses in these proposals and works with the Agency to implement recommended revisions to promote controls that are more effective and deter waste, fraud, or abuse. During FY 2011, the OIG reviewed 133 proposed revisions of program management or SBA reorganization documents and submitted comments on many of these initiatives.

Debarment and Administrative Enforcement Actions

As a complement to the OIG's criminal and civil fraud investigations, the OIG continually promotes the use of suspensions, debarments and other administrative enforcement actions as a means to protect taxpayer funds from those who have engaged in fraud or otherwise exhibited a lack of business integrity. The OIG regularly identifies individuals and organizations for debarment and other enforcement actions and submits detailed recommendations with supporting evidence to the responsible SBA officials. During FY 2011, the OIG sent 41 suspension and debarment referrals to SBA. Most OIG administrative referrals involve the abuse of SBA's loan and preferential contracting programs. Where appropriate, the OIG recommends that the SBA suspend the subject of an ongoing OIG investigation given program risk presented by the continued participation of those individuals and entities.

Fraud Awareness Briefings

The OIG will continue to conduct briefings on topics related to fraud in government lending and contracting programs. During FY 2011, the OIG provided 21 presentations for more than 800 employees, lending officials, and representatives of government agencies and law enforcement organizations. Topics included types of fraud, fraud trends, the False Claims Act, and the Service-Disabled, Veteran-Owned SBA program.

Statistical Highlights

During the FY 2011, the OIG's efforts resulted in over $120 million in savings, cost avoidances and potential recoveries and fines, as shown in the following table.

Office-wide Dollar Accomplishments

Potential Investigative Recoveries and Fines	$30,512,507
Loans/Contracts Not Made as Result of Investigations	$5,425,000
Loans Not Made as Result of Name Checks	$24,759,839
Disallowed Costs Agreed to by Agency Management	$6,009,787
Recommendations that Funds Be Put to Better Use Agreed to by Agency Management	$54,242,400
Total	**$120,949,533**

OIG efforts can be broken down into two main categories that are generally aligned with the OIG's two strategic goals: (1) efficiency and effectiveness of SBA programs and operations; and (2) fraud deterrence and detection in SBA programs.

Efficiency and Effectiveness of SBA Programs

During FY 2011, the OIG issued 24 reports with significant recommendations for improving Agency operations, reducing fraud and unnecessary losses, and recovering funds.

Efficiency and Effectiveness Activities

Reports Issued	24
Recommendations Issued	136
Dollar Value of Costs Questioned	$12,254,937

Follow-up Activities

Recommendations for which Management Decisions were made during the Reporting Period	168
Disallowed Costs Agreed to By Agency Management	$6,009,787
Dollar Value of Recommendations that Funds Be Put to Better Use Agreed to by Agency Management	$54,242,400
Recommendations without a Management Decision at the End of the Reporting Period	32

Reviews of Proposed Changes in Legislation, Regulations, and Operating Procedures For Programmatic and Internal Control Deficiencies

Legislation, Regulations, Standard Operating Procedures, and Other Issuances* Reviewed	133

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

Fraud Detection and Deterrence in SBA Programs

The OIG conducts criminal, civil, and administrative investigations in a nationwide program to prevent and detect illegal and/or improper activities involving SBA programs, operations, and personnel. OIG special agents utilize a full range of investigative techniques including arrest warrants, search warrants, and electronic monitoring. The OIG also performs a deterrent function through educational outreach to lenders and employees.

Fraud Detection and Deterrence Activities

Cases Opened	85
Cases Closed	53
Fraud Awareness Briefings Conducted	21

Indictments and Convictions

Indictments from OIG Cases	69
Convictions from OIG Cases	47

Recoveries and Management Avoidances

Potential Recoveries and Fines as a Result of OIG Investigations	$30,512,507
Loans/Contracts Not Approved as a Result of OIG Investigations	$5,425,000
Loans Not Approved as a Result of the Name Check Program	$24,759,839
Total	**$60,697,346**

Suspension and Debarment Actions

Suspensions and/or Debarments Recommended to the Agency	41
Suspensions and/or Debarments Pending at the Agency	38
Proposed Debarments Issued by the Agency	18
Final Debarments Issued by the Agency	16
Suspensions Issued by the Agency	14
Proposed Debarments Declined by the Agency	3
Actions by Other Agencies Resulting from Investigations in which the OIG Participated	24

OIG Organizational Structure

The OIG is comprised of the immediate office of the Inspector General and four divisions: Auditing, Investigations, Counsel, and Management and Policy.

The **Auditing Division** performs and oversees audits and reviews to promote the economical, efficient, and effective administration of SBA programs and operations.

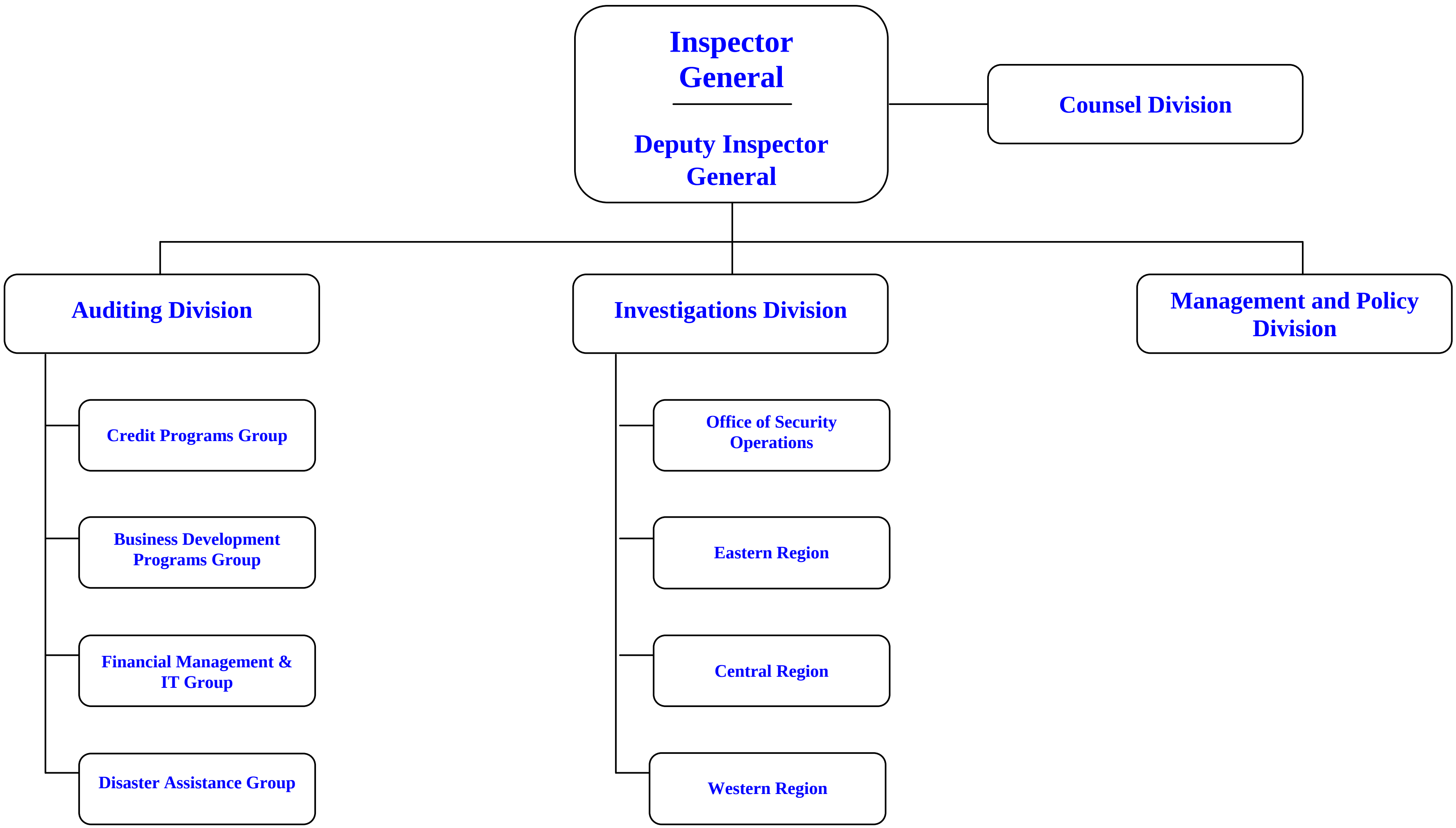
The **Investigations Division** manages a program to detect and deter illegal and improper activities involving SBA programs, operations, and personnel. The criminal investigations staff carries out a full range of traditional law enforcement functions. The security operations staff ensures that SBA employees and contractors have appropriate background investigations and security clearances to achieve a high level of integrity in the Agency's workforce, and that loan applicants and other potential program participants are of good character.

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 criminal, civil, and administrative enforcement matters; processes subpoenas, responds to Freedom of Information and Privacy Act requests; and reviews and comments on proposed policies, regulations, legislation, and procedures.

The **Management and Policy Division** provides business support (e.g., budget and financial management, human resources, IT, and procurement) for the various OIG functions; coordinates preparation of the OIG's Semiannual Report to Congress, Report on the Most Serious Management and Performance Challenges Facing the SBA, and other OIG-wide reports and documents; maintains the OIG website; and operates the OIG's Hotline.

An organizational chart for the OIG is provided on the next page.

Small Business Administration
Office of Inspector General



U.S. Small Business Administration
Office of Inspector General

Reporting Requirements Under the
Inspector General Reform Act of 2008

The following information is provided in accordance with the Inspector General Reform Act of 2008 (P.L. 110-409.)

Dollars in Millions	**FY 2011 Actual**	**FY 2012 Enacted**	**FY 2013 Initial Agency Submission**	**FY 2013 Request**
New Budget Authority	$16.3	$16.3	$18.4	19.4
Transfer from Disaster Loan Program Account	1.0	1.0	1.0	1.0
Total	**$17.3**	**$17.3**	**$19.4**	**$20.4**

The OIG's FY 2013 budget request includes $125,000 for training, which is sufficient to satisfy all training needs for the fiscal year, and $58,000 for the operation of the Council of Inspectors General on Integrity and Efficiency.