
U.S. Small Business Administration Office of Inspector General

FY 2016 CONGRESSIONAL BUDGET JUSTIFICATION



Overview

In fulfillment of the Inspector General Act of 1978, as amended, the U.S. Small Business Administration (SBA or Agency) Office of Inspector General (OIG) provides auditing, investigative, and other services to support and assist the SBA in achieving its statutory mission. The OIG provides taxpayers with a significant return-on-investment (ROI) as it roots out fraud, waste, and abuse in SBA's programs. During FY 2014, the OIG achieved nearly \$170 million in monetary recoveries and savings—a more than an 8-fold ROI.

The mission of the SBA is to maintain and strengthen the nation's economy by enabling the establishment and vitality of small businesses and to assist in the economic recovery of communities after disasters. While SBA's programs are essential to strengthening America's economy, the Agency faces a number of challenges in carrying out its mission. These include fraudulent schemes affecting SBA's programs, significant losses from defaulted loans, procurement flaws that allow large firms to obtain small business awards, improper payments, and outdated legacy information technology (IT) systems. The OIG plays a critical role in addressing these and other challenges by conducting audits to identify wasteful expenditures and program mismanagement, investigating fraud and other wrongdoing, and taking other actions to deter and detect waste, fraud, abuse, and inefficiencies in SBA's programs and operations.

In FY 2014, the OIG utilized its funds to fully staff its Auditing Division, which was severely depleted through attrition as a result of sequestration in FY 2013. The OIG also used the additional funds received in FY 2014 to enhance investigative capacity, to include investigative support personnel to allow more effective utilization of investigative resources, and to devote additional resources to target early defaulted loans for fraud and lender negligence. For FY 2016, the OIG requests \$19.9 million, plus an additional \$1 million transfer from the Disaster Loan program—for a total of \$20.9 million. These funds are needed by the OIG to provide effective independent oversight of SBA's programs and operations, to include continued implementation of the above initiatives, as well as to fund an expected increase in the cost of the independent audit of SBA's FY 2016 financial statements (due in large part to new OIG review mandates incorporated into the Digital Accountability and Transparency Act of 2014, P.L. 113-101) and cover the government-wide pay raise and other inflationary costs.

With the funds requested for FY 2016, the OIG will:

- Work 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 complex, multimillion-dollar fraudulent financial schemes perpetrated by multiple suspects. (During FY 2014, OIG investigations resulted in 103 indictments/informations, 67 convictions, and more than \$51 million in potential recoveries, fines, asset forfeitures, civil fraud settlements, or loans/contracts not being approved or being canceled.)
- Conduct risk-based audits and reviews of SBA's activities with a focus on systemic, programmatic, and operational vulnerabilities. (During FY 2014, the OIG issued 20 reports with 100 recommendations for improving the Agency's operations, recovering improper payments, and reducing fraud and unnecessary losses in SBA's programs.)



- Contract with an independent public accountant to perform the annual audit of SBA's financial statements. (The current financial statement audit contract will expire in FY 2015. The OIG projects that the FY 2016 cost of the financial statement audit could increase by \$250,000 as compared to FY 2015.)
- Provide oversight and monitoring of SBA's IT security and application development activities, including new systems under development and the Agency's compliance with the Federal Information Security Management Act (FISMA). The OIG has identified systemic problems with SBA's IT systems, and this remains one of the most serious management challenges facing the Agency.
- Maintain a robust [Hotline](#) operation to receive and process allegations of waste, fraud, abuse, or serious mismanagement in the SBA or its programs from employees, contractors, and the public. (During FY 2014, the Hotline received 656 complaints, which Hotline staff reviewed and analyzed to determine the appropriate course of action.)
- Through a designated [Whistleblower Ombudsman](#), established pursuant to the Whistleblower Protection Enhancement Act of 2012, educate SBA's employees about prohibitions on retaliation for whistleblowing, as well as employees' rights and remedies if anyone retaliates against them for making a protected disclosure.
- Pay for required background investigations of SBA's employees to achieve a high level of integrity in the Agency's workforce.
- Adjudicate SBA's employees and contractors for issuance of Personal Identity Verification (PIV) cards pursuant to Homeland Security Presidential Directive 12 (HSPD-12) background investigation requirements.
- Conduct name checks and, where appropriate, fingerprint checks on program applicants to prevent known criminals and wrongdoers from participating in SBA's programs. (During FY 2014, more than \$25 million in loans were not approved as a result of the OIG's name check program, effectively protecting American taxpayers from potential losses.)
- Review proposed revisions to SBA's regulations, policies, procedures, and other directives with an emphasis on strengthening internal controls to preclude potential fraud and wasteful, confusing, or poorly planned initiatives. (During FY 2014, the OIG provided recommendations to improve 46 of the 93 proposed revisions it reviewed.)
- Recommend debarments, suspensions, and other administrative enforcement actions to foster integrity in SBA's programs. (During FY 2014, the OIG recommended 50 administrative enforcement actions to the Agency. In addition, OIG investigations resulted in 51 suspension and debarment actions by other agencies.)
- Continue to serve as an educational resource, ensuring that oversight and lending officials develop or maintain technical proficiency in small business issues; suspension and debarment; the Program Fraud Civil Remedies Act; and other topics related to deterring and detecting fraud



in government lending and contracting programs. (During FY 2014, the OIG delivered more than 25 training and outreach sessions for approximately 1,370 attendees.)



Budget Request

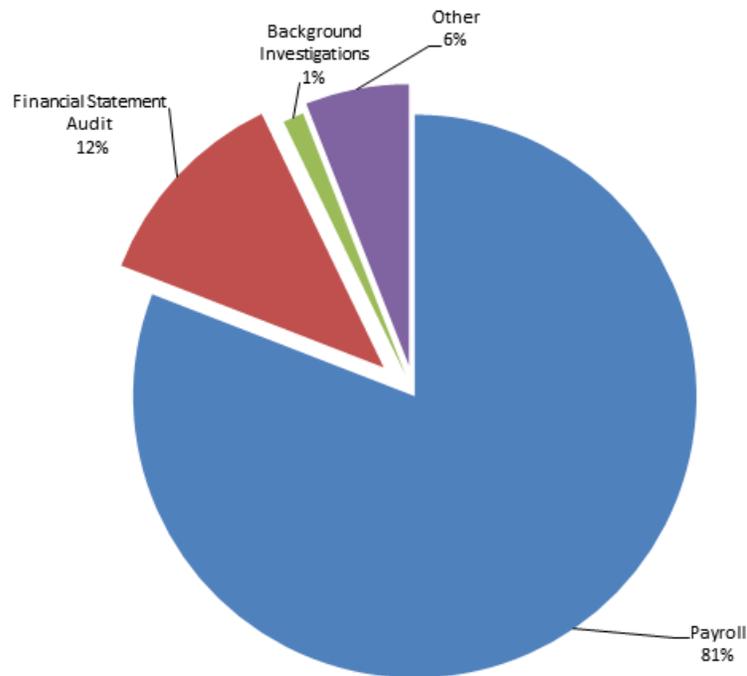
To address the challenges and risks discussed above and in the Critical Risks section below, the OIG requests a total of \$20.9 million for FY 2016—a direct appropriation of \$19.9 million and \$1 million to be transferred from SBA’s Disaster Loan program account for work on disaster program issues.

FY 2016 Budget Request

<i>Dollars in Millions</i>	FY 2014 Actual	FY 2015 Enacted	FY 2016 Request	FY 2016 Incr/Decr
New Budget Authority	\$19.0	\$19.4	\$19.9	\$0.5
Transfer from Disaster Loan Program	1.0	1.0	1.0	0.0
Total	\$20.0	\$20.4	\$20.9	\$0.5

The majority of the funds requested for FY 2016 will be used for salary and benefits for 110 Full Time Equivalent (FTE) employees, as well as the cost of the annual audit of SBA’s financial statements by an independent public accountant.

FY 2016 Estimated Obligations



Critical Risks Facing the SBA

Within available resources, the OIG must focus on the most significant risks to the SBA and the taxpayer. Some of the critical risks facing the SBA are discussed 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's 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 has been found to not always exercise adequate oversight. 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 sold by Certified Development Companies (CDCs) to investors to create funds for loans to small businesses. The majority of loans made under the Section 7(a) program undergo 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. In addition, OIG reviews have detected vulnerabilities in SBA's Standard Operating Procedure (SOP) for the Section 7(a) program. These vulnerabilities include a 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. An OIG audit also identified that the SBA had not implemented a program or process to effectively monitor risk in its loan portfolio ([Report 13-17](#)). Further, the OIG has identified management challenges relating to the Agency's quality control process at the loan servicing centers and the National Guaranty Purchase Center, oversight of lenders and CDCs, efforts to prevent loan agent fraud in the Section 7(a) program, and improper payments under the Section 7(a) program. Finally, the SBA has started to implement electronic signatures in its business loan programs. This new process will require additional oversight.

Numerous OIG criminal investigations have identified fraud by borrowers, loan agents, lenders, and other participants in SBA's business loan programs. Criminals fraudulently obtain—or induce others to obtain—SBA-guaranteed loans through a variety of techniques. These include submitting fraudulent documents, making fictitious asset claims, manipulating property values, using loan proceeds contrary to the terms of the loans, and failing to disclose debts or prior criminal records. The result is a greater chance of financial loss to the Agency and its lenders. In addition, higher loan limits in recent years are likely to attract additional attention by criminals and increase the consequences of improper lending decisions.

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 loan applications may overwhelm SBA's resources and its ability to exercise careful oversight of lending transactions.

Investigations by the OIG have led to numerous convictions of disaster loan borrowers for making fraudulent statements to obtain loans or misusing loan proceeds. OIG reviews of SBA's loan processing activities have disclosed significant problems in making, disbursing, servicing, and liquidating disaster loans. For example, a recent OIG audit determined that the SBA did not effectively manage delinquent disaster loans to maximize recovery and minimize losses ([Report 13-18](#)). The OIG estimates that from June 2006 to June 2011, at least 7,198 loans, totaling \$752.6 million, were charged off without using all appropriate collection tools to maximize recovery. Additionally, the OIG has identified a management challenge relating to improper payments in the Disaster Loan program. It is noted, however, that the Agency has developed a corrective action plan that specifically addresses root causes and provides specific remedies that, if properly implemented, should effectively reduce the rate in future years.

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: factors related to the economic environment; declines in asset values of participating securities; and increasing amounts of debenture obligations made by the Agency. A recent OIG audit found that outdated guidance, incomplete examination checklists, and other challenges affected the quality of the SBIC examination process ([Report 13-22](#)). Past OIG investigations have identified fraud by certain SBIC managers and others participating in this program.

Risks Affecting 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). Under a statutory goal, the government directs approximately 23 percent of federal procurement funds to these programs. For FY 2013—the latest year for which information is available—the SBA reported that small and disadvantaged firms were awarded \$83.1 billion government-wide in prime contracting assistance. However, 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 SBA's contracting programs. In addition, the Government Accountability Office (GAO) has issued a series of reports documenting that ineligible companies had been admitted to SBA's contracting assistance programs and 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 SBA's Information Security Controls and Other Operations

SBA's IT systems play a vital role in managing the Agency's operations and programs, including a loan portfolio in excess of \$106 billion. However, OIG audits and other reviews have identified serious shortcomings in SBA's information systems and related security controls. The most critical of these shortcomings occurs in the Loan Accounting System (LAS). The LAS serves as SBA's principal data



processing and collection tool for loan portfolio servicing, monitoring, and accounting. Notwithstanding its critical function, the LAS uses significantly outdated technology that increases vulnerability and security issues. This outdated technology undercuts 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 of 1990. The Loan Management Accounting System (LMAS) is a system development project to move the Agency from its legacy mainframe environment to an updated web-based environment. Our most recent review identified the need for improved project oversight and more complete user acceptance testing. Additionally, 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 actions in SBA's IT security and acquisition processes.

Risks Associated with SBA's Oversight and Controls of Grants for Entrepreneurial Development

The SBA provides training, mentoring, and counseling services to small businesses through a variety of strategic partnerships. In its FY 2015 budget submission, the SBA requested \$198 million in grant funding to support these training and assistance programs. The Office of Entrepreneurial Development (OED) oversees a network of programs and services that support the training and counseling needs of small business. The OED manages and leverages three major resources: Small Business Development Centers (SBDCs), Service Corp of Retired Executives (SCORE), and Women Business Centers (WBCs). Although each resource program's goals and target audiences may vary, a common mission is shared between them: to provide business advice, mentoring, and training to small businesses and entrepreneurs. The SBDC program is the largest grant program in the Agency's portfolio. The OIG has identified problems with co-mingling SBDC grant funds with private-enterprise contributions and accounting for required matching funds. Some SBDCs are also co-located with WBCs, which makes it difficult to determine what services are associated with each grant program. In addition, having two grant programs delivering similar services increases the risk of duplication of services and contributes to government waste. A recent OIG review determined that SBA's internal controls did not detect an SBDC's non-compliance with statutory matching requirements for grant funding and other critical grant requirements ([Report 14-19](#)).

Risks Associated with SBA's Acquisition Program

The SBA spends approximately \$120 million annually to acquire goods and services to assist in carrying out its mission. OIG audits have identified common risks, primarily poorly defined requirements, internal control deficiencies, improper funding of contracts, and inadequate oversight that contributed to ineffective or inefficient results and increased costs. Additionally, in FY 2013, the SBA reported an improper payment rate of 11.6 percent for disbursements for goods and services. The OIG identified SBA's acquisition process as a management challenge recommending corrective actions in the acquisition processes.



OIG Oversight Activities

Through audits and other reviews, the OIG provides independent oversight of critical aspects of SBA's programs and operations to improve the Agency's efficiency and effectiveness. An important aspect of this work is identifying and following up on SBA's major management and performance challenges, as required by the Reports Consolidation Act. The OIG also supports SBA's mission by detecting, investigating, and deterring fraud and other wrongdoing in the Agency's programs and operations. The OIG serves as a government-wide training resource for small business fraud and enforcement issues. These activities help to ensure that SBA's employees, loan applicants, and program participants possess a high level of integrity. This is critical to the proper administration of SBA's programs because it helps ensure that the Agency's resources are utilized by those who deserve and need them the most.

FY 2014 Accomplishments

During FY 2014, the OIG issued 20 reports containing 100 recommendations for improving SBA's operations and reducing fraud and unnecessary losses in the Agency's programs. In addition, OIG investigations resulted in 103 indictments/informations and 67 convictions. Overall, the OIG achieved monetary recoveries and savings of nearly \$170 million from recommendations that funds be put to better use agreed to by management, disallowed costs agreed to by management, court ordered and other investigative recoveries and fines, and loans or contracts not made as a result of investigations, and name checks. These results reflect more than an 8-fold ROI as compared to the resources that are available for OIG operations.

Following are summaries of some key reports and investigations that demonstrate the complex nature of the OIG's work and importance to identifying more efficient and effective business practices. It is noted that OIG investigations often involve multiple subjects, large dollar losses, various joint agencies, and substantial restitution and forfeiture monies returned to the government.

Improving Stewardship through Compliance, Procedures, and Training

A number of OIG reports have identified instances in which the SBA did not comply with laws or established procedures. Other instances included the need for improved processes, quality assurance activities, improved oversight, and additional training. For example:

- A review of SBA's certification process of firms into the Historically Underutilized Business Zones (HUBZone) program found that 12 firms certified into the program, including 3 ineligible ones, received 94 percent (\$34.9 million) of federal contract dollars awarded during a 6-month period in 2012, even though 367 firms were certified during that period. Ineligible firms that obtained certification distorted the small business HUBZone goaling numbers by at least \$1.3 million and possibly took contracting opportunities away from eligible firms. ([Report 14-03](#))
- In December 2013, the OIG issued the first of two reports resulting from its ongoing audit of the Economic Injury Disaster Loan (EIDL) program. The overall audit objective was to determine whether the SBA had sufficient controls to ensure that working capital loans under the EIDL program were approved for eligible borrowers in the correct amount. The OIG identified three large defaulted EIDLs that involved inquiries by elected officials and loan reconsiderations. The



OIG reviewed these loans to determine if SBA's Processing and Disbursement Center (PDC) staff adequately addressed or mitigated prior loan denial factors when it approved the loans. The OIG determined that the PDC made two EIDL approval decisions that, in effect, reversed previous denial decisions. Further, the OIG found that the PDC did not adequately address or mitigate the prior denial factors or obtain supporting documentation to overcome deficiencies. The decisions involved a \$736,300 working capital disaster loan and a \$671,900 loan increase to separate businesses, totaling approximately \$1.4 million. SBA's management disagreed with the OIG's findings, but concurred with the recommendation to implement new procedures that require justification and supporting documentation to address all prior denial factors when a previous denial decision on a loan is overturned. ([Report 14-06](#))

- A review of SBA's quality control program for its loan centers determined that quality control activities were not being performed as required. The OIG found that the centers omitted required quality control reviews of significant functions and discontinued regularly scheduled quality reviews to focus on reviews required by the Improper Payments Elimination and Recovery Act (IPERA) of 2010. Further, the OIG determined that corrective actions were not appropriately tracked until resolution, as required. Finally, the OIG determined that SBA's quality assurance program, responsible for ensuring that quality control activities at loan operation centers are working as intended, had not been established. ([Report 14-08](#))
- In January 2014, the OIG issued its second audit report in a series of reports on SBA's purchase reviews of nine 7(a) Recovery Act Loans. The OIG found that three 7(a) Recovery Act loans purchased by the SBA were not originated and closed in accordance with SBA's rules and regulations. The deficiencies included loans approved and disbursed by lenders with questionable eligibility, inadequate assurance of repayment ability, and equity injection issues. The three loans had inappropriate or unsupported disbursements of approximately \$3.1 million. ([Report 14-09](#))
- A review of SBA's contracting practices in the acquisition of a mission-critical IT system found that the Agency did not follow federal regulations and guidance and, as a result, the Agency did not receive a system with full capabilities as originally designed. The original OneTrack system should have been completed in a 12-month period at a total cost of approximately \$1.17 million. Instead, the SBA modified the task order to receive a system with the same, limited functions as the existing system—the Business Development Management Information System (BDMIS). However, the SBA still did not have a tested and approved system—that included existing BDMIS capabilities—to put into production when the task order expired. To date, the SBA has increased the total cost of the system by approximately \$734,000 and extended the performance of the acquisition by 14 months. ([Report 14-10](#))
- In June 2014, the OIG determined that significant opportunities exist to improve the management of the 7(a) loan guaranty approval process to mitigate SBA's risk of loss. Specifically, the OIG found that Loan Guaranty Processing Center (LGPC) management emphasized quantity over quality for 7(a) loan reviews, which was not in accordance with the LGPC's strategic mission. Additionally, the OIG determined that LGPC loan specialists were not provided adequate guidance and training to conduct their 7(a) loan review activities. Further, a decrease in the number of staff assigned to loan reviews, increase in loan size and complexity, additional LGPC responsibilities, and inadequate supervision contributed to inappropriate loan decisions.



Furthermore, based on a sample of 13 loans approved for \$13 million, the OIG identified that 11 loans—approved for \$11.3 million—had material underwriting deficiencies. In addition, based on limited reviews of 57 other loans, the OIG found evidence indicating that 8 of these loans—totaling \$5.6 million—should not have been approved due to repayment ability and eligibility deficiencies. Finally, the OIG identified suspicious activity in five of the loans reviewed. These loans were referred to the OIG’s Investigations Division for further review. ([Report 14-13](#))

- An OIG review of SBA’s disaster loan processing times found that because of the methodology used by the SBA to compute processing time for disaster loan applications, the Agency’s reported performance did not accurately communicate to eligible applicants and oversight officials how long it was likely to take for most applicants to receive a disaster loan. The OIG also found that processing time performance standards were generally not attainable beyond certain application volume levels. The OIG recommended that the Agency make adjustments in the way it calculates its disaster loan processing times performance. Additionally, the OIG recommended that the SBA establish processing time standards for different application volumes based on historical performance and include anticipated processing time standards for a range of possible application volumes in the annual Congressional Budget Justification and Annual Performance Report. ([Report 14-14](#))
- In a review of SBA’s process for granting waivers to the non-manufacturer rule the OIG was unable to determine if the SBA appropriately issued waivers because of a lack of established procedures, missing files, and other deficiencies. The OIG found that between FY 2010 and FY 2013, the SBA received 214 individual waiver requests and of the requests received, the SBA approved 81 percent of those waivers. Further, the OIG determined that the SBA has not evaluated the impact of non-manufacturer rule waivers on small businesses and that the SBA currently lacks the processes to make such an evaluation. Non-manufacturer rule waivers affect a significant amount of federal contracting dollars. From FY 2010 to FY 2013, the SBA approved waivers related to contract-specific requests with an estimated total of approximately \$10.6 billion federal contracting dollars associated with set aside contracts for small businesses. The SBA does not have sufficient data to estimate, and the OIG did not review, the contracting dollars associated with the second category of waivers, which applies the waiver to specified goods. ([Report 14-15](#))
- A review of Hurricane Sandy disaster loan closing and disbursement processes found that the SBA closed and disbursed Hurricane Sandy disaster loans in compliance with established procedures and performance standards. The OIG also determined that the SBA obtained all required closing documents during the closing process, and all steps for each disbursement were performed as required. Additionally, the OIG determined that after receipt of executed closing documents from the borrowers, the SBA made initial disbursements within its strategic goal of 5 days after receipt of executed closing documents. The audit did not identify significant concerns regarding the disaster loan closing and disbursement processes. During the audit, the OIG identified opportunities for management consideration which may further reduce overall loan disbursement times. Specifically, the SBA could significantly reduce overall loan closing and disbursement times if it obtained certain documents from borrowers earlier in the application process. ([Report 14-16](#))



- A review of select Section 8(a) Business Development program and HUBZone contract awards found that federal agencies received credit towards their small business goals for contract actions—valued over \$400 million—that were awarded to ineligible 8(a) and HUBZone firms. In addition, the OIG determined that federal agencies continued to receive small business goaling credit for contract actions that occurred after the firms no longer participated in the programs. Further, the OIG identified a weakness in an SBA database used to identify firms participating in the 8(a) Business Development program and firms that are HUBZone certified. ([Report 14-18](#))

In the above reports, the OIG recommended that the SBA take specific corrective actions to develop and execute plans to improve the internal operations and processes, update procedures, ensure that guidance is readily accessible to employees, and provide sufficient and appropriate training. The OIG also recommended that the SBA take steps to ensure proper contract oversight of the development and implementation of mission-critical IT systems, establish quality assurance activities at SBA loan centers, and implement a portfolio risk management program to analyze risk across portfolio segments to support risk-based decision in its loan programs. These recommendations, once implemented, will further SBA's ability to meet program objectives and improve stewardship through compliance, procedures, and training.

Preventing and Reducing Improper Payments

The OIG annually evaluates SBA's compliance with the Improper Payments Elimination and Recovery Act (IPERA) requirements. We assessed the progress that the SBA made in remediating improper payment-related recommendations and determined whether the SBA complied with IPERA reporting requirements. We found that the SBA continued to make progress in its efforts to prevent and reduce improper payments and met the reporting guidelines. Specifically, disbursements for goods and services, as well as 7(a) loan guaranty approvals continued to make progress through the deployment of improved controls and process improvements. The revised procedures were robust and led to the identification of more improper payments during the testing process. Unfortunately, using less experienced staff to process applications for Hurricane Sandy may have attributed to the improper payments rate increase for disaster assistance loan disbursements. Consequently, the improper payment estimates increased from \$12.5 million to \$14.1 million for Disbursement of Goods and Services; \$233.2 million to \$510.9 million for 7(a) guaranty loan approvals; and \$91 million to \$121.1 million for disaster assistance loan disbursements.

Notwithstanding the accomplishments, the SBA needs to improve the effectiveness and development of improper payment controls and processes for all of the programs or activities reviewed. Specific areas include completeness of test plans, quality of corrective action plans, and sufficiency of improper payment recapturing activities. ([Report 14-11](#))

SBA's efforts to prevent and reduce improper payments for 7(a) loan approvals, 7(a) loan purchases, Section 504 loans, and disbursements for its contacting activities were the focus of three OIG audits. The first audit disclosed that the SBA reported \$41 million in improper payments for 7(a) loan purchases made in FY 2011, whereas the OIG's independent statistical sample determined that the improper payments could have been as high as \$472 million ([Report 13-07](#)). Another audit found that due to improved testing procedures, SBA's improper payments estimate for 7(a) loan guaranty approvals increased from \$0 in FY 2011 to \$233 million in FY 2012 ([Report 13-13](#)). A third audit found that SBA's reported improper payments for acquisitions excluded certain payments with documentation errors from



SBA's improper payment calculations ([Report 14-02](#)). Consequently, the FY 2012 improper payment rate for disbursements and contracting exceeded 10 percent.

In addition, the OIG has utilized analytical techniques to identify fraudulent activity and prevent and reduce improper payments on 7(a) loans. During FY 2012 and FY 2013, the OIG conducted a series of audits focused on high-dollar, early defaulted 7(a) loans funded under the Recovery Act. These audits utilized a new, internally-developed, risk-based sample selection methodology. This methodology allocates rating points according to perceived risks. The perceived risks included time lapse between loan approval and its transfer to liquidation, loan amount, borrower equity injection, loan packager involvement, and the use of the loan proceeds. The results of this special project were significant. A total of 13 of the 17 loans reviewed, with payments totaling \$16.3 million, were either referred for further investigation or recommended to the SBA for recovery. ([Report 13-16R](#) and [Report 14-09](#))

Another recent OIG audit examined whether the SBA had sufficient controls to ensure working capital loans under the EIDL program were approved only for eligible borrowers and in the correct amounts. The audit results, based on a review of a loan file sample of 22 loans, indicated that the SBA should not have approved a total of \$946,400—over half of the total \$1.8 million that was approved for the 11 loans with errors. All of these loans were recommended for approval by the loan officers processing the applications and were also approved by supervisory loan officers with oversight responsibility. The audit results indicate that internal controls governing the EIDL approval process need to be improved to ensure that loans are approved only to eligible borrowers and for the correct amount. ([Report 14-20](#))

Improving Systemic Reporting and Data Control Weaknesses

In a review of SBA's controls and oversight over certain IT systems and processes, the OIG identified systemic reporting issues and data control weaknesses. These deficiencies resulted in an estimated \$956 million overstatement of unpaid loan balances, with an estimated \$5.2 million effect on program subsidy. In addition to recommending that the SBA take action to correct the overstatement and collect outstanding late penalty fees, the OIG recommended that the SBA adhere to quality standards for systems development projects and ensure that systems are authorized to operate prior to being put into production. The SBA recently initiated corrective actions in these areas by improving data quality and collecting late penalty fees. ([Report 12-08](#))

Legal Actions Result from \$2 Billion Contract Bribery Case

Ten individuals have been sentenced, and 18 individuals and 1 company either have been charged or have pled guilty in a scheme involving more than \$30 million in bribes and kickback payments. In addition, various defendants have been ordered to pay over \$32.9 million in restitution. A multi-agency investigation uncovered a conspiracy that included the use of a \$1.3 billion Alaska Native Corporation (ANC) sole source contract to pay for the bribes and the planned steering of a \$780 million government contract to a favored Section 8(a) program participant. The individuals involved have thus far pled guilty to bribery, conspiracy, money laundering, and other charges. They include government officials, executives of 8(a) contractors, and employees of the ANC contractor. The United States has seized for forfeiture or recovered approximately \$22.8 million in bank account funds, cash and repayments, 19 real properties, six luxury cars, and fine jewelry. This is a joint investigation with the Federal Bureau of Investigation (FBI), the Internal Revenue Service (IRS) Criminal Investigation (CI), the U.S. Army



Criminal Investigation Command, and the Defense Criminal Investigative Service (DCIS), and the Defense Contract Audit Agency.

\$31 Million Fraud Investigation Yields \$11.8 Million in Penalties

A Florida man was sentenced in Virginia to 60 months incarceration followed by 24 months of supervised release, and was ordered to pay a forfeiture of nearly \$3 million and a \$12,500 fine. In addition, seven others in Virginia were each sentenced in connection with fraudulently obtaining over \$31 million in Section 8(a) and small business set-aside contracts. Forfeitures in this case thus far total approximately \$10.7 million. Moreover, fines and restitution total over \$1.1 million. The Florida man admitted that, in 2005, he learned that an executive at a security service consulting firm illegally controlled another such company that participated in the 8(a) program. Although the executive at the first company controlled the second company, the second firm had obtained its 8(a) status based on a nominal owner's disadvantaged status. The Florida man acknowledged that he agreed to pay the executive and the second firm a fee in exchange for that firm allowing him to use its 8(a) status to obtain National Aeronautics and Space Administration (NASA) and other government contracts. Although the second firm was required to perform at least 50 percent of the work on the contracts and had represented that it would do so, no employees performed any work. Instead, the Florida man and others did all of the work as independent contractors but concealed that fact from the government. He also submitted fraudulent proposals and invoices to hide the scheme, used a third-party company's Federal Employer Identification Number to prevent reporting of his contractor income to the IRS, and did not pay income taxes on the income he received from the second firm. This is a joint investigation with NASA's OIG, DCIS, and the Department of Homeland Security's OIG.

Loan Agents and Others Cause \$100 Million in Section 7(a) Program Losses

Over \$100 million in losses have resulted thus far from a scheme to obtain, fraudulently, Section 7(a) guaranteed loans. As a result of an investigation, an investment firm and nine individuals have been indicted, with six of them having been convicted and sentenced. Forfeiture orders in the case thus far total over \$151 million, in addition to fines and restitution of over \$42.4 million. To date, the United States has recovered or seized for forfeiture over \$52 million. The scheme includes a loan brokerage company, two brothers who owned the company, a former owner of a Maryland title company, and an attorney who owned a Virginia title company. The conspirators encouraged prospective borrowers to apply for Section 7(a) loans. Once borrowers applied, the conspirators submitted loan applications and supporting documentation containing fraudulent personal financial information to loan originators and underwriters on behalf of their clients, thereby falsely enhancing the creditworthiness of the borrowers and their businesses. This is a joint investigation with the FBI and the U.S. Postal Inspection Service.

Maryland Man Sentenced for Section 8(a) Fraud

A Maryland man was sentenced to 42 months of incarceration followed by 36 months of supervised release. He was also ordered to forfeit over \$7 million and pay restitution of nearly \$6.2 million to the SBA and over \$839,000 to the IRS. His wife pled guilty to conspiracy to defraud the United States in connection with deceitful accounting practices. The couple had fraudulently sought Section 8(a) program federal contracts. He had owned less than half of a roofing and construction company while it participated in the program and later became the company's president and sole owner. Prior to that, he had caused a second company to be incorporated and arranged for a member of an underrepresented



group—a former roofer and project manager at the first firm—to own 60 percent of the second company and for his son to own the remaining 40 percent while he became senior vice president. The two firms shared office space and many of the same employees. The man concealed on the second firm’s 8(a) application and annual updates that, among other things, he exercised control over the second firm’s operations and, along with his wife, had personally guaranteed bonding and credit for the second firm. The second firm paid millions of dollars to the man, including salary and other payments to bank accounts in his and his wife’s names. There were also payments to the first firm and to casinos, as well as personal charges to the second firm’s credit cards. The fraudulent documentation resulted in the second firm receiving more than \$50 million in undeserved 8(a) contracts. Further, the first company falsely recorded more than \$1 million in transfers to bank accounts and casinos in company records as corporate expenses paid for subcontractors, which the man concealed from his tax preparer. As a result, the tax preparer produced corporate tax returns for the first firm which overstated the company’s expenses. The preparer also produced personal income tax returns for the man that understated his taxable income, thereby falsely understating the taxes owed to the IRS. This is a joint investigation with DCIS, the General Services Administration’s OIG, and IRS CI.

Additional information on the OIG’s accomplishments during FY 2014 are provided in the Statistical Highlights section of this document and in the OIG’s [Fall 2014 Semiannual Report to Congress](#).

FY 2016 Planned Performance

During FY 2016, 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

The SBA paid guaranty claims totaling \$1.2 billion during FY 2014 for defaulted 7(a) loans and 504 debentures. Some of SBA’s losses correlate to similar root causes reported 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 OIG will continue to address financial losses in SBA’s lending due to lender errors and various fraud schemes. The OIG’s Early Defaulted Loan Review Group will continue to perform in-depth analyses of loans that default within approximately 18 months of final disbursement. When lender negligence is found, this group will recommend non-payment of the guaranty (or recovery if the guaranty is already paid). The OIG will also target the most offending lenders to attain corrective actions and identify trends for operational improvement by the SBA. When suspected fraud is identified, those loans will be investigated.

The OIG will continue to focus on detecting 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, an OIG investigation led to the conviction of two loan brokers and the indictment of another broker and a company for conspiring to provide false information



to the SBA in order to obtain SBA loans. This is a complex fraud scheme involving over 125 loans valued at \$102 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 \$458 million.

The OIG will also continue to conduct audits of SBA's internal loan program operations and oversight, including audits of SBA's loan origination, servicing, and liquidation processes, as well as audits of SBA's oversight of loan agents and loan officers. Past work has shown that loans were not always properly originated and that effective controls and procedures were not in place to prevent improper payments.

The SBA is moving to an all-electronic application and processing system in the 7(a) program to be implemented during 2015. The OIG will devote resources to monitor introduction and usage of this system to ensure that IT security is maintained, contracting dollars are not misspent, and that the Agency does not experience additional losses and fraud as a result of identity theft and false statements.

Government Contracting and Business Development

The SBA directs significant efforts toward helping small businesses obtain federal contracts and providing other business development assistance. SBA's Office of Government Contracting and Business Development is tasked with helping small businesses obtain federal contracting opportunities and helping small, disadvantaged, veteran-owned, and women-owned businesses build their potential to compete more successfully in a global economy. During FY 2016, the OIG will focus on 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 the end of FY 2014, the OIG had 101 open government contracting cases, with potential dollar losses of over \$2 billion based on the total dollar value of the contracts. The funding requested for FY 2016 will allow the OIG to continue investigating fraudulent schemes that take improper advantage of SBA's contracting assistance programs. In particular, the OIG has experienced a significant increase in the number of "qui tam" cases that are brought by private-sector whistleblowers alleging fraud in SBA's small business and socio-economically disadvantaged contracting programs in the past 5 years. Although these cases were relatively rare 5 years ago, the OIG is currently expending considerable resources to investigate and assist with the government's prosecution of an average of 25 active cases on an ongoing basis. In light of the fact that all qui tam actions filed with the government between FY 2008 and FY 2013 nearly doubled, the OIG expects this number to increase through FY 2016. For example, during FY 2014, 10 new qui tam cases were opened.

Aside from these issues, there are other reasons to be concerned about government contracting programs.

- There is a high level of congressional interest in the government meeting its small business contracting goals. The OIG will continue to assess whether the SBA is taking adequate steps to ensure the integrity of small business contracting. The OIG's work will focus 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; failure to study the long-term effects of the program on former participants; 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 SBA's management of the Section 8(a) program. The OIG is currently conducting a number of fraud investigations relating to the Section 8(a) program and will continue to devote resources to these investigations in FY 2016.

- The 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. Accordingly, the SBA implemented a more rigorous HUBZone certification and recertification process in the hopes of preventing ineligible firms from achieving certification. However, in a recent review of the HUBZone certification process, the OIG found that 12 firms certified into the program, including 3 ineligible ones, received 94 percent (\$34.9 million) of federal contract dollars awarded during a 6-month period in 2012, even though 367 firms were certified during that period. The OIG plans to review the HUBZone recertification and decertification processes once the SBA completes its reengineering of these processes. The OIG is currently investigating numerous fraud cases under the HUBZone and SDVOSB programs and will continue to pursue prosecution, civil fraud recovery, and debarment of contractors who improperly obtain HUBZone, SDVOSB, and other preferential contracts.
- The Women-Owned Small Businesses Federal Contracting (WOSB) program provides greater access to federal contracting opportunities for WOSBs and Economically-Disadvantaged Women-Owned Small Businesses (EDWOSBs). The program allows contracting officers to set aside specific contracts for certified WOSBs and EDWOSBs and will help federal agencies achieve the existing statutory goal of five percent of federal contracting dollars being awarded to WOSBs. To encourage an increase in WOSB and EDWOSB contract awards, the enactment of the National Defense Authorization Act (NDAA) for 2013 removed the caps on the contract award size for which WOSB and EDWOSB concerns have been able to compete. In FY 2013, the federal government awarded approximately \$15.4 billion or 4.3 percent of federal contracting dollars to businesses in the WOSB program. Similar to other federal government programs, WOSB and EDWOSBs contracting may be vulnerable to fraud and abuse. False or incorrect women-owned small business self-certifications may be a significant government-wide problem, according to a [recent audit report](#) issued by NASA's OIG. The SBA OIG plans to assess SBA's controls over the WOSB self-certification program.
- The OIG has conducted a number of fraud investigations involving the mentor/protégé programs under the Section 8(a) program. The SBA is in the process of implementing a statutory mandate by issuing regulations that will expand mentor-protégé programs to other disadvantaged contractors and these regulations are anticipated to be issued prior to FY 2016. The Agency did accept a number of OIG recommendations to revise these regulations to limit the opportunity for fraudulent acquisition of government contracts. Nevertheless, the OIG anticipates that these



expanded programs will create opportunities for additional fraud by large, non-disadvantaged contractors, and that greater OIG resources will need to be devoted to investigating this fraud.

Financial Management and Information Technology

The OIG will continue to oversee the audits of 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 financial statement audit contract will expire in FY 2015, and the OIG will work with the Agency on a new contract solicitation for the FY 2016 audit. The OIG anticipates that the scope and cost of the financial statement audits will continue to expand as a result of growing direct and guaranteed loan portfolios. The scope and complexity of the audit may also increase as the Agency implements new guidance prescribed in the Digital Accountability and Transparency Act (DATA), which requires more granular reporting for obligations and disbursements. The OIG projects that the FY 2016 cost of the financial statement audit could increase by \$250,000 as compared to FY 2015.

The OIG will provide oversight and monitoring of SBA's IT security and application development activities, including new systems under development and the Agency's compliance with FISMA. The scope of the FISMA evaluation is anticipated to expand as the OIG evaluates Agency implementation of information security continuous monitoring practices as proscribed by OMB Memorandum M-14-03, "Enhancing the Security of Federal Information and Information Systems." The OIG and the Independent Public Accountant (IPA) have previously identified systemic problems with security controls over SBA's IT systems and this area remains one of the most serious management challenges facing the Agency.

The OIG also will continue to monitor systems development activities related to improvements to LMAS, a system that is critical to SBA's ability to administer a loan portfolio in excess of \$106 billion. The OIG's efforts will include determining whether adequate system development lifecycle controls are in place as the SBA endeavors to move its recently developed software from the mainframe to a new hosting environment. Specifically the OIG will focus on ensuring system tests are complete and follow protocols outlined in SBA's system development guidance. We will also assess the adequacy of testing and quality assurance processes.

The OIG also will continue its mandated reviews of SBA's compliance with IPERA and cash gifts acceptance and reporting guidelines.

Disaster Assistance

OIG audits will continue to focus on loan origination, disbursement, repayment, servicing, and liquidation activities related to disaster loans. In October 2012, Hurricane Sandy struck the northeastern United States. It was the second costliest storm in U.S. history. The OIG will investigate and audit disaster loans made in the aftermath of Hurricane Sandy to prevent and minimize losses in this program. Such audits will assess whether the SBA processed homeowner and business loans in accordance with the Agency's procedures and established goals, 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 or counterfeit supporting documentation; and false assertions regarding primary residency in affected areas at the times of the disasters. As of August 2014, the OIG had 28 open cases involving disaster loans with potential dollar losses of nearly \$8.5 million.

In response to the potential for fraud following Hurricanes Katrina, Wilma, and Rita, the OIG joined other law enforcement organizations in establishing the National Center for Disaster Fraud. From FY 2006 through FY 2014, the OIG, in conjunction with other law enforcement agencies, produced 86 arrests, 96 indictments/informations, and 96 convictions related to wrongdoing in SBA's Disaster Loan program for these three hurricanes. Investigations for these disasters—to date—have resulted in over \$6.6 million in court-ordered restitution and related recoveries, as well as the denial of nearly \$4.5 million in loans to potentially fraudulent borrowers.

Entrepreneurial Development

During FYs 2015 and 2016, the OIG will focus on SBA's oversight of and current issues affecting OED programs, with emphasis on the SBDC program and Hurricane Sandy recovery technical assistance grants. The SBDCs provide free business consulting and low cost training services to aspiring entrepreneurs and small businesses including advice on writing business plans, accessing capital, marketing, and more. There are 63 SBDCs, or Lead Centers, with over 900 Sub-Centers throughout the United States and its territories. SBA's FY 2014 and FY 2015 budgets included \$105 million and \$114 million, respectively, for SBDC grant funding. A recent OIG review determined that SBA's internal controls did not prevent, detect, or correct flaws and weaknesses in the financial management and reporting of an SBDC, including non-compliance with statutory matching requirements and other critical grant requirements. The OIG will continue to review these issues and SBA's management of the SBDC program. ([Report 14-19](#))

Acquisition Process

The OIG's audits will continue to focus on SBA's compliance with federal contracting regulations and its policies and procedures over IT systems acquisition and project oversight. The OIG's efforts will include determining whether SBA's acquisition strategy to use assisted acquisition services to acquire IT support is the most economical and in the best interest of the SBA.

Agency Management Challenges

As required by the Reports Consolidation Act, the OIG annually develops the [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 and report 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 2014, SBA's business loan program managers declined 33 applications totaling nearly \$22 million, and disaster loan program officials declined 30 applications totaling nearly \$3.2 million, due to character issues of loan applicants. In addition, the Section 8(a) program declined 11 applications for admission during FY 2014. Over the last 10 years, \$313 million in loans have been declined 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's employees and contractors for issuance of PIV cards pursuant to HSPD-12 background investigation requirements. During FY 2014, the OIG initiated 282 background investigations and issued 19 security clearances for SBA's employees and contractors.

OIG Hotline

The Hotline is staffed by OIG employees who process allegations of waste, fraud, abuse, or serious mismanagement in the SBA or its programs from employees, contractors, and the public. The Hotline also coordinates reviews with internal audit and investigative units and with SBA program offices. The OIG receives the majority of its Hotline complaints through its electronic Hotline complaint form located on the OIG's website. Those who report information can do so openly, anonymously and confidentially without fear of reprisal.

During FY 2014, the Hotline processed 656 complaints. Hotline staff conduct a preliminary review and analysis of all complaints received to determine the appropriate course of action. As part of the review process, Hotline staff coordinates the analysis of allegations within the OIG and the Agency's program offices. Investigations that are initiated as a result of a Hotline complaint are monitored by the Hotline staff throughout the course of the investigation. If additional investigation is not warranted, complaints may be referred to SBA's program offices for appropriate action or informational purposes.

Pursuant to the Whistleblower Protection Enhancement Act of 2012, the OIG has designated a Whistleblower Ombudsman within the Hotline function to educate SBA's employees about prohibitions on retaliation for whistleblowing, as well as employees' rights and remedies if anyone retaliates against them for making a protected disclosure. In addition, the National Defense Authorization Act of 2013 extended whistleblower protections to government contractors, subcontractors, and grantees. These provisions may result in an increase in the number of complaints received by the Hotline.

Review of Proposed Regulations and Initiatives

As part of the OIG's proactive efforts to promote accountability and integrity and reduce inefficiencies in SBA's programs and operations, the OIG reviews changes that the SBA is proposing to make to its program directives such as regulations, internal operating procedures, policy notices, and SBA forms that are completed by lenders and 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 2014, the OIG reviewed 93 proposed revisions of program management or SBA reorganization documents and provided comments on 46 of these.

Debarment and Administrative Enforcement Actions

As a complement to 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 2014, the OIG sent 50 suspension and debarment referrals to the SBA and was involved with 51 actions other agencies pursued. The OIG also supports actions at other federal agencies through training and direct case assistance. Most OIG administrative referrals involve the abuse of SBA's loan and preferential contracting programs. When 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.

Training and Outreach

The OIG will continue to conduct training and outreach sessions on topics related to fraud in government lending and contracting programs. During FY 2014, the OIG provided 25 presentations for more than 1,370 attendees, including SBA and other government employees, lending officials, and law enforcement representatives. Topics included types of fraud; fraud indicators and trends; how to report suspicious activity that may be fraudulent; suspension and debarment; the Program Fraud Civil Remedies Act; and other topics related to deterring and detecting fraud in government lending and contracting programs.



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, as amended (P.L. 110-409).

<i>Dollars in Millions</i>	FY 2014 Actual	FY 2015 Enacted	FY 2016 Initial Agency Submission	FY 2016 President's Budget
New Budget Authority	\$19.0	\$19.4	\$19.9	\$19.9
Transfer from Disaster Loan Program Account	1.0	1.0	1.0	1.0
Total	\$20.0	\$20.4	\$20.9	\$20.9

The OIG's FY 2016 budget request includes \$120,000 for training, which is sufficient to satisfy all training needs for the fiscal year, and \$56,500 for the operation of the Council of Inspectors General on Integrity and Efficiency (CIGIE).



FY 2014 Statistical Highlights

Summary of Office-Wide Dollar Accomplishments

As a Result of Investigations & Related Activities:	
– Potential Investigative Recoveries & Fines	\$32,426,370
–Asset Forfeitures Attributed to OIG Investigations	\$17,863,128
–Loans/Contracts Not Approved or Canceled as a Result of Investigations	\$715,700
–Loans Not Made as a Result of Name Checks	\$25,170,897
Investigations Sub-Total	\$76,176,095
As a Result of Audit Activities:	
–Disallowed Costs Agreed to by Management	\$3,890,151
–Recommendations that Funds Be Put to Better Use Agreed to by Management	\$89,900,000
Audit Sub-Total	\$93,690,151
TOTAL	\$169,866,246

Efficiency and Effectiveness Activities Related to Audit, Other Reports, and Follow-Up Activities

Reports Issued	20
Recommendations Issued	100
Dollar Value of Costs Questioned	\$4,382,435
Dollar Value of Recommendations that Funds be Put to Better Use	\$4,800,000
Recommendations for which Management Decisions Were Made	137
Recommendations Without a Management Decision	22
Collections as a Result of Questioned Costs	\$570,763

Indictments, Informations, Convictions, and Other Case Actions

Indictments/Informations from OIG Cases	103
Convictions from OIG Cases	67
Cases Opened	51
Cases Closed	45



SBA Personnel Actions Taken as a Result of Investigation

Dismissals	0
Resignations/Retirements	1
Suspensions	0
Reprimands	0
Other	0

Hotline Complaints Received and Related Referral Actions

Within the OIG (Investigations, Audit, Counsel)	273
Program Offices	155
Other Agencies	17
Other*	211
TOTAL	656

* "Other" refers to complaints resolved by Hotline staff in which no action was taken or no referral was required.

Program Actions Taken During the Reporting Period as a Result of Investigations

Suspensions and/or Debarments Recommended to the Agency*	50
—Pending at the Agency as of September 30, 2014	53*
Suspensions Issued by the Agency	22
Proposed Debarments Issued by the Agency	10
Final Debarments Issued by the Agency	20
Proposed Debarments Declined by the Agency	0
Administrative Agreements Entered by the Agency in Lieu of Debarment	3
Suspension and Debarment Actions by Other Agencies	51

* Of these referrals, 18 went to the SBA within 30 days of the close of this reporting period.

Agency Legislative and Regulatory Proposals Reviewed

Legislation, Regulations, Standard Operating Procedures, and Other Issuances Reviewed	93
Comments Provided by OIG to Improve Legislation, Regulations, Standard Operating Procedures, and Other Issuances	46



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. Key areas of emphasis are SBA's loan programs, disaster assistance, business development and government contracting programs, as well as mandatory and other statutory audit requirements involving computer security, financial reporting, and other work. The balance of the engagements is discretionary and focuses on high-risk activities and management issues facing the SBA.

The **Investigations Division** manages a program to detect and deter illegal and improper activities involving SBA's 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's 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* 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

