

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

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## Semiannual Report to Congress Fall 2010



April 1, 2010 – September 30, 2010

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# Inspector General Act Statutory Reporting Requirements

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

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

November 2010

I am pleased to present the U.S. Small Business Administration (SBA) Office of Inspector General (OIG) Fall 2010 Semiannual Report to Congress, which provides a summary of the OIG's activities from April 1 through September 30, 2010.

During this reporting period, the OIG issued 12 reports containing 49 recommendations for improving SBA operations and reducing fraud and unnecessary losses in the Agency's programs, including over \$35 million in recommendations that funds be put to better use and questioned costs. In addition, OIG investigations continued to focus on wrongdoers who employ a variety of methods to fraudulently obtain loans from SBA and its lenders, resulting in 28 indictments and 27 convictions. Overall, the OIG achieved monetary recoveries and savings of almost \$39 million from disallowed costs agreed to by management, recommendations that funds be put to better use agreed to by management, court ordered and other investigative recoveries and fines, and loans/contracts not made as a result of investigations and name checks.

This past August marked the 5-year anniversary of Hurricane Katrina, which together with Hurricanes Wilma and Rita, devastated the Gulf Coast in 2005, resulting in major loss of life and destruction of property. In response to these disasters, the Federal Government provided massive aid, with SBA approving billions of dollars in disaster loans. In the ensuing 5 years, the OIG has issued 28 reports related to the Gulf Coast hurricanes. These reports contained 87 recommendations for improving the operations of and reducing fraud and unnecessary losses in SBA's Disaster Loan program, including nearly \$154 million in recommendations that funds be put to better use and questioned costs. The OIG has also investigated numerous allegations of fraud and other wrongdoing related to the hurricanes, including unauthorized use of loan proceeds, overstatement of financial losses, and false assertions regarding residency. In conjunction with the National Center for Disaster Fraud, the OIG's efforts from FY 2006 to FY 2010 have thus far produced 73 arrests, 85 indictments, and 74 convictions., and have resulted in almost \$3 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.

Our Fall 2010 Semiannual Report includes a recap of the OIG's oversight efforts in the 5 years since Hurricanes Katrina, Wilma, and Rita hit the Gulf Coast. The Semiannual Report also provides a summary of the OIG's oversight efforts related to SBA's implementation of the American Recovery and Reinvestment Act of 2009 (Recovery Act), which provided SBA with \$730 million to enhance its lending and investment programs so that small businesses could gain reasonable access to credit and capital.

I appreciate the continued cooperation and support received from Administrator Mills and her leadership team in carrying out the OIG's mission to promote economy, efficiency, effectiveness, and integrity in the Agency's programs and operations.

Peggy E. Gustafson  
Inspector General

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# Glossary of Abbreviations

ANC	Alaska Native Corporation
ARC	America’s Recovery Capital
BDS	Business Development Specialist
CDC	Certified Development Company
CE	Community Express
CDBG	Community Development Block Grant
CFO	Chief Financial Officer
CID	Criminal Investigations Division
CIO	Chief Information Officer
CRM	Customer Relationship Management
DCIS	Defense Criminal Investigative Service
DCMS	Disaster Credit Management System
DHS	Department of Homeland Security
DOJ	Department of Justice
FBI	Federal Bureau of Investigation
FDIC	Federal Deposit Insurance Corporation
FEMA	Federal Emergency Management Agency
FPDS-NG	Federal Procurement Data System-Next Generation
GAO	General Accountability Office
GSA	General Services Administration
HUBZone	Historically Underutilized Business Zone
HUD	Department of Housing and Urban Development
ICE	Immigration and Customs Enforcement
IRS	Internal Revenue Service
JAAMS	Joint Administrative and Accounting Management System
LMAS	Loan Management and Accounting System
M&A	Management & Administration
NFR	Notice of Finding and Recommendation
OBO	Office of Business Operations
ODA	Office of Disaster Assistance
OIG	Office of Inspector General
OMB	Office of Management and Budget
POA&M	Plans of Action and Milestones
QA	Quality Assurance
IV&V	Independent Verification and Validation
ROM	Recovery Oversight Memorandum
SBA	Small Business Administration
SBDC	Small Business Development Center
SBIC	Small Business Investment Company
SDB	Small Disadvantaged Business
SDVO	Service-Disabled Veteran-Owned
SOP	Standard Operating Procedure
USDA	U.S. Department of Agriculture
USPS	United States Postal Service
USSS	United States Secret Service
VA	Department of Veterans Affairs
WBC	Women’s Business Center

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# Overview of SBA and the OIG

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## The Small Business Administration

The mission of the Small Business Administration (SBA) under the Small Business Act, as amended, is to maintain and strengthen the Nation's economy by enabling the establishment and vitality of small businesses and assisting in the economic recovery of communities after disasters. The Agency's 2011-2016 strategic plan has three overarching goals:

- Growing businesses and creating jobs
- Building an SBA that meets needs of today's and tomorrow's small businesses
- Serving as the voice for small business

SBA is organized around four key functional areas: financial assistance (e.g., loan programs); contracting assistance; technical assistance (e.g., entrepreneurial development); and disaster assistance. The Agency also represents small businesses through an independent advocate and an ombudsman. SBA headquarters is located in Washington, D.C., while its business products and services are delivered with the help of 10 regional offices, 68 district offices, their corresponding branch offices, 4 disaster field offices, and a vast network of resource partners in all 50 states, the District of Columbia, Puerto Rico, American Samoa, the U.S. Virgin Islands, and Guam.

## The Office of Inspector General

Pursuant to the Inspector General Act of 1978, as amended, the Office of Inspector General (OIG) adds value to SBA programs and operations by providing auditing, investigative, and other services to support and assist the Agency in achieving its mission. In addition to its responsibilities under the IG Act, the OIG carries out other significant statutory responsibilities and Government-wide mandates, including responsibilities under the Small Business Act and the Small Business Investment Act.

The OIG seeks to improve SBA programs by identifying key issues facing the Agency, following up to ensure that corrective actions are taken, and promoting a high level of integrity. The Office's efforts and accomplishments during the second half of Fiscal Year 2010, which are summarized in this report, focused on the two strategic goals in the OIG's strategic plan.

- Improving the economy, efficiency, and effectiveness of SBA programs and operations.
- Promoting and fostering integrity in SBA programs and operations.

These two goals are designed to effectively focus and manage the OIG's auditing, investigative, and other activities in the light of SBA's most significant challenges and risks. Using this framework, the OIG concentrated on critical risks facing SBA, including (1) risks due to limited oversight and controls in SBA lending programs; (2) risks affecting SBA's oversight of contracts for small and disadvantaged businesses; and (3) risks associated with the SBA's information security controls and other operations.

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

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## Recovery Oversight

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The American Recovery and Reinvestment Act of 2009 (Recovery Act), which was signed into law on February 17, 2009, contains a number of SBA provisions to help unlock credit markets and promote economic recovery for the Nation's small business sector. These include reduced loan fees, higher guaranties, new SBA credit programs, secondary market incentives, and enhancements to current SBA programs. As of September 30, 2010, the funding had resulted in almost \$22.9 billion in guaranteed loans and almost \$664 million in surety bond guaranties. SBA also used Recovery Act funds for agency information system upgrades, which are being performed mainly through contractors.

As SBA developed its Recovery Act programs, the OIG worked proactively with the Agency to identify risks and recommend cost effective controls to help prevent fraud, waste, and abuse, and ensure that program goals were achieved and stimulus funds were accurately tracked and reported. The OIG also initiated a number of proactive reviews on the various aspects of SBA programs that received Recovery Act funds, including the quality of SBA guaranteed loans being made with these funds; controls over certain SBA lending programs, contracting activities, and reporting; and aspects of compliance with Recovery Act requirements. As of September 30, 2010, the OIG had issued 21 Recovery Act reports, containing 60 recommendations.

The OIG has found that when an SBA loan has repayment problems during its first 18 months, it is a strong indicator of either loan origination problems and/or fraud. As of September 30, 2010, SBA has paid guaranties on 411 defaulted Recovery Act loans (approved for approximately \$48.6 million). To address defaulted loans, a cross-functional team of OIG analysts, auditors, and special agents, analyzes Recovery Act and other loan data to identify possible fraud on: loans that defaulted within 18 months of approval; defaulted loans in excess of \$1 million (or less if special circumstances are involved); multiple loans to the same address; and multiple loans to the same social security number. When potential fraud is identified, these loans are given to either investigative or audit staff for further review. Based on these efforts, as of September 30, 2010, the OIG had identified 33 suspicious Recovery Act loans, with balances totaling over \$28.9 million, for further review and analysis. One of these loans resulted in \$180,000 cost avoidance to SBA because the lender agreed not to submit the loan for a payment of the guaranty due to the bank's lack of due diligence during the application process. In addition, in September 2010, the OIG issued an audit report on early defaulted/early problem Recovery Act loans that resulted in 10 referrals of suspicious activity to our Investigations Division. The OIG will continue to review samples of loans made with Recovery Act funds to identify problems and trends.

During this semiannual reporting period, the OIG issued seven Recovery Oversight Memorandum (ROM) reports, which provided the Agency with notification of deficiencies as problems were identified during OIG audits and reviews. In addition to early defaulted/early problem Recovery Act loans, these ROMs reported on the results of OIG reviews of the reliability of job creation and retention data reported by SBA under the Recovery Act; SBA's implementation of the America's Recovery Capital (ARC) Loan Program; SBA's planning and award of Recovery Act information technology contracts; the adequacy of procurement staffing and oversight of contractors supporting the procurement function; and the accuracy of Recovery Act contract award obligations reported to the Federal Procurement Database System-Next Generation (FPDS-NG) and Recovery.gov. These ROMs are listed separately in Appendix 1 and are summarized in the appropriate sections (i.e., Small Business Access to Capital; Small Business Development, Contracting, Education, and Training; and Agency Management) of this semiannual report.

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## Small Business Access to Capital

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SBA has a financial assistance portfolio of guaranteed and direct loans of more than \$90 billion. The Agency's largest lending program, and the principal vehicle for providing small businesses with access to credit that cannot be obtained elsewhere, is the Section 7(a) Loan Guaranty program. This program relies on numerous outside parties (e.g., borrowers, loan agents, and lenders) to complete loan transactions, with approximately 80 percent of loans being made by lenders to whom SBA has delegated loan-making authority. Additionally, SBA has centralized many loan functions and reduced the number of staff performing these functions. As SBA has placed more responsibility on, and given greater independence to, its lenders, the need for oversight has increased significantly. The OIG continues to identify weaknesses in SBA's lender oversight efforts.

SBA's 504 Loan Program provides small businesses with long-term, fixed-rate financing for the purchase of land, buildings, machinery, and other fixed assets. Local economic development organizations approved by SBA, and known as Certified Development Companies (CDCs), package, close and service these loans, which are funded through a mix of funds from private sector lenders, proceeds from the sale of SBA-guaranteed debentures, and borrower equity investment.

The Microloan Program provides small (\$35,000 or less), short-term loans and technical assistance to small business concerns as well as non-profit child-care centers. The assistance is provided by SBA-funded, intermediary lenders, which are non-profit community-based organizations with experience in lending and providing businesses with management and technical assistance.

Through the Small Business Investment Company (SBIC) Program, SBA licenses and makes funds available to venture capitalists known as SBICs. SBICs lend or otherwise invest in small businesses using participating securities made up of contributions from SBA and private investors or funds generated through the sale of SBA-guaranteed debentures.

### Community Express Pilot Loan Program

An OIG assessment of the Community Express (CE) pilot program, established in 1999 to provide loans to New Market small businesses, found that CE contributed little to growth in loans to New Market groups between FY 2000 and FY 2008 due largely to a lack of lender participation. The program also cost more than all other 7(a) programs. As of June 2009, the program's net cash flow was negative \$102.4 million and added to the overall cost of the 7(a) program. The program's cost resulted from a high rate of defaults on loans made by the two most active lenders. These lenders used credit scoring to determine loan amounts and reduced loans by up to 80 percent from the amount requested by borrowers without assessing the impact on their projected cash flows.

Other findings by the OIG included the following.

- CE loan recipients generally were charged higher interest rates by the more active lenders and lower rates by the less active lenders and, while loan-packaging fees charged for CE loans were in line with those the lenders generally charged for other 7(a) loans, lenders contacted by the OIG were unable to justify the basis for their fees.
- Technical assistance provided did not always match borrower needs and lenders were compensated with a higher guaranty percentage when technical assistance was provided on-line

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## Small Business Access to Capital

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or by SBA partners, even though they incurred no costs for training. These lenders should have had their guaranties reduced from 85 percent to 50 percent.

- Although the CE program has been a pilot since 1999, SBA did not establish measurable goals and outcomes for evaluating the program until FY 2008 and has yet to assess the program's effectiveness.

The OIG recommended that SBA not extend the CE program when it expires in December 2010 or, if the Agency retains the program, that it: take steps to increase lender participation; reduce program risk; reconsider how program costs should be financed; clarify the appropriate uses of credit scoring; improve the type and quality of technical assistance provided to borrowers; and establish criteria for assessing borrower technical assistance needs and for measuring the program's success. The OIG also recommended that SBA revise its program procedures to limit its guaranty to 50 percent on loans where technical assistance is provided by SBA partners or SBA's online training; repair \$18,960 in guaranties on 4 loans it purchased above the 50-percent guaranty level; and annotate another 30 loans for a potential repair of \$268,190 should they default.

### Material Deficiencies in Early-Defaulted and Early-Problem Recovery Act Loans

An OIG review of 39 7(a) Recovery Act loans that experienced early default or early borrower repayment difficulties identified material deficiencies in 82 percent of the loans. These deficiencies resulted in the disbursement of approximately \$5 million to borrowers who could not repay or were ineligible for the loans. Twenty of the loans were made by two lenders who used credit scoring matrices that did not comply with SBA requirements. One of the lenders no longer makes SBA loans while the other lender, who is still active, was responsible for 18 of the 20 loans. Another 12 loans had repayment ability, equity injection, and/or eligibility deficiencies. The OIG believes that these material deficiencies caused or contributed to the early loan defaults or loan problems. As of June 2010, SBA had purchased its guaranteed share on 25 of the 32 loans, resulting losses of \$375,259.

In addition to the material deficiencies identified above, the OIG found that that lenders made disbursements without (1) required immigration certifications, (2) restricted use certifications, and/or (3) Forms 159, *Fee Disclosure Form and Compensation Agreement*, on 28 Recovery Act loans, including 24 of the loans identified above with material deficiencies. Finally, the OIG identified suspicious activity in 10 loans that were referred to the OIG's Investigations Division for further review.

The OIG recommended that SBA: (1) reexamine the credit scoring matrix used by a lender that made 18 of the 32 loans with material deficiencies to ensure it complies with SBA requirements; (2) implement a process for providing feedback to SBA employees and lenders when deficiencies are identified; (3) require lenders to bring the 25 purchased loans with material deficiencies into compliance or recover the \$375,259 in SBA guaranties paid; (4) obtain the certification for the loan missing only an immigration certification, or recover \$3,248; and (5) flag the other loans that have not yet been purchased to ensure the loan deficiencies are properly addressed at the time of guaranty purchase review.

### Lender-Approved ARC Loans to Affiliates

During a review of SBA's implementation of the ARC Loan program, the OIG identified 38 lender-approved ARC loans, valued at \$1.2 million, made to what appear to be affiliated companies that were not

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## Small Business Access to Capital

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approved by SBA, as required by the ARC Loan Program procedural guide. These were identified as potentially affiliated loans due to common social security numbers, common addresses, and familial relationships between the business owners. Also, two of the loans were made to apartment buildings, which were not eligible to receive SBA financial assistance.

The OIG recommended that SBA review each of the 38 loans to determine if they were made to eligible companies, cancel the loan guaranties for any loans determined to be made to ineligible companies, and collect any associated interest paid to the lenders. The OIG also recommended that SBA conduct additional reviews to identify other ARC loans made to affiliated companies that were inappropriately approved by lenders.

### **Job Creation Data Under the Recovery Act**

The OIG assessed the reliability of job creation and retention data reported by SBA under the Recovery Act. While the 7(a) and 504 loan programs are not subject to recipient reporting requirements under the Act, SBA has reported job creation and retention statistics in its monthly *Recovery Act Program Performance Report* on the Agency's website.

Based on a review of a sample of Recovery Act loans, the OIG found that CDCs reported job creation and retention statistics for the 504 program consistent with program guidance. For the 7(a) program, however, SBA did not define or provide lenders with guidance on how jobs retained were to be measured, and lenders generally reported all existing jobs at a borrower's business as "jobs retained." As a result, SBA's reporting of 7(a) job retention was not accurate.

The OIG recommended that SBA define "jobs retained" for the 7(a) program, provide justification for the approach, and issue guidance to lenders on this change. In addition, the OIG recommended that SBA disclose any differences in metrics between programs in subsequent monthly *Recovery Act Program Performance Reports* and revise the cumulative "jobs created/retained" metric to reflect any change.

### **Multi-Year Loan Fraud Investigation Continues to Result in Legal Actions**

In 2007, OIG and U.S. Secret Service (USSS) agents arrested 18 individuals for a scheme in which a lender's former executive vice president and others conspired to fraudulently qualify loan applicants for SBA-guaranteed loans, mainly for the purchase of gas stations, across several Midwestern states. The scheme involved at least 91 fraudulent loans totaling approximately \$85 million. Thus far, 39 individuals have been indicted or otherwise charged, and 30 have been convicted. Four defendants are international fugitives. To date, court-ordered restitution, civil settlements, SBA recoveries of loan guaranties from the lender, and potential cost savings from the withdrawal of loan guaranties total approximately \$92 million. The dollar amount includes nearly \$28.3 million reached in a False Claims Act settlement agreement during this reporting period between the Government, two financial institutions, and various individuals. Nearly \$8.2 million of this had been previously set aside pending the final outcome of the settlement.

An example of one legal action during this reporting period that resulted from this ongoing investigation is an Illinois entrepreneur who pled guilty to making false statements after he and three other businessmen were charged with wire fraud in connection with schemes to defraud SBA and a preferred lender. One scheme involved a \$1,240,000 SBA loan to an Illinois corporation for the purchase of an Indiana gasoline station. The Illinois man, as the president and 50 percent owner of the corporation, conspired with a loan

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## Small Business Access to Capital

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agent and his company to submit a fraudulent loan application showing that adequate cash funds were available for the required equity injections.

### **Criminals Defraud Loan Guaranty Program through a Variety of Techniques**

Criminals fraudulently obtain—or induce others to obtain—SBA-guaranteed loans through an array 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. The following examples illustrate some of the criminal schemes.

- The president and owner of a Utah financial services company and his business partner were charged with aggravated identity theft, aiding and abetting, making false statements to SBA, making a false loan application, bank fraud, money laundering, and other crimes. The individuals allegedly recruited “straw borrowers” and used their names and good credit to fraudulently obtain four SBA loans and two bank loans totaling \$335,000. They also allegedly caused the straw borrowers, on the promise of future rewards, to submit documents indicating that the borrowers owned thriving businesses when, in fact, the businesses only existed on paper. This case originated from an SBA Utah District Office referral. The OIG is conducting this investigation jointly with the Internal Revenue Service (IRS) Criminal Investigation Division (CID).
- The owner of several California restaurants was indicted for making false statements to a federally-insured financial institution. He allegedly made false statements on his loan applications for three SBA-guaranteed loans totaling \$1,038,000. On the applications, he stated that neither he nor his businesses were involved in any pending lawsuits and that there was no business indebtedness. According to the investigation, however, he had been named as a defendant in two civil lawsuits, resulting in judgments against him of approximately \$1.9 million. He also had many unreported outstanding debts.
- A commercial loan officer and Chicago-area entrepreneur was indicted for operating a continuing financial crimes enterprise, financial institution fraud, and loan fraud in connection with multiple attempts to defraud SBA, a CDC, and four participating banks. In order to profit from the sale of his failing business, he allegedly directed a commercial loan broker to prepare false corporate financial statements portraying the business as profitable. He submitted the bogus financial statements to the CDC and the four SBA lenders. The inflated financial statements induced the lenders to approve their respective loan packages and to make loan commitments totaling \$6.18 million of SBA-guaranteed funds. Any of these fraudulent loans would have exposed the lender and SBA to increased loss potential. Fortunately, each loan commitment was cancelled during the investigation. The SBA OIG is conducting this investigation jointly with the Federal Deposit Insurance Corporation OIG.
- Two men were indicted for conspiracy, wire fraud, and mail fraud. The indictment also included a notice of forfeiture for property including, but not limited to, approximately \$2,693,000. The men allegedly conspired to artificially inflate the value of a motel in Houston, Texas. One man then used the inflated price to obtain a \$1,327,000 SBA-guaranteed loan to help finance the purchase of the motel. The OIG is conducting this investigation jointly with the Federal Bureau of Investigation (FBI).

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## Small Business Access to Capital

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### Phony Equity Injection Continues to Harm Business Loan Programs

A borrower's own financial stake in a business is called equity (or capital) injection. If an individual personally has something at risk in the business, he or she is less likely to default on a loan. Accordingly, SBA requires borrowers to inject such available money into projects financed by guaranteed loans. Some borrowers try to avoid this requirement by falsifying the amounts or sources of these injections, as demonstrated by the following examples.

- A Louisiana man was indicted for wire fraud, money laundering, making a false statement to a financial institution, and filing false tax returns. He allegedly created a fraudulent commission agreement that was used at the closing of a \$916,000 SBA-guaranteed loan in order to circumvent the equity injection requirement. The OIG is conducting this investigation jointly with the FBI, the Louisiana State Attorney General's Office, and the IRS.
- An SBA borrower who was purchasing a Texas convenience store and the vice president of a firm that owns and operates convenience stores pled guilty to conspiracy, while the president of that firm pled guilty to making false statements. In addition, the president of a title company pled guilty, on behalf of the company, to making false statements to a financial institution. The company was also sentenced to a \$25,000 fine and a \$400 special assessment. The first individual had obtained a \$1million SBA-guaranteed loan and a \$300,000 conventional loan to finance the purchase of the store from the company operated by the second two individuals. The bank used the title company to close the loans. The defendants represented to the bank that money had been received at closing from the purchaser when, in fact, no funds changed hands. The OIG is conducting this investigation jointly with the FBI.

### More Guilty Pleas in Missouri Bank Fraud Case

As noted in the last reporting period, eleven individuals were charged in a 185-count indictment with various Federal crimes for their involvement in a scheme to defraud a Missouri bank and the SBA. The charges involved at least 31 fraudulent business loans, totaling more than \$10 million, issued by the bank. The defendants included a former executive vice president and chief lending officer of the bank, a former SBA branch manager, and two Missouri business consultants. The OIG is continuing to conduct this investigation jointly with the FBI. The following related legal actions occurred during the current reporting period.

- A Missouri man pled guilty to making false statements for the purpose of influencing the SBA. The investigation disclosed that in order to obtain a \$750,000 SBA-guaranteed loan, he signed several SBA documents stating he was the owner of a company when, in fact, the company was created solely on paper to obtain the SBA funding. He also signed SBA documents affirming that certain portions of the loan proceeds were to be used for equipment and inventory purchases, working capital, and debt repayment when, in fact, he knew the loan proceeds would be used to pay down an outstanding loan balance of another business.
- The president of a construction company pled guilty to aiding and abetting the misapplication of funds. He signed a promissory note for over \$300,000 for a line of credit from a bank, stating that the purpose of the credit was to provide business funds for his construction company. The

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## Small Business Access to Capital

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### **Enforcement Procedures to Deter Loan Agent Misconduct**

One area of particular concern to the OIG is an ongoing pattern of fraud by loan agents such as brokers and packagers in the 7(a) program. Although loan agents often serve a useful purpose by helping to connect borrowers with guaranteed lenders, unscrupulous agents have exploited the program by pursuing fraudulent schemes, as noted in the preceding discussion of fraud in the 7(a) program. In the last decade, the OIG has obtained convictions and guilty pleas on numerous cases involving loan agent fraud, totaling hundreds of millions of dollars. The OIG has urged SBA to develop procedures for administrative enforcement actions against loan agents who commit fraud or other wrongdoing in the 7(a) loan guaranty program. As a result of the OIG's efforts, SBA has now issued procedures to implement SBA's regulations at 13 C.F.R. Part 103, which authorize the Agency to suspend or revoke a loan agent's privilege to conduct business with SBA.

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## Disaster Loan Program

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

### *Five Years Since Hurricane Katrina*

In 2005, Hurricanes Katrina, Wilma, and Rita devastated the Gulf Coast, resulting in major loss of life and property destruction. In response, Federal agencies provided massive aid, with SBA approving billions of dollars in disaster assistance loans. As of September 30, 2010, nearly 120,000 disaster loans—totaling almost \$6.8 billion—had been approved to assist victims of the Gulf Coast Hurricanes. The OIG's audits and reviews of SBA's disaster assistance activities related to the Gulf Coast hurricanes focused on loan origination, disbursement, repayment, servicing, and liquidation activities related to these loans, including whether loan applications were processed in accordance with SBA procedures; uses of loan proceeds were verified before loans were fully disbursed; duplicate benefits were appropriately identified and recovered; and loan servicing and liquidation activities were effectively staffed and managed. In all, the OIG issued 28 reports with 87 recommendations for improving Agency operations and reducing fraud and unnecessary losses in the Disaster Loan program, including nearly \$154 million in recommendations that funds be put to better use and questioned costs.

A complete listing of Gulf Coast hurricane-related reports is provided in Appendix XII. Following are some examples of findings from the OIG's audits and reviews of Gulf Coast hurricane loans during the past five years.

- Due to the high volume of Gulf Coast disaster loans, SBA approved many of the loans using expedited procedures designed to accelerate the underwriting of disaster loans. Loan decisions made under expedited procedures were not based on cash flow analyses, as required by SBA regulations. Instead, loan approvals were based primarily on credit scores, regardless of an applicant's income level and expenses. The OIG's review of a statistical sample of these loans found that 32 percent were made to applicants who lacked repayment ability. Based on these results, the OIG projected that 21,802 loans, totaling \$1.5 billion, were awarded to high-risk applicants who may not be able to repay their loans. These loan applications would not have been approved if they had been processed under standard loan processing procedures.
- Before processing applications for disaster loans, SBA conducts on-site inspections, called loss verifications, to determine the estimated cost of repair or replacement of the damaged real, personal, and business property. An OIG audit of the Disaster Loss Verification Process determined that some loss verification reports did not accurately estimate the replacement value of damaged property, due to both overstatements and understatements of damages. Of 315,000 Gulf Coast hurricane loss verification reports completed as of July 2006, the OIG estimated that 5 percent overstated damages by at least \$367 million and 2 percent understated damages by at least \$4 million. This occurred because loss verifiers incorrectly calculated the square footage of

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## Disaster Loan Program

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the damaged property, were not properly trained, did not always meet with borrowers on-site, and did not enter all required data into the system that calculates loss estimates.

- As a result of an expedited processing campaign in the fall of 2006, SBA disbursed over \$858 million on 25,732 loans, significantly reducing a backlog of undisbursed loans from 90,000 to less than 45,000. While the Agency's efforts to reduce the backlog succeeded in expediting loan disbursements, in its haste, SBA did not properly secure its interest in collateral on many of the disbursed loans. Based on a review of a statistical sample, the OIG projected that SBA released \$368 million in loan proceeds on more than 3,000 secured loans without perfecting liens on property used as collateral or completing all required filings. In another audit of a sample of loans disbursed under the expedited processing campaign, the OIG found that nearly half of the loans reviewed were disbursed by SBA without securing the proper documentation needed to protect SBA's interest in the collateral and to document that insurance proceeds were used to offset the SBA loans.
- In response to the increasing number of defaulted Gulf Coast disaster loans, the OIG reviewed a statistical sample of loans that were at least 90 days delinquent or charged-off as of September 30, 2007. All but 4 of 117 loans reviewed were either improperly originated or inadequately serviced. Approximately 63 percent of the loans were approved even though the applicants lacked repayment ability or were not creditworthy, and 79 percent were inadequately serviced after becoming delinquent. Based on the sample results, the OIG estimated that approximately 4,815 loans, totaling \$98.4 million, defaulted early due to loan origination or servicing issues. These deficiencies occurred because the SBA overstated income and/or understated debt when computing borrowers' repayment ability. In addition, where borrowers' credit was found to be unsatisfactory, SBA did not provide adequate justification for applicants' existing unpaid debt, bankruptcies, or unpaid collections.
- An OIG review found that SBA did not have adequate controls in place to reasonably ensure that proper documents were secured from borrowers and that borrower receipts were sufficiently reviewed before making loan disbursements. The OIG's review of a sample of loan disbursements found that 54 percent, totaling \$10.1 million, were made without proper documents and certifications. For example, case workers relied on vendor quotes and contractor proposals as evidence of work completed, receipts were of questionable authenticity, or no supporting documentation was provided. As a result, SBA processed questionable claims, including some with potential fraud.
- Once loans become delinquent, SBA attempts to bring them into current status by contacting the loan recipients and establishing payment arrangements. When these attempts are not successful, SBA attempts recovery of amounts owed through collateral liquidations and/or by referral to the U.S. Department of Treasury for further collection actions. The OIG determined that that SBA did not maximize recovery on at least \$360.3 million in loans because liquidation of collateral and assets was not pursued to the fullest extent possible or the loans were not properly transferred to Treasury.

During the past five years, the OIG has also investigated numerous 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

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## Disaster Loan Program

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areas at the times of the Gulf Coast hurricanes. In conjunction with the National Center for Disaster Fraud, the OIG's efforts from FY 2006 to FY 2010 thus far have produced 73 arrests, 85 indictments, and 74 convictions related to wrongdoing in SBA's Disaster Loan program. In addition, OIG investigations to date have resulted in almost \$3 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.

The following examples illustrate both OIG cases and the tactics that have been used by criminals to take advantage of Gulf Coast hurricane relief efforts.

- A husband and wife each pled guilty to making false or fraudulent claims. They originally had been approved for a \$240,000 SBA disaster home loan for their Mississippi property based on their claim that the property was their primary residence at the time of Hurricane Katrina. In fact, the couple lived in California at the time. The SBA OIG is conducting this investigation jointly with the U.S. Department of Housing and Urban Development (HUD) OIG, the U.S. Department of Homeland Security (DHS) OIG, and the Mississippi State Auditor's Office.
- A sole-proprietor truck driver in Texas was indicted for wire fraud and making false statements. The investigation revealed that he applied for a \$196,300 SBA disaster loan to replace machinery and equipment allegedly lost during Hurricane Rita. According to the indictment, he submitted invoices, estimates, and receipts in support of the loan that did not match bank records. The only item he purchased with SBA loan proceeds was a Freightliner truck for over \$34,000.
- A Florida man was sentenced to 24 months in prison, a subsequent one-year supervised release, and a \$5,000 fine after having pled guilty to making a false statement for the purpose of obtaining a loan. He had submitted fraudulent documents to induce SBA to approve a \$143,700 disaster loan for damages to a property that was not his primary residence at the time of Hurricane Wilma. The investigation revealed that the man used the disaster loan funds to repair pre-existing damage not caused by the hurricane and to pay off pre-existing debt on the property. The SBA OIG conducted this investigation jointly with DHS OIG.

### *OIG Activities During this Semiannual Period*

#### **Duplication of Benefits between SBA Disaster Loans and Community Development Block Grants**

The Federal Emergency Management Agency (FEMA) has issued regulations establishing a sequence of delivery of Federal disaster assistance to avoid duplication of benefits. Assistance that is ranked higher in the sequence is to be provided before lower-tier assistance. FEMA has also issued guidance indicating that Community Development Block Grants (CDBG) administered by HUD have the lowest priority in the delivery sequence. The OIG reviewed SBA efforts to prevent duplication of benefits between SBA disaster loans and CDBG grants. The OIG found that funds HUD could have used for additional CDBG awards were used to pay down or reduce undisbursed balances of SBA loans. Specifically, SBA received \$643.8 million of CDBG funds from three states (Iowa, Louisiana, and Mississippi) to pay down 19,449 fully-disbursed SBA disaster loans. Additionally, SBA reduced undisbursed loan balances by \$281.8 million to avoid duplicate assistance. This shifted \$925.6 million in primary assistance from SBA disaster loans, which have to be repaid, to CDBG grants, which are not repaid. As a result, the financial burden on taxpayers was increased and the available grant money for disaster victims who did not qualify for SBA disaster loans was reduced.

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# Disaster Loan Program

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The OIG recommended among other things that, for future disasters, SBA coordinate with HUD and FEMA to formalize a memorandum of understanding to define the functions of each agency in accordance with applicable FEMA guidance.

## **Forged Documents Used to Obtain Disaster Loan Funds**

A Louisiana woman was sentenced to 12 months and one day in prison, 36 months supervised release, \$122,641 in restitution to SBA, and a \$100 special assessment after having pled guilty to theft of government funds. The investigation found that she forged the signature of a building inspector and submitted forged and/or fraudulent building permits, receipts, and construction contracts to induce SBA to disburse loan funds related to two disasters. She was not entitled to the money and later converted it to personal use. The SBA OIG conducted this investigation jointly with the HUD OIG.

## **Businessman Hides Foreclosures to Obtain Disaster Loan**

The manager of a Florida construction company pled guilty to making a false statement to SBA in connection with his application for a \$239,300 economic injury disaster loan for the company. He claimed that his business cash flow was negatively affected by Tropical Storm Fay and misrepresented the status of several pending foreclosures in order to obtain loan approval. He then provided SBA with altered title reports to hide those foreclosures and other adverse items. The OIG is conducting this investigation jointly with the FBI.

## **SBA Employee Uses Identity Theft in Scheme to Divert Disaster Loan Funds**

A former SBA paralegal who had worked at the Agency's Disaster Processing Center in Texas was found guilty of fraud and aggravated identity theft. The investigation revealed that a prospective borrower had applied for a \$33,600 SBA disaster loan but later decided not to take the loan. The SBA employee took the phone call when the borrower called to cancel the loan. She then forged that person's signature on loan closing documents, altered a personal check so the funds would be directed to her own bank account, and made false entries into SBA's Disaster Credit Management System to support the loan disbursement to her personal checking account.

## **Woman Submits False Mortgage to Obtain Disaster Loan**

A Louisiana woman was indicted for theft of government funds, mail fraud, making false statements, and possession of a falsely obtained passport. She had received a \$342,000 economic injury disaster loan on behalf of her father and allegedly submitted a false mortgage as security for this loan. In addition, she allegedly submitted leases with inflated rental amounts to prove her ability to repay the loan and receipts that misrepresented work done on the properties with the loan proceeds. The SBA OIG is conducting this investigation jointly with HUD OIG, DHS OIG, and the Department of State OIG.

## **Couple Fraudulently Receives Disaster Funds**

A Mississippi man and woman each pled guilty to theft of public funds. During a previous investigation of the woman on separate charges, information was disclosed that the couple had applied for and received disaster relief funds for an address that was not their primary residence. The couple had received nearly

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## **Disaster Loan Program**

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\$300,000 in fraudulent funds, of which \$152,000 was an SBA disaster home loan. This case was initiated based on a referral from the U.S. Attorney's Office. The SBA OIG is conducting this investigation jointly with the HUD OIG, the Mississippi State Auditor's Office, the DHS OIG, and the U.S. Department of Health and Human Services OIG.

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## **Small Business Development, Contracting, Education, and Training**

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

To help small disadvantaged businesses gain access to Federal and private procurement markets, SBA's Section 8(a) Business Development program offers a broad range of business development support, such as mentoring, procurement assistance, business counseling, training, financial assistance, surety bonding, and other management and technical assistance. SBA also provides assistance to existing and prospective small businesses through a variety of counseling and training services offered by partner organizations. Among these are Small Business Development Centers (SBDCs), Women's Business Centers (WBCs), and SCORE. Most of these are grant programs that require effective and efficient management, outreach, and service delivery.

### **Irregularities Involving a Tribally-owned 8(a) Company**

An OIG review identified a number of irregularities involving the formation of a Tribally-owned 8(a) company that indicated a non-disadvantaged owner may have been controlling and operating the company for the benefit of his defense contract business. Most significantly, an agreement signed by the non-disadvantaged owner and the president of the Tribal Council caused the Indian tribe that owned the company to effectively retain only 25 percent of the net profits from 8(a) contract awards. In addition, the non-disadvantaged owner and his other companies earned significant fees from the 8(a) company for rent and other services. As a result, it appeared that the company's primary purpose was to benefit the non-disadvantaged owner, which is contrary to what Congress intended when it allowed firms owned by Indian tribes to participate in the 8(a) program.

The OIG recommended that SBA determine whether the company still met eligibility requirements for the 8(a) program and, if not, initiate termination from the program. The Agency stated that it would conduct a thorough review of the company to determine the firm's compliance with 8(a) Business Development program rules and regulations.

### **Colorado District Office's Servicing of 8(a) Business Development Program Participants**

The OIG initiated a review of the SBA Colorado District Office's servicing of 8(a) Business Development program participants in response to a complaint alleging that actions taken by that office hurt small businesses and wasted government resources. The OIG found that, while many of the specific examples in the complaint were not substantiated, the Colorado District Office did not function as well as it should have to provide consistent and worthwhile assistance to some of the companies in its 8(a) portfolio. Specifically, it did not apply servicing procedures consistently and timely for three of eight firms reviewed. One firm should have been recommended for termination for non-compliance with the program's annual reporting requirements. Instead the district office accepted over \$6.5 million in 8(a) procurements since May 2009 on the company's behalf. Another firm waited 10 months to obtain SBA

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## Small Business Development, Contracting, Education, and Training

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approval of its mentor protégé agreement. A third firm was allowed to receive a sole-source contract when it was ineligible to do so. Additionally, 23 of the 205 firms contacted expressed general dissatisfaction with the district office because Business Development Specialist's (BDS) were not assigned or accessible, requests for assistance were not met timely or at all, and the quality of assistance was poor. Participants also complained that access to the district office was restricted to only two days a week and by appointment only.

The OIG recommended that the Colorado District Office take steps to recommend termination of the firm identified as no longer being eligible for the 8(a) program, minimize or end restrictions on participant access to the district office, and ensure that all 8(a) firms are assigned a BDS. The OIG also recommended that SBA require the district office to use a Customer Relationship Management (CRM) system to track customer requests and monitor CRM status reports to ensure that requests are addressed timely. Finally, the OIG recommended that SBA determine the adequacy of training provided BDSs, take steps to address training shortfalls, annually administer a nationwide customer satisfaction survey and tie the survey results to District Director performance ratings, and determine whether district offices are appropriately staffed to provide for adequate servicing of 8(a) firms.

### Businesses Falsify Eligibility to Gain Contracting Preferences

Small businesses operated by disadvantaged individuals receive preferences in obtaining Federal contracts through initiatives such as the SDVO, HUBZone, and Section 8(a) Business Development programs. Unfortunately, such preferences can be an incentive for a non-qualifying firm to falsely claim program status. OIG investigations have uncovered schemes in which companies owned or controlled by non-disadvantaged persons attempt to participate in the programs. The following cases illustrate the problem.

- The president/CEO of an SDVO business in New York was indicted for mail fraud, major fraud against the United States, making false statements, and tampering with a victim, witness or informant. The indictment resulted from a complaint alleging that he was falsely claiming SDVO status for his company, which had been awarded a \$5,698,000 veteran-owned set-aside contract and three SDVO set-aside contracts totaling \$10,980,690. The OIG is conducting this investigation jointly with the U.S. Department of Veterans Affairs (VA) OIG and the U.S. Department of the Army Criminal Investigations Division.
- A defense contractor agreed to pay the United States \$750,000 to settle False Claims Act claims that it fraudulently obtained U.S. Army contracts that had been set aside for qualified HUBZone companies. The government alleged that the company did not actually maintain its principal office in a designated HUBZone location in Washington, D.C., as it had represented to the Army and SBA, but instead located its office in a Virginia suburb. The government also alleged that the contractor did not employ a sufficient percentage of employees who lived in a HUBZone. The OIG conducted this investigation jointly with the Defense Criminal Investigative Service (DCIS).
- The owner of an 8(a)-certified design and remodeling business was charged with conspiracy in Washington, DC. She allegedly conspired to submit falsified information to the U.S. General Services Administration (GSA) in the course of obtaining an 8(a) contract with DHS Immigration and Customs Enforcement (ICE). As a result, ICE suffered a loss of nearly \$390,000. The OIG

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## Small Business Development, Contracting, Education, and Training

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is conducting this investigation jointly with DHS ICE, GSA OIG, and the Department of Justice (DOJ) Antitrust Division.

- The owner of a Georgia firm that provided temporary staffing services to Federal agencies was sentenced to 5 years probation with community service and a \$3,000 fine after previously pleading guilty to making false statements to SBA. The owner made the false statements so that her company could qualify for 8(a) certification by concealing the involvement of her former employer, who was not a socially and economically disadvantaged person, in the management and operations of her firm. Her false statements resulted in SBA certifying her firm as an 8(a) company and allowing it to obtain 8(a) set-aside contracts valued at about \$5.4 million. The SBA OIG conducted this investigation jointly with the DOJ Antitrust Division, the VA OIG, the DCIS, and the USSS.
- The U.S. Air Force debarred from Federal contracting six companies affiliated with an Alaska Native Corporation (ANC) defense contractor headquartered in California. The debarments were the result of a multi-agency investigation, which found that the principals of the ANC and its affiliated business entities conspired to defraud the SBA and the U.S. Department of Defense by failing to divulge their secret business and ownership agreements in order to gain preferential treatment under the 8(a) program. The OIG is conducting this investigation jointly with the DCIS, U.S. Army Criminal Investigation Command, U.S. Air Force Office of Special Investigations, U.S. Naval Criminal Investigative Service, and FBI.

### Legislation Requires Approval of SBDC Surveys

In December 2004, Congress amended section 21(a)(7) of the Small Business Act to restrict the disclosure of information regarding individuals or small businesses that have received assistance from an SBDC, and further restricts the Agency's use of such information. The provision also requires the Agency to issue regulations regarding disclosures of such information for use in conducting financial audits or SBDC client surveys. Although the Agency represented to the OIG in 2009 that it would issue regulations in the near future as required by the statute, to date it has not done so.

In addition, paragraph 21(a)(7)(C)(iii) of the Small Business Act states that, until the issuance of such regulations, any SBDC client survey and the use of such information shall be approved by the Inspector General, who shall include such approval in the OIG's Semiannual Report to Congress. SBA conducted an OIG approved survey of SBDC clients during the second half of FY 2010.

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## **Agency Management**

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Agency management includes activities of the Offices of the Chief Financial Officer (CFO), the Chief Information Officer (CIO), and Management and Administration (M&A). These activities encompass financial reporting and performance management, human resources, procurements and grants, space and facilities, and maintenance of SBA's information systems and related security controls.

### **SBA's Planning and Award of Recovery Act Information Technology Contracts**

The OIG reviewed SBA's planning and award of Information Technology contracts funded under the Recovery Act to determine whether, in making the contract awards, the Agency: (1) adopted acquisition plans for the procurements that promoted competition and provided for measurable outcomes; (2) ensured contractors were qualified and that contracts contained required Recovery Act provisions; and (3) properly posted the solicitations and contract awards to meet transparency requirements of the Recovery Act. The OIG found that three contracts, totaling over \$6 million, were awarded without approved acquisition plans. In addition, while the procurements were sole-sourced to 8(a) companies, which is allowed under Recovery Act guidance, one of the contracts did not qualify for an 8(a) award because it was basically a "pass through" contract to purchase Microsoft software and licenses. Because this award did not comply with small business rules for 8(a) procurements, the Agency should have publicized the solicitation for the contract. The OIG also determined that, while SBA incorporated the required Recovery Act contract clauses into the contracts and ensured that the contractors were qualified, the Agency did not establish measurable outcomes to evaluate two of the contracts.

The OIG recommended that the Agency: take steps to ensure that no procurement actions are taken prior to required approval of acquisition plans; provide training to SBA contracting officers regarding ostensible subcontracting and non-manufacturer rules; ensure that the contract awarded to procure software licenses is excluded from SBA calculations used to determine the number of 8(a) program contracts and small business contracts for FY 2009; establish measurable outcomes for the identified contracts; and revise Agency procedures to clarify that "pass through" contracts to purchase products from large businesses are not allowed unless the small business or 8(a) contractor makes changes or revisions to the product which add demonstrable value.

### **Adequacy of Procurement Staffing and Oversight of Contractors Supporting the Procurement Function**

An OIG review looked at the ability of SBA's Office of Business Operations (OBO) to effectively plan, execute, and support the Agency's procurement activities, including Recovery Act contracts. Between July 2009 and February 2010, SBA awarded 29 Recovery Act contracts and processed 740 non-Recovery Act contract actions. During this same period, OBO's workforce decreased from 13 contracting personnel to 7. As a result, the OIG determined that the workforce was insufficient to effectively award, administer, and oversee Recovery Act contracts, as well as other contracts managed by OBO. Without adequate staff to perform contract execution, administration functions, and to oversee contractors supporting OBO, the Agency was exposed to increased risk for mismanagement, improper payments, fraud, waste, and abuse.

The OIG recommended that SBA identify and implement an interim solution to augment its acquisition workforce until permanent staff could be hired to ensure that the Agency had adequate oversight of the procurement function and the contracting personnel to support it. The Agency has since decided to transition SBA's internal procurement responsibility from OBO to the CFO. The CFO is assigning much

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## **Agency Management**

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of the operational work for procurement to a new Procurement Division organization located in its Denver Finance Center.

### **Accuracy of Recovery Act Contract Award Obligations Reported to the Federal Procurement Database System – Next Generation and Recovery.gov**

The Recovery Act requires that, to the maximum extent possible, contracts funded under the Act be awarded as fixed-price contracts through the use of competitive procedures. Agencies are required to report to Recovery.gov contract actions that are not competed or are not fixed price. The OIG compared data posted on Recovery.gov as of March 19, 2010, with data from the Federal Procurement Data System-Next Generation (FPDS NG) for the same period, to assess the accuracy of Recovery Act contract award obligations reported by SBA to Recovery.gov. The OIG determined that the Agency inaccurately reported eight Recovery Act contract actions, valued at about \$1.83 million. Six of the eight contract actions reported to FPDS-NG as "not competed under SAP [Simplified Acquisition Procedures]" were not listed on Recovery.gov. In addition, two of the eight contract actions were inappropriately categorized by the Agency in FPDS NG because the contract values exceeded the simplified acquisition threshold.

The OIG recommended that SBA reconcile Recovery Act contract awards reported to FPDS-NG and Recovery.gov, and report to Recovery.gov all non-competitive contract awards not previously reported.

### **Quality Assurance Oversight of the Loan Management and Accounting System Project**

An OIG review of SBA's Loan Management and Accounting System (LMAS) project found deficiencies with the Quality Assurance (QA) plan for the project and disclosed that the QA contractor did not performed all of the QA activities stipulated in its contract, including performance audits of the other LMAS contractors. Further, none of the LMAS task orders that had been issued to date had undergone Independent Verification and Validation (IV&V) testing. These lapses in QA oversight of the project made the Agency unduly reliant on the other LMAS contractors to ensure the quality of their products and increased the risk that the project would not perform as intended.

The OIG recommended that SBA: revise the LMAS QA plan; hold the contractor accountable for performing all the activities specified in its contract; and revise the statement of work to include IV&V responsibilities. Further, the OIG recommended that SBA evaluate and make necessary adjustments to the QA manager's workload to ensure that he could devote adequate time to oversee complete implementation of the enterprise QA oversight function.

### **SBA Gift Authority**

Section 4(g)(2) of the Small Business Act, as amended, provides that any gift, devise, or bequest of cash accepted by the Administrator under Section 4(g) shall be held in a separate account and shall be subject to semiannual audits by the Inspector General, who shall report his findings to Congress. According to the information provided by SBA's Office of Strategic Alliances, SBA accepted 16 cash gifts—totaling \$23,750—during this semiannual reporting period. The OIG will audit these gifts in accordance with Section 4(g)(2).

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## Agency Management

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### **Cosponsorships and Fee-Based Administration Sponsored Events**

Section 4(h) of the Small Business Act, as amended, requires the OIG to report to Congress on a semi-annual basis regarding the Agency's use of its authority in connection with cosponsorships and fee-based Administration-sponsored events. SBA's Office of Strategic Alliances provided information to the OIG related to cosponsorships, including the names, dates, and locations of the cosponsored events and the names of the cosponsors. This information was not verified by the OIG. As shown in Appendix IX, between April 1, 2010 and September 30, 2010, there were 87 cosponsored events.

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## **Other Significant OIG Activities**

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### **Character Screening Reduces Potential Program Fraud**

Participants in SBA programs involving business loans, disaster assistance loans, Section 8(a) certifications, surety bond guarantees, SBICs, and CDCs must meet Agency character standards. To help ensure that this occurs, the OIG's Office of Security Operations utilizes name checks and, where appropriate, fingerprint checks to determine criminal background information. During this reporting period, the OIG processed 2,310 external name check requests for these programs.

The OIG also refers applicants who appear ineligible because of character issues to program officials for adjudication. The referrals are based on data from the OIG's on-line connection with the FBI. As a result of OIG referrals during this reporting period, SBA business loan program managers declined 32 applications totaling nearly \$9.4 million, and disaster loan program officials declined 8 applications totaling nearly \$364,000. In addition, the Section 8(a) program declined 13 applications for admission and the Surety Bond Guaranty program declined 3 applications for admission.

During this reporting period, the OIG also initiated 187 background investigations and issued 27 security clearances for Agency employees and contractors. The OIG also adjudicated 91 background investigative reports and coordinated with SBA's Office of Disaster Assistance (ODA) to adjudicate 62 derogatory background investigation reports. Finally, the OIG processed 984 internal name check requests for Agency activities such as success stories, "Small Business Person of the Year" nominees, and disaster assistance new hires.

### **OIG Promotes Debarment and Administrative Enforcement Actions**

The OIG continues to promote debarment and other enforcement action as a means to protect Federal agencies from program participants that have engaged in fraud or otherwise exhibited a lack of business integrity. The OIG regularly identifies candidates for debarment and other enforcement actions and submits detailed recommendations with supporting documents to the responsible SBA officials.

During this reporting period, the OIG submitted 12 suspension and debarment recommendations to SBA. Additional debarment statistics for the reporting period are in the Statistical Highlights section later in this Report. Many of the OIG referrals involved misrepresentations and other actions indicating a lack of business integrity in SBA preferential contracting programs. In several cases, the OIG recommended that SBA suspend the subject of an ongoing OIG investigation given program risk presented by the continued participation of those individuals and entities.

Additionally, the OIG continued its work during the second half of FY 2010 to encourage SBA to implement a more robust debarment and suspension program. The OIG believes the Agency needs to be more aggressive in pursuing debarments and other enforcement activity, particularly against companies that wrongfully obtain preferential contracting benefits. The OIG's efforts during the reporting period included the development of a plan for the Agency to enhance its ability to detect and refer irresponsible program participants to the appropriate suspension and debarment officials. The OIG also provided the Agency with a training program designed to heighten awareness of suspension and debarment as an appropriate tool for agency use. SBA has already delivered this training to a group of program officials that the OIG identified as working in areas in which they are likely to encounter suspicious activity.

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## **Other Significant OIG Activities**

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Finally, the OIG has been an active participant in the Council of Inspectors General on Integrity and Efficiency (CIGIE) Working Group on Suspensions and Debarments, which was formed during the reporting period to identify best practices within the OIG community for promoting suspension, debarment and other enforcement actions.

### **OIG Reviews of Proposed Agency Regulations and Initiatives Lead to Improved Program Controls to Reduce Fraud, Waste, Abuse, and Inefficiency**

As part of the OIG's proactive efforts to promote accountability and integrity and reduce inefficiency in SBA programs and operations, the OIG reviews agency-proposed changes to program management directives such as regulations and internal operating procedures, forms that SBA asks program applicants and other members of the public to complete, and proposed agency reorganizations. Frequently, the OIG identifies material weaknesses in these initiatives and recommends revisions to the Agency to promote more effective controls. During the reporting period, the OIG reviewed 60 proposed revisions of program management or agency reorganization documents and submitted comments on 32 of these initiatives.

The OIG provided comments on wide variety of SBA initiatives and, through Agency adoption of OIG recommendations, prompted more robust controls in and enhancements to these documents. For example, in response to OIG comments, the Agency implemented revisions to a standard operating procedure for lender oversight to enhance enforcement actions against loan agents and to improve oversight of lenders. The OIG also provided impactful comments on several new SBA programs including the Immediate Disaster Assistance Program and the Women-Owned Business Contracting program to reduce the potential for fraud and to promote program accountability. Additionally, the OIG submitted extensive recommendations to improve the standard operating procedures governing origination and liquidation of SBA-guaranteed loans.

### **Fraud Awareness Briefings**

During this reporting period, the OIG conducted 7 fraud awareness presentations for approximately 390 attendees, including government/law enforcement representatives and veteran-owned small business owners. Topics included the mission of SBA OIG and fraud indicators, with special emphasis on government contracting programs and 7(a) loans using Recovery Act funding.

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# Statistical Highlights

## 6-Month Productivity Statistics April 1, 2010 through September 30, 2010

### Summary of Office-Wide Dollar Accomplishments

### Totals

A. Potential Investigative Recoveries and Fines .....	\$22,981,210*
B. Loans/Contracts Not Approved or Canceled as Result of Investigations.....	\$6,024,082
C. Loans Not Made as a Result of Name Checks .....	\$9,734,873
D. Disallowed Costs Agreed to by Management .....	\$0
E. Recommendations that Funds Be Put to Better Use Agreed to by Management .....	\$0
<b>Total</b> .....	<b>\$38,740,165</b>

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

A. Reports Issued .....	12
B. Recommendations Issued .....	49
C. Dollar Value of Costs Questioned .....	\$665,657
D. Dollar Value of Recommendations that Funds Be Put to Better Use .....	\$34,542,400
E. Collections as a Result of Questioned Costs .....	\$0

### Audit and Report Follow-up Activities

A. Recommendations for which Management Decisions were made During the Reporting Period .....	16
B. Disallowed Costs Agreed to by Management .....	\$0
C. Dollar Value of Recommendations that Funds Be Put to Better Use Agreed to by Management .....	\$0
D. Recommendations without a Management Decision at End of Reporting Period .....	46

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

A. Legislation, Regulations, Standard Operating Procedures, and Other Issuances ** Reviewed .....	60
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\* May include actions from earlier reporting periods.

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

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## Statistical Highlights

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### 6-Month Productivity Statistics April 1, 2010 through September 30, 2010

A. Indictments from OIG Cases .....	28
B. Convictions from OIG Cases.....	27*
C. Cases Opened .....	45
D. Cases Closed.....	29

#### Investigations Recoveries and Management Avoidances

A. Potential Recoveries and Fines as a Result of OIG Investigations .....	\$22,981,210*
B. Loans/Contracts Not Approved or Canceled as Result of Investigations.....	\$6,024,082
C. Loans Not Approved as a Result of the Name Check Program.....	\$9,734,873
<b>Total</b> .....	<b>\$38,740,165</b>

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

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

#### Debarment and Suspension Actions

A. Debarments Recommended to the Agency .....	12
B. Debarments Pending at the Agency .....	16
C. Proposed Debarments Issued by the Agency .....	8
D. Final Debarments Issued by the Agency .....	13
E. Proposed Debarments Declined by the Agency .....	3
F. Suspension/Debarment Actions by Other Agencies Resulting from Investigations in which the OIG Participated.....	10

#### OIG Hotline Operation Activities

A. Total Fraud Line Complaints.....	215
B. Total Complaints Referred to Investigations Division .....	37
C. Total Complaints Referred to SBA or Other Federal Investigative Agencies.....	41
D. Total Complaints Referred to Other Entities.....	17
E. Total Complaints Needing No Action.....	32
F. Total Complaints Being Reviewed for Possible Referral or Other Resolution .....	88

\* May include actions from earlier reporting periods.

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# Statistical Highlights

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## Full Year Productivity Statistics October 1, 2009 through September 30, 2010

### Summary of Office-Wide Dollar Accomplishments

### Totals

A. Potential Investigative Recoveries and Fines.....	\$41,018,852*
B. Loans/Contracts Not Made as Result of OIG Investigations .....	\$6,577,882
C. Loans Not Made as Result of Name Checks.....	\$23,678,295
D. Disallowed Costs Agreed to by Management .....	\$1,060,470
E. Recommendations that Funds Be Put to Better Use Agreed to by Management .....	\$0
<b>Total</b> .....	<b>\$72,335,499</b>

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

A. Reports Issued .....	34
B. Recommendations Issued.....	176
C. Dollar Value of Costs Questioned.....	\$980,020
D. Dollar Value of Recommendations that Funds Be Put to Better Use .....	\$34,542,400
E. Collections as a Result of Questioned Costs .....	\$269,882

### Audit and Report Follow-up Activities

A. Recommendations for which Management Decisions were made During the Reporting Period .....	106
B. Disallowed Costs Agreed to by Management .....	\$1,060,470
C. Dollar Value of Recommendations that Funds Be Put to Better Use Agreed to by Management .....	\$0
D. Recommendations without a Management Decision at End of Reporting Period .....	46

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

A. Legislation, Regulations, Standard Operating Procedures, and Other Issuances ** Reviewed .....	95
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\* May include actions from earlier reporting periods.

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

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# Statistical Highlights

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## Full Year Productivity Statistics October 1, 2009 through September 30, 2010

### Indictments, Convictions, and Case Activity

A. Indictments from OIG Cases.....	81*
B. Convictions from OIG Cases .....	41*
C. Cases Opened .....	80
D. Cases Closed .....	68

### Recoveries and Management Avoidances as a Result of Investigations and Related Activities

A. Potential Recoveries and Fines as a Result of OIG Investigations.....	\$41,018,852*
B. Loans/Contracts Not Approved as a Result of OIG Investigations.....	\$6,577,882
C. Loans/Contracts Not Approved as a Result of the Name Check Program .....	\$23,678,295
<b>Total</b> .....	\$71,275,029

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

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

### Debarment and Suspension Actions

A. Debarments Recommended to the Agency .....	31
B. Debarments Pending at the Agency .....	16
C. Proposed Debarments Issued by the Agency .....	24
D. Final Debarments Issued by the Agency .....	16
E. Proposed Debarments Declined by the Agency .....	6
F. Suspension/Debarment Actions by Other Agencies Resulting from Investigations in which the OIG Participated.....	41

### OIG Hotline Operation Activities

A. Total Hotline Complaints .....	462
B. Total Complaints Referred to Investigations Division .....	169
C. Total Complaints Referred to SBA or Other Federal Investigative Agencies.....	42
D. Total Complaints Referred to Other Entities.....	18
E. Total Complaints Needing No Action.....	145
F. Total Complaints Being Reviewed for Possible Referral or Other Resolution .....	88

\* May include actions from earlier reporting periods.

# Appendices

## Appendix I OIG Reports Issued April 1, 2010 through September 30, 2010

Title	Report Number	Issue Date	Questioned Costs	Funds for Better Use
<i>Recovery Act</i>				
Memorandum on the Adequacy of Procurement Staffing and Oversight of Contractors Supporting the Procurement Function	ROM 10-13	4/9/10	\$0	\$0
Memorandum on the Accuracy of Recovery Act Contract Award Obligations Reported to the Federal Procurement Database System-Next Generation and Recovery.gov	ROM 10-14	4/15/10	\$0	\$0
Review of SBA's Job Creation Data under the Recovery Act	ROM 10-15	4/30/10	\$0	\$0
SBA's Planning and Award of the Customer Relationship Management Contracts	ROM 10-16	6/29/10	\$0	\$0
The Planning and award of the Wide Area Network Optimization Contract using Recovery Act Funds	ROM 10-17	6/29/10	\$0	\$0
Notice of Finding and Recommendation on Lender-Approved ARC Loans to Affiliates	ROM 10-18	9/22/10	\$0	\$1,242,400
Material Deficiencies Identified in Early-Defaulted and Early-Problem Recovery Act Loans	ROM 10-19	9/24/10	\$378,507	\$0
<b>Program Subtotal</b>	<b>7</b>		<b>\$378,507</b>	<b>\$1,242,400</b>
<i>Small Business Access to Capital</i>				
Assessment of the Community Express Pilot Loan Program	10-12	8/25/10	\$287,150	\$31,200,000
<b>Program Subtotal</b>	<b>1</b>		<b>\$287,150</b>	<b>\$31,200,000</b>
<i>Disaster Loans</i>				
Duplication of Benefits between SBA Disaster Loans and Community Development Block	10-13	9/2/10	\$0	\$2,100,000
<b>Program Subtotal</b>	<b>1</b>		<b>\$0</b>	<b>\$2,100,000</b>
<i>Small Business Development, Contracting, Education, and Training</i>				
Irregularities Involving Alaska Native Technologies, LLC	10-11	4/29/10	\$0	\$0
The Colorado District Office's Servicing of 8(a) Business Development Program Participants	10-15	9/30/10	\$0	\$0
<b>Program Subtotal</b>	<b>2</b>		<b>\$0</b>	<b>\$0</b>

# Appendices

**Appendix I**  
**OIG Reports Issued**  
**April 1, 2010 through September 30, 2010**

Title	Report Number	Issue Date	Questioned Costs	Funds for Better Use
<i>Agency Management</i>				
Adequacy of Quality Assurance Oversight of the Loan Management and Accounting System Project	10-14	9/13/10	\$0	\$0
<b>Program Subtotal</b>	<b>1</b>		<b>\$0</b>	<b>\$0</b>
<b>TOTALS (all programs)</b>	<b>12</b>		<b>\$665,657</b>	<b>\$34,542,400</b>

## Appendices

### Appendix II OIG Reports with Questioned Costs

		Reports	Recommendations*	Questioned Costs**	Unsupported Costs**
A.	<b>No management decision made by March 31, 2010</b>	0	0	\$0	\$0
B.	Issued during this reporting period	2	4	\$442,643	\$223,014
	Universe from which management decisions could be made in this reporting period – Subtotals	2	4	\$442,643	\$223,014
C.	Management decision(s) made during this reporting period	0	0	\$0	\$0
	(i) Disallowed costs	0	0	\$0	\$0
	(ii) Costs not disallowed	0	0	\$0	\$0
D.	<b>No management decision made by September 30, 2010</b>	2	4	\$442,643	\$223,014

\* Reports may have more than one recommendation.

\*\* Questioned costs are those which are found to be improper, whereas unsupported costs may be proper, but lack documentation.

### Appendix III OIG Reports with Recommendations that Funds Be Put to Better Use

		Reports	Recommendations*	Recommended Funds For Better Use
A.	<b>No management decision made by March 31, 2010</b>	0	0	\$0
B.	Issued during this reporting period	3	4	\$34,542,400
	Universe from which management decisions could be made in this reporting period – Subtotals	3	4	\$34,542,400
C.	Management decision(s) made during this reporting period	0	0	\$0
	(i) Recommendations agreed to by SBA management	0	0	\$0
	(ii) Recommendations not agreed to by SBA management	0	0	\$0
D.	<b>No management decision made by September 30, 2010</b>	3	4	\$34,542,400

\* Reports may have more than one recommendation.

# Appendices

## Appendix IV OIG Reports with Non-Monetary Recommendations

		Reports*	Recommendations
A.	<b>No management decision made by March 31, 2010**</b>	<b>6</b>	<b>13</b>
B.	Issued during this reporting period	11	41
	Universe from which management decisions could be made in this reporting period – Subtotals	17	54
C.	Management decision(s) made (for at least one recommendation in the report) during this reporting period	9	16
D.	<b>No management decision made by September 30, 2010</b>	<b>9</b>	<b>38</b>

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

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

## Appendix V OIG Reports From Prior Semiannual Periods with Overdue\* Management Decisions as of September 30, 2010

Title	Report Number	Date Issued	Status
Audit of SBA's Fiscal Year 2009 Financial Statements	10-04	11/13/2009	The Agency has not responded to one recommendation in the report.
Audit of Premier Certified Lenders in the Section 504 Loan Program	10-10	3/23/2010	The Agency has not responded to two recommendations in the report.

\* "Overdue" is defined as more than 180 days from the date of issuance.

# Appendices

## Appendix VI OIG Reports Without Final Action as of September 30, 2010

Report Number	Title	Date Issued	Date of Management Decision	Final Action Target Date
0-14	7(a) Service Fee Collections	3/30/00	8/22/00	6/31/11
3-08	SBA's Oversight of the Fiscal Transfer Agent for the 7(a) Loan Program	1/30/03	4/15/07	6/30/11
3-26	Microloan Program	5/12/03	***	**
4-34	Audit of SBA's Process for Complying with the Federal Managers' Financial Integrity Act Reporting Requirements	7/29/04	9/9/04	3/31/09
6-10	FY 2005 Financial Statements-Management Letter	1/18/06	3/7/06	3/31/10
7-03	Audit of SBA's Fiscal Year 2006 Financial Statements	11/15/06	12/20/06	12/30/09
7-28	SBA's Oversight Of Business Loan Center, LLC	7/11/07	9/27/07	12/31/09
7-29	Quality Assurance Reviews of Loss Verification	07/23/07	8/30/08	9/30/10
8-06	Audit of SBA's FY 2007 Financial Statements-Management Letter	12/14/07	***	12/31/10
8-12	Oversight of SBA Supervised Lenders	5/9/08	6/20/08	**
8-13	Planning for the Loan Management and Accounting System Modernization and Development Effort	5/14/08	8/29/08	3/31/09
8-16	Acceptance of VBP Group into the 8(a) Program and Subsequent Contract Award by SBA	7/18/08	8/11/08	8/30/09
9-03	Audit of SBA's Fiscal Year 2008 Financial Statements	11/14/08	9/30/09	12/15/10
9-05	Audit of SBA's Fiscal Year 2008 Financial Statements – Management Letter	12/17/08	2/18/09	2/28/11
9-10	Improper Payment Rate for the Disaster Loan Program	3/26/09	5/20/09	11/30/09
9-12	Review of SBA National Guaranty Purchase Center Furniture Contract	3/31/09	3/31/09	10/15/09
9-15	Participation in the 8(a) Program by Firms Owned by Alaska Native Corporations	7/10/09	***	**
9-16	SBA's Fiscal Year 2008 Improper Payment Rate for the 7(a) Guaranty Loan Program	7/10/09	***	**
9-17	Review of Allegations Concerning How the Loan Management and Accounting System Modernization Project is Being Managed	7/30/09	***	**
9-18	SBA's Management of the Backlog of Post-Purchase Reviews at the National Guaranty Purchase Center	8/25/09	***	**

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

# Appendices

## Appendix VI OIG Reports Without Final Action as of September 30, 2010

Report Number	Title	Date Issued	Date of Management Decision	Final Action Target Date
10-01	Monitoring of Insurance Coverage for Disaster Loan Recipients	10/20/09	11/6/09	**
10-03	Application of Insurance Offsets for Gulf Coast Disaster Loans	10/21/09	1/20/10	6/30/11
10-04	Audit of SBA's FY 2009 Financial Statements	11/13/09	*	**
10-06	Audit of SBA's FY 2009 Financial Statements- Management Letter	12/15/09	*	**
10-07	SBA Regulations Relating to Unconditional Ownership Requirements for Indian Tribes	1/25/10	3/12/10	12/31/10
10-08	SBA's Efforts to Improve the Quality of Acquisition Data in the Federal Procurement Data System	2/26/10	3/29/10	**
ROM 10-04	Review of Controls Over Job Creation and Retention Statistics Reports by SBA Under the American Recovery and Reinvestment Act of 2009	12/4/09	*	12/31/10
ROM 10-10	SBA's Administration of the Microloan Program Under the Recovery Act	12/28/09	*	**
ROM 10-14	Accuracy of Recovery Act Contract Award Obligations Reported to the Federal Procurement Database System-Next Generation and Recovery.Gov	4/15/10	5/3/10	12/31/10

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

# Appendices

## Appendix VII Summary of Significant Recommendations From Prior Semiannual Reporting Periods Without Final Action as of September 30, 2010\*

Report Number	Date Issued	Recommendation	Date of Management Decision	Final Action Target Date
8-13	5/14/08	Make cost-effective remediation of mainframe vulnerabilities a priority and ensure that migration of LAS occurs before the current mainframe contract expires in 2012 to reduce SBA's mainframe costs and timely mitigate associated security risks.	8/27/08	3/31/09
9-10	3/26/09	Report the improper rate calculated by the OIG for FY 2007 to OMB.	5/20/09	11/30/09
9-12	3/31/09	Establish internal controls that ensure that OBO and DPGM are unable to modify contracts without the appropriate supporting documentation, including a statement of work.	3/31/09	10/15/09
9-15	7/10/09	Conduct a program review to evaluate whether the growth in ANC 8(a) obligations has adversely impacted, or will adversely impact, other 8(a) firms and the overall effectiveness of the 8(a) program and, if so, make programmatic revisions to minimize the adverse impact.	8/4/09	7/15/09
9-15	7/10/09	Determine whether 8(a) firms owned by ANCs and tribes should continue to be exempt from the cap on total sole source awards in CFR 124.519 and, if not, remove the exemption from this regulation.	8/2/09	12/31/10
9-16	7/10/09	Seek recovery of \$2.3 million from lenders on the loans listed in Appendices III and IV of the report.	8/27/09	6/30/10
9-16	7/10/09	Fully implement the corrective action plan reported in SBA's FY 2008 <i>Performance and Accountability Report</i> to reduce improper payments in the 7(a) Guaranty Loan Programs.	7/28/09	9/30/10
9-16	7/10/09	Report the revised improper payment rate calculated by the OIG for FY 2008 to OMB.	9/26/09	11/15/09
9-17	7/30/09	Take steps to modify the contract to require the QA/IV&V contractor to report all findings and recommendations to the Program Manager and an independent Quality Assurance manager designated by the CIO .	8/28/09	9/30/09

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

# Appendices

## Appendix VII Summary of Significant Recommendations From Prior Semiannual Reporting Periods Without Final Action as of September 30, 2010\*

Report Number	Date Issued	Recommendation	Date of Management Decision	Final Action Target Date
9-17	7/30/09	Establish a process for reviewing and accepting LMAS deliverables that complies with Systems Development Methodology requirements.	8/28/09	9/30/09
9-17	7/30/09	Immediately establish an enterprise-wide QA function that is compliant with SBA's Systems Development Methodology QA policy.	9/3/09	10/30/09
9-17	7/30/09	Take steps to ensure that a well-defined deliverable acceptance process is established for the LMAS project in accordance with SBA's <i>Enterprise Quality Assurance Plan</i> .	9/3/09	9/1/10
9-18	8/25/09	Seek recovery of \$1,250,088 on the guaranties paid on the 6 loans listed in Appendix IV of the report.	10/21/09	10/21/10
9-18	8/25/09	Include detailed scopes of work, measurable performance metrics, deliverables, and adequate acceptance criteria in service contracts to assist the contractor staff in performing the reviews and the Center in supervising them.	9/11/09	12/31/10
10-01	10/20/09	Inform borrowers on the 36 loans with lapsed policies or insufficient coverage that they must provide evidence of adequate insurance coverage.	11/5/09	2/28/11
10-01	10/20/09	Determine the actions needed to achieve compliance with statutory flood insurance monitoring requirements and the cost implications of achieving compliance.	11/6/09	2/28/11
10-01	10/20/09	Develop and execute a plan for achieving compliance on existing and future loans. Alternatively, if achieving compliance is determined to be not cost effective, seek additional funding or legislative change to the statutory flood insurance requirement.	11/6/09	12/31/10
10-01	10/20/09	Revise SOP 50-52 to clarify what action(s) servicing center personnel should take when borrowers refuse to obtain required hazard insurance.	11/6/09	1/31/11
10-03	10/21/09	Implement procedures at the servicing centers that require a timely reverification of insurance recoveries during the servicing of loans, preferably between 6-months to 1 year after the file is transferred to servicing.	1/20/10	6/30/11

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

## Appendices

### Appendix VII Summary of Significant Recommendations From Prior Semiannual Reporting Periods Without Final Action as of September 30, 2010\*

Report Number	Date Issued	Recommendation	Date of Management Decision	Final Action Target Date
10-04	11/13/09	Improve the vulnerability tracking and monitoring process to include unresolved high and medium vulnerabilities in the JAAMS POA&M.	12/15/09	9/30/10
10-04	11/13/09	Ensure that the vulnerability reports are reviewed and analyzed on a regular basis. Periodically monitor the existence of necessary services and protocols running on servers and network devices.	12/18/09	9/30/10
10-04	11/13/09	Prevent users from connecting unauthorized devices to the network anonymously by developing and implementing procedures for ensuring mandatory domain authentication for IP address issuance.	12/18/09	6/30/10
10-04	11/13/09	Implement a process to monitor the audit logs of all financial applications on a regular basis.	12/11/09	6/1/10
10-04	11/13/09	Oversee the development of a finalized Enterprise Change Control Board charter that is supported by a promulgated SOP.	12/11/09	9/30/10
10-04	11/13/09	Implement procedures for documenting operating system, software and emergency change testing results, testing approvals, and final approvals. Specifically, such procedures and controls need to be applied for the LAN\WAN.		
10-04	11/13/09	Ensure consistent application of procedures for documenting operating system change testing results, testing approvals, and final approvals. Specifically, such procedures and controls need to be applied for the Financial Reporting Information System.	12/15/09	4/30/10
10-06	12/15/09	Ensure that third party contracts remain current and reflect the period of coverage.	12/22/09	3/31/10
10-06	12/15/09	Require effective training programs for IT security personnel.	12/22/09	7/31/10
10-07	1/25/10	Revise Title 13 CFR, Part 124 to mandate that tribally-owned firms be unconditionally owned as required by the Small Business Act.	3/12/10	12/31/10
10-08	2/26/10	Either update the FY 2008 Data Quality Plan or revise the information notice to include explicit steps that will be taken to ensure data is reviewed for accuracy and completeness.	3/29/10	10/1/10
10-08	2/26/10	Conduct an independent review to ensure that the Data Quality Plan or information notice requirements have been fully implemented.	3/29/10	10/1/10

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

# Appendices

## Appendix VII Summary of Significant Recommendations From Prior Semiannual Reporting Periods Without Final Action as of September 30, 2010\*

Report Number	Date Issued	Recommendation	Date of Management Decision	Final Action Target Date
10-08	2/26/10	Ensure that OBO contracting personnel are held accountable for the accuracy of FPDS data.	3/29/10	12/1/10
10-10	3/23/10	Revise SOP 50 10, <i>Lender Development Company Loan Programs</i> , to require that lenders use, among other things, (a) the actual cash flow method to determine borrower repayment ability for businesses using accrual accounting, (b) historical salary levels to estimate officer salary, and (c) historical sales data to make sales projections.		
10-10	3/23/10	Develop a process to ensure that corrective actions are taken in response to Office of Credit Risk Management onsite reviews, and/or modify guidance for these reviews, as appropriate, to ensure that reviewers properly assess lender determination of borrower repayment ability and eligibility; including lender validation of financial information used by borrowers to demonstrate repayment ability and assessment of eligibility based on achievement of public policy goals.	5/3/10	7/25/10
10-10	3/23/10	Revise current guidance to clarify how eligibility should be evaluated in order to ensure the intent of the CDC/504 Loan Program is met when the Federal budget reduction public policy goal is used to qualify a borrower for a CDC loan.	4/26/10	10/31/10
10-10	3/23/10	Evaluate the need to establish monetary or other guidelines on the level of excess funds that CDCs should retain as a reserve for future operations and/or invest in other local economic development activities.	4/26/10	12/31/11
ROM 10-04	12/4/09	Implement the necessary controls to check the reasonableness of data, including user prompts, range checks, and the prevention of negative figures, in E-Tran to ensure the accuracy of lender-reported job creation and retention statistics.	2/17/10	12/31/10
ROM 10-04	12/4/09	Implement a data quality review and testing process to determine if job data is properly recorded, classified, and reported.	2/2/10	12/31/10
ROM 10-04	12/4/09	Determine whether the new jobs reported for ARC loans are data anomalies and if not, revise performance measures to report on jobs created.	2/17/10	12/31/10

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

# Appendices

## Appendix VII Summary of Significant Recommendations From Prior Semiannual Reporting Periods Without Final Action as of September 30, 2010\*

Report Number	Date Issued	Recommendation	Date of Management Decision	Final Action Target Date
ROM 10-10	12/28/09	Examine, verify, and test microloan data reported by the intermediaries in MPERS to ensure loan defaults are accurately reported and that obvious inaccuracies and questionable transactions reported by intermediaries are identified and resolved.	3/1/10	6/30/11
ROM 10-10	12/28/09	Provide guidance to intermediaries and correct the processes used to calculate the number of small businesses assisted and jobs created and retained under the Microloan program to ensure accurate reporting on the use of Recovery Act funds.	2/24/10	12/31/10
ROM 10-10	12/28/09	Develop additional performance metrics to measure the program's achievement in assisting microloan borrowers in establishing and maintaining successful small businesses.	2/24/10	6/30/11
ROM 10-10	12/28/09	Require intermediaries to report in the Microloan Program Electronic Reporting System (MPERS) the technical assistance provided in relation to each microloan made and use this data to analyze the effect technical assistance may have on the success of microloan borrowers and their ability to repay microloans.	2/24/10	6/30/11
ROM 10-12	3/31/10	Provide counseling to the SBA loan officers who approved loan numbers 3348565000 and 3372435007 about their mistakes and train them adequately to: (1) ensure lenders perform the appropriate business valuations and site visits for change of ownership transactions, and (2) evaluate the effect of affiliation of a borrower's size, repayment ability, and credit worthiness.	7/1/10	9/30/10
ROM 10-12	3/31/10	Implement the appropriate system controls to automatically identify the outstanding balances of all SBA loans made to a borrower to ensure SBA lending limits will not be exceeded upon the approval of a subsequent loan.	7/1/10	9/30/10
ROM 10-12	3/31/10	Require Wachovia SBA Lending, Inc. to bring loan number 3406815002 into compliance with SBA requirements, or, if not possible, flag the loan as having an equity injection deficiency for consideration during the purchase review should the loan default and purchase be requested.	7/1/10	9/30/10

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

# Appendices

## Appendix VIII

### Summary of Significant Recommendations April 1, 2010 through September 30, 2010

Report Number	Title	Date Issued	Recommendation
ROM 10-13	Memorandum on the Adequacy of Procurement Staffing and Oversight of Contractors Supporting the Procurement Function	4/9/1010	Identify and implement an interim solution to augment the acquisition workforce until permanent staff are hired to ensure that the Agency has adequate oversight of the procurement function and the contracting personnel that support it.
ROM 10-14	Accuracy of Recovery Act Contract Award Obligations Reported to the Federal Procurement Database System-Next Generation and Recovery.Gov	4/15/1010	Reconcile Recovery Act contract awards reported to FPDS-NG and Recovery.Gov and report to Recovery.Gov all non-competitive contract awards previously not reported to Recovery.Gov including the eight contract actions identified by the Office of Inspector General.
10-11	Irregularities Involving Alaska Native Technologies, LLC	4/29/10	Determine whether Alaska Native Technologies, LLC currently meets eligibility requirements for the 8(a) program, in the light of the irregularities identified, and if not, initiate termination from the 8(a) program.
ROM 10-15	Review of SBA's Job Creation Data Under the Recovery Act	4/30/10	Define "jobs retained" for the 7(a) program, provide justification for the approach, and issue guidance to lenders on this issue. Furthermore, disclose any differences in metrics between programs in subsequent monthly Recovery Act Performance Reports and revise the cumulative "jobs created/retained metric to reflect any change.
ROM 10-16	SBA's Planning and Award of the Customer Relationship Management Contracts	6/29/10	Take steps to ensure that no procurement action is taken prior to the approval of an acquisition plan by the Associate Administrator for M&A.
ROM 10-16	SBA's Planning and Award of the Customer Relationship Management Contracts	6/29/10	Provide training to SBA contracting officers regarding the CFR, Title 13, Part 121, Small Business Size Regulations, with regard to ostensible subcontracting and non-manufacturer rules.
ROM 10-16	SBA's Planning and Award of the Customer Relationship Management Contracts	6/29/10	Exclude the CRM contract awarded to Copper River from SBA calculations used to determine the number of 8(a) program contracts and small business contracts for fiscal year 2009.
ROM 10-16	SBA's Planning and Award of the Customer Relationship Management Contracts	6/29/10	Formalize the contract approval process by establishing a business clearance form to ensure that all procurements undergo a review by the OGC and all required parties prior to award.
ROM 10-16	SBA's Planning and Award of the Customer Relationship Management Contracts	6/29/10	Work with the CIO to establish measurable outcomes for the CRM initiative and identify the likelihood that a contractor could meet measurable outcomes in contract evaluation criteria for any future contracts under this initiative.

# Appendices

## Appendix VIII

### Summary of Significant Recommendations April 1, 2010 through September 30, 2010

Report Number	Title	Date Issued	Recommendation
ROM 10-16	SBA's Planning and Award of the Customer Relationship Management Contracts	6/29/10	Revise Agency procedures to clarify that small business and 8(a) set aside contracts cannot be used as "pass through" contracts to purchase products from large businesses unless the small business or 8(a) contractor makes changes or revisions to the product which add demonstrable value.
10-12	Assessment of the Community Express Pilot Loan Program	8/25/10	Do not extend the program, in its current form, beyond the current pilot deadline of December 31, 2010, which would result in \$53 million in 7(a) subsidy costs that could be put to better use.
10-12	Assessment of the Community Express Pilot Loan Program	8/25/10	Evaluate the need for and viability of the Community Express loan program given that the objectives for New Market lending are being met by other 7(a) loan programs and that one lender will be making most of the loans under the program going forward.
10-12	Assessment of the Community Express Pilot Loan Program	8/25/10	Repair \$18,960 in guaranties on the 4 loans purchased above the 50-percent guaranty level for which technical assistance was not completed.
10-12	Assessment of the Community Express Pilot Loan Program	8/25/10	Annotate the loan files for the 30 current loans where technical assistance was not provided for a possible repair of \$268,190 should the loans default.
10-12	Assessment of the Community Express Pilot Loan Program	8/25/10	If the program is retained, develop a plan for increasing lender participation that considers lender feedback on how best to incentivize lenders to participate in the program, which includes the removal of lender loan limits that were imposed in FY 2009. Because SBA has not been able to attract a significant number of other bank lenders, it may want to consider combining the Community Express program with other programs that service the same market groups.
10-12	Assessment of the Community Express Pilot Loan Program	8/25/10	If the program is retained, develop guidance clarifying the appropriate uses of credit scoring and prohibiting the use of credit scores to establish loan size.
10-12	Assessment of the Community Express Pilot Loan Program	8/25/10	If the program is retained, develop guidance clarifying the appropriate uses of credit scoring and prohibiting the use of credit scores to establish loan size.

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## Appendix VIII

### Summary of Significant Recommendations April 1, 2010 through September 30, 2010

Report Number	Title	Date Issued	Recommendation
10-12	Assessment of the Community Express Pilot Loan Program	8/25/10	If the program is retained, and if program costs cannot be reduced, determine whether they should continue to be financed through the subsidy rate, which is projected to increase by \$31.2 million in FY 2011, or passed onto the borrower through higher fees.
10-12	Assessment of the Community Express Pilot Loan Program	8/25/10	If the program is retained, revise program procedures to limit the guaranty to 50-percent on loans for which technical assistance is provided by SBA partners or SBA's online training.
10-12	Assessment of the Community Express Pilot Loan Program	8/25/10	If the program is retained, provide criteria to lenders for assessing technical assistance needs of borrowers.
10-12	Assessment of the Community Express Pilot Loan Program	8/25/10	If the program is retained, establish annual goals for measuring the success of the Community Express program and measure program accomplishments against these goals.
10-12	Assessment of the Community Express Pilot Loan Program	8/25/10	If the program is retained, establish a process for periodically evaluating the cost/benefit of the program.
10-13	SBA's Role in Addressing Duplication of Benefits Between SBA Disaster Loans and Community Development Block Grants	9/2/10	Coordinate with FEMA and HUD to formalize a memorandum of understanding with HUD, which defines the functions of each agency in a manner that is consistent with FEMA's duplicate benefits regulation and other applicable regulations.
10-13	SBA's Role in Addressing Duplication of Benefits Between SBA Disaster Loans and Community Development Block Grants	9/2/10	Coordinate with HUD to develop more appropriate procedures to reduce duplication of benefits, including the development of a duplication of benefits instructional guide to be incorporated into HUD's Information Toolkit provided to grantees.
10-13	SBA's Role in Addressing Duplication of Benefits Between SBA Disaster Loans and Community Development Block Grants	9/2/10	Modify SBA's duplication of benefit regulations to address FEMA's delivery sequence of disaster benefits.
10-13	SBA's Role in Addressing Duplication of Benefits Between SBA Disaster Loans and Community Development Block Grants	9/2/10	Modify the "assignment of compensation section" of the Standard Loan Authorization and Agreement to be consistent with FEMA's delivery of sequence regulation.
10-13	SBA's Role in Addressing Duplication of Benefits Between SBA Disaster Loans and Community Development Block Grants	9/2/10	Cease using resources to calculate duplication of benefits, pursue remittances, and modify loan balances involving CDBG funds so that the Agency can save salary costs associated with these activities.

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## Appendix VIII

### Summary of Significant Recommendations April 1, 2010 through September 30, 2010

Report Number	Title	Date Issued	Recommendation
10-14	Adequacy of Quality Assurance Oversight of the Loan Management and Accounting System Project	9/13/10	Revise the LMAS QA plan to incorporate all the components required by the enterprise-wide QA plan.
10-14	Adequacy of Quality Assurance Oversight of the Loan Management and Accounting System Project	9/13/10	Take steps to hold TestPros accountable for performing the activities specified in its contract.
10-14	Adequacy of Quality Assurance Oversight of the Loan Management and Accounting System Project	9/13/10	Evaluate and make necessary adjustments to the QA Manager's workload to ensure that he can devote adequate time to oversee complete implementation of the enterprise QA oversight function.
ROM 10-18	Notice of Finding and Recommendation on Lender-Approved ARC Loans to Affiliates	9/22/2010	Review each of the 38 identified loans to determine if they were made to eligible companies.
ROM 10-18	Notice of Finding and Recommendation on Lender-Approved ARC Loans to Affiliates	9/22/2010	For any loans that SBA determines were made to ineligible companies, cancel the loan guaranties and collect any associated interest paid to the lenders.
ROM 10-18	Notice of Finding and Recommendation on Lender-Approved ARC Loans to Affiliates	9/22/2010	Conduct additional reviews of ARC loans outside the scope of this NFR (for example, loans disbursed after April 30, 2010 and/or undisbursed loans) to identify other ARC loans made to affiliated companies that were inappropriately approved under delegated authority.
ROM 10-19	Material Deficiencies Identified in Early-Defaulted and Early-Problem Recovery Act Loans	9/24/2010	Reexamine the credit scoring matrix used by one lender that made 18 of the 32 loans with material deficiencies to ensure it complies with SBA requirements.
ROM 10-19	Material Deficiencies Identified in Early-Defaulted and Early-Problem Recovery Act Loans	9/24/2010	Implement a process for providing feedback to SBA employees and lenders when deficiencies are identified.
ROM 10-19	Material Deficiencies Identified in Early-Defaulted and Early-Problem Recovery Act Loans	9/24/2010	For the 25 purchased loans with material deficiencies, require the lenders to bring the loans into compliance or recover the \$375,259 in guaranties paid.
ROM 10-19	Material Deficiencies Identified in Early-Defaulted and Early-Problem Recovery Act Loans	9/24/2010	Obtain the certification for the loan missing only an immigration certification, or recover \$3,248 from the lender.

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**Appendix VIII**  
**Summary of Significant Recommendations**  
**April 1, 2010 through September 30, 2010**

<b>Report Number</b>	<b>Title</b>	<b>Date Issued</b>	<b>Recommendation</b>
ROM 10-19	Material Deficiencies Identified in Early-Defaulted and Early-Problem Recovery Act Loans	9/24/2010	Flag the other loans that have not yet been purchased to ensure the loan deficiencies are properly addressed at the time of the purchase review.
10-15	The Colorado District Office's Servicing of 8(A) Business Development Program Participants	9/30/2010	Review staffing levels of all the district offices to ensure that BDSs can devote the time needed to adequately service their 8(a) participants.

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## Appendix IX

### Events/Activities Where SBA Used its Cosponsorship Authority\* Small Business Act, Section 4(h) April 1, 2010 through September 30, 2010

Name/Subject of Event	Name of Cosponsor(s)	Date(s) of Event	Location of Event
SBA Programs and Services	California Turkish American Chamber of Commerce	April, June, August, October, 2010	Irvine, CA
Veterans Small Business Lending Conference	Vermont Procurement Technical Assistance Center, The Office of U.S. Senator Patrick Leahy, Vermont Small Business Development Center, Vermont Economic Development Authority, Vermont Bankers Association, Inc., USDA Rural Development, Vermont Community Loan Fund, Association of Vermont Credit Unions	April 26, 2010	Barre, VT
Dutchess & Ulster County Meet the Lenders Matchmaking Expo	Greater Southern Dutchess Chamber of Commerce, Central Hudson Gas & Electric Corporation, Senator Kirsten E. Gillibrand	April 29, 2010	Poughkeepsie, NY
4th Annual-Invent Your Future Conference for Women	Invent Your Future Enterprise	April 19-20, 2010	Santa Clara, CA
Worland Business Roundtables	Big West Auto Plex, Pascalite, Inc., Northwest College	September 1, 2010-May 30, 2011	Worland, WY
National Kick-Off: SCORE Public/Private Broadband Consortium	Federal Communications Commission	April 7, 2010	Washington, DC
SBA 2010 Awards Breakfast	SCORE Southeast WI, Reinhart Boerner Van Deuren s.c., The Business Journal of Greater Milwaukee, Associated Bank	June 4, 2010	Milwaukee, WI
WOW Women of the World	Northwest CT Chamber of Commerce	September 24, 2010	Torrington, CT
SBA Road to Recovery Clinic	Delawareblack.com, LLC	April 24, 2010	Wilmington, DE

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### Events/Activities Where SBA Used its Cosponsorship Authority\* Small Business Act, Section 4(h) April 1, 2010 through September 30, 2010

Name/Subject of Event	Name of Cosponsor(s)	Date(s) of Event	Location of Event
America East SBA Lenders Conference	Portland Regional Chamber, Augusta SCORE, Granite State Economic Development Corporation, People's United Bank, Bangor Savings Bank, Finance Authority of Maine, Bank of America, Citizens Bank, Coastal Enterprises, Inc., BDC Capital Corporation, Kennebunk Savings Bank, Katahdin Trust Company, Maine Department of Economic and Community Development, U.S. General Services Administration	August 29-September 1, 2010	Portland, OR
Bank on SBA	Citizens Bank	May 1, 2010	New Hampshire Statewide
How to Do Business with the Federal Government	Congresswoman Yvette D. Clarke	June 4, 2010	Brooklyn District Office
Small Business Awards Program	Nashville Area Hispanic Chamber of Commerce	June 4, 2010	Nashville, TN
Oklahoma How-to-Guide for Small Businesses	The Journal Record Publishing Company	October 2010-October 2014	Oklahoma Statewide
11th Annual Small Business Resource Fair	Denver Public Library, Minority/Women Chambers' Coalition, Denver SCORE Chapter (Denver SCORE), Colorado Small Business Development Center, Colorado Minority Business Office and Denver Office of Economic Development/Division of Small Business Opportunity	August 19, 2010	Denver Public Library
2010 Small Business Week Awards Event	Delaware Community Development Corp, Chesapeake Business Finance Corporation, Mid-Atlantic Business Finance Corp, The University of Delaware, through the Delaware Small Business Development Center	June 8, 2010	Claymont, DE
Veteran Entrepreneurship & Job Conference	F&T Group	May 26, 2010	Flushing, NY
Vermont Small Business Award Winners 2010	Vermont Business Magazine	June 17, 2010	Shelburne, VT

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**Events/Activities Where SBA Used its Cosponsorship Authority\***  
**Small Business Act, Section 4(h)**  
**April 1, 2010 through September 30, 2010**

<b>Name/Subject of Event</b>	<b>Name of Cosponsor(s)</b>	<b>Date(s) of Event</b>	<b>Location of Event</b>
Small Business Expo	Simon Property Group, L.P., SCORE Atlanta Chapter, University of Georgia thru Small Business Development Center	July 17, 2010	Areawide GA
Moving Forward in 2010 with the American Recovery Act	National Federation of Independent Business, Indiana Chamber of Commerce	June 9, 10, 15, 17, 23, 24, 2010	Indiana, IN
Riverside Small Business Fair	Greater Riverside Chamber of Commerce	May 25, 2010	Riverside, CA
A Night of Excellence in Small Business- ARRA/Ohio's Road to Recovery	KeyBank, Horizon Certified Development Company, Borrego Springs Bank, The Business Development Finance Corporation, Commerce National Bank, Heartland Bank, Huntington National Bank, Ohio Statewide Development	May 19, 2010	Grove City, OH
Mid-America Lender's Conference for SBA Lenders	The Louisiana Minority Supplier Development Council and the Louisiana Small Business Development Center-Greater New Orleans Region	August 16-18, 2010	New Orleans, LA
2010 World Conference International Council for Small Business	International Council for Small Business	June 24-27, 2010	Cincinnati, OH
Annual SBA Small Business Newspaper Insert	Denver Business Journal	May 28, 2010	Portland, OR
Procurement Training Workshops	U.S. Department of Interior, National Center for American Indian Enterprise Development, Native American Development Corporation , American Indian Economic Development Fund, Native American Procurement Technical Assistance Center, American Indian Chamber Education Fund	May 18-19; May 26-27; June 22-23; July 25-27; September 15, 2010	Billings, MT; Santa Fe/Albuquerque, NM; Boston, MA; Palm Springs, CA; Tulalip, WA

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### Events/Activities Where SBA Used its Cosponsorship Authority\* Small Business Act, Section 4(h) April 1, 2010 through September 30, 2010

Name/Subject of Event	Name of Cosponsor(s)	Date(s) of Event	Location of Event
SBA Small Business Week Celebration	Portland SCORE Chapter #11, U.S. Bank, Wells Fargo, Umpqua Bank, Columbia Credit Union, United Western Bank, Northwest Small Business Finance Corporation, Evergreen Business Capital, Northwest Business Development Association, Skanska Construction, Genentech #35, Oregon Small Business Development Center Network, KBNP Radio 1410, Oregon Business Magazine, KeyBank	June 2, 2010	Portland, OR
Minority Small Business Recovery Training and Counseling Fair	Urban League of Eastern Massachusetts, Metro Credit Union, Mt. Washington Bank, Citizens Bank, Eastern Bank, First Trade Union Bank,	June 18, 2010	Boston, MA
Meet the Lenders	Southern Illinois University, The Southern Illinoisan, Illinois State University through the Illinois Small Business Development Center, Southern Illinois SCORE Chapter 0374	June 16, 2010	Carbondale, IL
Business Development Track of the 12th Annual American Indian Tourism Conference	American Indian Alaska Native Tourism Association	September 19-22, 2010	Tulalip, WA
Veterans Entrepreneurial Spring Conference	Vetbizcentral, Region 8 Michigan Small Business & Technology Development Center, Procurement Technical Assistance Centers of Michigan	June 16, 2010	Lansing, MI
SDVOB Outreach Seminar	Elite SDVOB	May 25, 2010	Los Angeles, CA
Selling to the Government Webinars (15)	Regional Contracting Assistance Center, Charleston WV SCORE Chapter #256	June 17, 2010-October 27, 2011	World Wide Web
Success A Group Effort/Women Procurement Conference	Carroll University, The Neal Group, LLC, Waukesha State Bank	June 25, 2010	Waukesha, WI

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### Events/Activities Where SBA Used its Cosponsorship Authority\* Small Business Act, Section 4(h) April 1, 2010 through September 30, 2010

<b>Name/Subject of Event</b>	<b>Name of Cosponsor(s)</b>	<b>Date(s) of Event</b>	<b>Location of Event</b>
Economic Recovery Workshop "Successful Contracting Strategies"	City of Wichita, Kansas District 89 Representative Melody McCray-Miller, Kansas Small Business Development Center-Wichita State University, McConnell Air Force Base, Mid-America Minority Business Development Council, Network Kansas, Sedgwick County, South Central Kansas Economic Development District, Unified School District 259	June 17, 2010	Wichita, KS
2010 Albany Matchmaker	New York Business Development Corporation, University at Albany thru the Small Business Development Center, The Business Review, The Albany-Colonie Chamber of Commerce	September 14, 2010	Albany, NY
Disaster recovery assistance for small businesses affected by the Deepwater BP oil spill	University of Louisiana at Monroe	June 2010-September 30, 2010	Hopedale, LA
Mississippi SBA Statewide Lenders and ARRA Economic Recovery Conference	Central Mississippi Development Company, Inc.	July 15-16, 2010	Biloxi, MS
Small Business Summit	National Council of Asian American Business Associations (NCAABA)	June 25, 2010	Washington, DC
Small Business Week Awards Luncheon	Los Angeles Chamber of Commerce	June 17, 2010	Los Angeles, CA
Financing , Contracts & Business Negotiation Workshop	Business Life, SBDC through Long Beach City College	June 24, 2010	Burbank, CA
SBA Tri-County Faith Based Financing Conference	Inland Empire Small Business Development Center, AmPac Tristate CDC, Inland Empire Women's Business Center	October 14, 2010	Ontario, CA
Veterans Small Business Conference	North Carolina Small Business & Technology Development Center, North Carolina Military Business Center	August 31, 2010	Elizabeth City, NC

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<b>Name/Subject of Event</b>	<b>Name of Cosponsor(s)</b>	<b>Date(s) of Event</b>	<b>Location of Event</b>
Economic Strategies in Indian Country Workshops	Federal Reserve Bank of San Francisco	June 2010-September 30, 2010	Boston, MA; Sacramento, CA; Seattle, WA, Anchorage, AK; Albuquerque, NM
Production of a book on small business utilization of technology to achieve its business goals	Microsoft	July 2010-July 2012	World Wide Web/SBA District Office, Resource Partners, SBA and Microsoft Websites
2010 Business Expo	Milwaukee County's Community Business Development Partners	September 29, 2010	Milwaukee, WI
Export Trade Assistance Program	U.S. Commercial Service, Inland Empire SBDC	August 25, September 8, September 22, October 6, October 20, November 3, 2010	Riverside, CA
Veterans Small Business Capital and Procurement Conference	University of North Florida SBDC, Veterans Business Outreach Center	September 9, 2010	Jacksonville, FL
Queens Goes Global	Office of NYS Assemblywoman Grace Meng, Office of NYC Councilmember Peter Koo, F&T Group	August 3, 2010	New York, NY
Business Opportunities Expo	Office of NYS Assemblywoman Grace Meng, Office of NYC Councilmember Peter Koo, F&T Group	July 28, 2010	New York, NY
The Power of Green: Expanding into Green Markets and Re-energizing Your Business	Onondaga SBDC, WISE Center, Syracuse SCORE, The Tech Garden, CenterState Corporation for Economic Opportunity, FOCUS Greater Syracuse	September 23, 2010	Syracuse, NY
Rawlins Business Roundtables	Bank of Commerce, Wyoming Women's Business Center	September 1, 2010-May 20, 2011	Rawlins, WY
Entrepreneurship: On a Mission, Resources for Veterans and Reservists, Veterans Benefits Fair and Matchmaking Event	St. Louis County Veterans, Veterans Business Resource Center	August 24, 2010	Overland, MO

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### Events/Activities Where SBA Used its Cosponsorship Authority\* Small Business Act, Section 4(h) April 1, 2010 through September 30, 2010

Name/Subject of Event	Name of Cosponsor(s)	Date(s) of Event	Location of Event
Government Contract Certifications	Worcester Polytechnic Institute	August 11, 2010	Worcester, MA
New York District Office Annual Lender Awards for FY 2010	New York Business Development Corporation	November 18, 2010	Jamaica, NY
HBIF & SBA Business Conference & Opportunities Matchmaker	Hispanic Business Initiative Fund of Florida, Inc. (HBIF)	July 29, 2010	Tampa, FL
2010 Inner City Capital Connections Program	ICIC and BAML Capital Access Funds	November 16, 2010	Los Angeles, CA
Lehigh Valley Lender Match and Business Resource Expo	Community Action Committee of the Lehigh Valley, Lehigh University Small Business Development Center, Lehigh Valley Economic Development Corporation, Nazareth Area Chamber of Commerce, Pennsylvania Community Development & Finance Corporation, Slate Belt Chamber of Commerce, Whitehall Area Chamber of Commerce, Northampton County New Jobs Corp, Lehigh's Economic Advancement Project, Inc	September 14, 2010	Bethlehem, PA
2010 WV Veterans Business Summit	SCORE, WV SBDC, WV Women's Business Training Center, HMS Technologies, Inc., Azimuth, Incorporated, Regional Contracting Assistance Center, INNOVA Commercialization Group WVHTC Foundation, The Elite Service Disabled Veteran Owned Business Network of WV	September 14, 2010	Fairmont, WV
Small Business Outreach Event	Office of U.S. Representative Jerry Lewis, California State University San Bernardino thru Inland Empire Center for Entrepreneurship, County of San Bernardino	August 17, 2010	San Bernardino, CA

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### Events/Activities Where SBA Used its Cosponsorship Authority\* Small Business Act, Section 4(h) April 1, 2010 through September 30, 2010

Name/Subject of Event	Name of Cosponsor(s)	Date(s) of Event	Location of Event
2nd Annual Southwest Detroit Hispanic Business Conference	Southwest Detroit Business Association, MI Hispanic Chamber of Commerce, Center for Empowerment and Economic Development, PNC Financial Services Group, Inc., El Central Hispanic News, Michigan Small Business and Technology Development Center	September 29, 2010	Detroit, MI
Spirit of Small Business 2010 Awards Luncheon	Pacific Coast Business Times	August 12, 2010	Santa Barbara, CA
Long Island Green Business Symposium	New York State Small Business Development Center at Stony Brook University, Suffolk County Department of Economic Development & Workforce Housing-Department of Environment and Energy	September 22, 2010	Woodbury, NY
National Women's Business Council Access to Capital Summit	Women Impacting Public Policy	September 29, 2010	Washington, DC
SBA Southeast Regional Conference	Waycross/Ware County Chamber of Commerce, Waycross College	September 23, 2010	Waycross, GA
Economic Recovery Rules of Engagement/Veterans Small Business Conference and Expo	AstraZeneca Pharmaceuticals LP, E.I. DuPont de Nemours, Inc., Delaware Community Development Corporation	September 24, 2010	Claymont, DE
Meet the Lenders	Brooklyn Borough President Honorable Marty Markowitz, Brooklyn Small Business Development Center, SCORE New York Chapter, Women's Business Center at the BOC Network, Women's Business Center at the Local Development Corporation of East New York	September 28, 2010	Brooklyn, NY
SBA Business Recover Expo	PeoplesBank	August 24, 2010	Holyoke, MA
2010 Bronx Business Opportunities Expo	South Bronx Overall Economic Development Corporation	September 24, 2010	Bronx, NY

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### Events/Activities Where SBA Used its Cosponsorship Authority\* Small Business Act, Section 4(h) April 1, 2010 through September 30, 2010

Name/Subject of Event	Name of Cosponsor(s)	Date(s) of Event	Location of Event
Meet the Buyers, a Procurement Matchmaking Event	Michigan Small Business and Technology Development Center, SCORE Detroit Chapter 18, Center for Empowerment and Economic Development, Procurement Technical Assistance Centers, Huntington National Bank, SCORE Ann Arbor Chapter 655	September 1, 2010	Livonia, MI
Annual Partner Meeting and Lender SOP Training	Connecticut Small Business-Key to the Future	October 6, 2010	North Haven, CT
2nd Annual Asian American Business Women Leadership Conference "Global Business Connections"	Asian American Business Women Association	September 16, 2010	Garden Grove, CA
Small Business Informational Insert	Stonehand Publishing Group, Ltd	September 2010 - August 30, 2013	Des Moines, IA
Production of video series	Office of International Trade-Inc.	August 2010- August 2012	Website and National Harbor, MD
Series: Women Business Workshop: "Growing Your Business Through Customer Service Excellence"	Business and Professional Women	September 29, 2010	Timonium, MD
Women Business Enterprise National Council Training	Women Presidents' Educational Organization	October 15, 2010	Baltimore, MD
NY Small Business Lending Forum and Luncheon	Federal Deposit Insurance Corporation	September 8, 2010	Manhattan, NY
Women in Business for Women Who Mean Business	West Hartford Chamber of Commerce	September 2010- June 2011	West Hartford, CT
Collective Banking Group Meeting	Collective Banking Group of Miami-Dade & Vicinity, Inc.	September 10, 2010	Miami, FL
Small Business Symposium	Federal Deposit Insurance Corporation	September 30, 2010	Los Angeles, CA
Immigrant Entrepreneurs Summit	Drake University, Community CPA & Associates, Inc./Community Tax Clinic, Iowa Women's Enterprise Center, Immigrant Rights Network of Iowa, Iowans for Social and Economic Development	November 13, 2010	Des Moines, IA

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### Events/Activities Where SBA Used its Cosponsorship Authority\* Small Business Act, Section 4(h) April 1, 2010 through September 30, 2010

Name/Subject of Event	Name of Cosponsor(s)	Date(s) of Event	Location of Event
Introduction to GSA Schedules, 8(a) Certification and SBA Surety Bond Guarantee Program	Georgia State University Small Business Development Center, General Services Administration	November 16, November 30, December 14, 2010-September 30, 2012	Atlanta, GA
Native American Conference	Native American Procurement Technical Assistant Center, URS	November 9, 2010	Boise, ID
2011 Small Business Week Celebration	Hartford Business Journal, Connecticut Small Business-Key to the Future	May 2011	Hartford, CT
2011 SBA Maryland Small Business Week Awards Breakfast and Trade Show	Maryland Small Business Week Awards Program, Inc.	May 20, 2011	Woodlawn, MD
20/20, Change Management, Energy Efficiencies	California Manufacturing Technology Consulting, City of Cypress Economic Development Department	October 21, November 10, December 2, 2010	Cypress, CA
Small Business Expo	Simon property Group, L.P., Gulfport SCORE Chapter	October 26, 2010	Jackson, MS

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## Appendix X

### Legal Actions Summary

April 1, 2010 through September 30, 2010

State	Program	Alleged Violation(s) Prosecuted	Legal Action	Investigated Jointly With
CA	BL	The owner of three California restaurants applied for three SBA-guaranteed loans, totaling \$1,038,000, and reported that neither he nor his businesses were involved in any pending lawsuits and had no business indebtedness. The investigation alleges that the owner had, in fact, been named as a defendant in two civil lawsuits, resulting in judgments against him of approximately \$1.9 million, and had many unreported outstanding debts.	Owner indicted.	None
CA	BL	The owner of a cosmetic business submitted an SBA Express loan application for a \$30,000 SBA-guaranteed loan. About 9 months later, he submitted a second Express loan application for a \$170,000 loan. It is alleged that when he applied for the second loan, he falsely reported that he had no previous SBA loans.	Owner indicted.	None
CA	BL	The owner of a small kitchenware business applied for three SBA Express loans, totaling \$120,000, each from a different bank, within a one-month period. The investigation alleges that when applying for the second and third loans, the owner falsely reported that he had no previous SBA loans.	Owner indicted.	None
DC	GC	The owner of an 8(a)-certified design/remodeling business allegedly conspired to submit false information regarding past performance and employee qualifications to the GSA in the course of obtaining an 8(a) contract.	Owner charged by criminal information.	DHS/ICE, GSA/OIG, DOJ/AT
DC	GC	A government contractor represented to the Army and the SBA that its principal office was located in an SBA-designated HUBZone in Washington, D.C. The government alleged that the company's office was actually located in a Virginia suburb and that the contractor did not employ a sufficient percentage of employees who lived in a HUBZone. Based upon the company's representations, the contractor was awarded Army contracts that had been set aside for qualified HUBZone companies.	The contractor agreed to pay the United States \$750,000 to settle False Claims Act claims that it fraudulently obtained contracts from the Army.	DCIS

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## Appendix X Legal Actions Summary April 1, 2010 through September 30, 2010

State	Program	Alleged Violation(s) Prosecuted	Legal Action	Investigated Jointly With
FL	DL	An individual submitted fraudulent documents to induce the SBA to approve \$143,700 in disaster loan funds for damages to a home that was not his primary residence when Hurricane Wilma struck Florida. He used the disaster loan funds to repair pre-existing damage not caused by the hurricane and pay off pre-existing debt on the property.	Individual charged via criminal information, pled guilty, and was sentenced to 24 months in prison, 1 year supervised release, and a \$5,000 fine.	DHS/OIG
FL	DL	The manager of a construction company applied for a \$239,300 SBA economic injury disaster loan for his company after Tropical Storm Fay hit in August 2008. In order to get approved for the disaster loan, he misrepresented the status of several pending foreclosures and then provided SBA with altered title reports to hide those foreclosures, as well as other undisclosed adverse items.	Manager pled guilty and was sentenced to 18 months in prison, 1 year supervised release, and \$42,833.78 in restitution.	FBI
GA	BL	The president of a sports bar provided false information on his SBA Form 912 (Statement of Personal History) when applying for a \$1.8 million SBA-guaranteed loan. Specifically, he indicated he had no previous criminal history; in reality, he had been arrested and convicted on numerous occasions for various crimes including driving under the influence, simple assault, and possession of illegal substances.	Individual pled guilty.	None
GA	BL	A non-bank lender, with Preferred Lender Program status, used deficient loan origination, underwriting, issuance, processing and servicing functions on numerous loans. Many of the fraudulent loans defaulted within 20 months of origination.	Civil settlement reached. Non-bank lender agreed to pay \$28,262,057 to settle the claim.	None
IL	IA	A former SBA lender relations officer, responsible for resolving issues related to the charge-off of SBA loans that were secured with real estate as collateral, allegedly recommended selling 25 delinquent loans for substantially less than they were worth to his stepbrother and his son-in-law. He did not disclose to the SBA the true value of each loan or the familial relationships when making the recommendations.	Former lender relations officer indicted.	FBI

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### Appendix X Legal Actions Summary April 1, 2010 through September 30, 2010

State	Program	Alleged Violation(s) Prosecuted	Legal Action	Investigated Jointly With
IL	BL	An entrepreneur obtained multiple SBA-guaranteed bank loans totaling \$121,695 to purchase Egyptian artifacts for two art-exhibition companies that he created. He allegedly submitted false invoices and letters supporting purchases of collateral artifacts that were never finalized and then diverted the loan proceeds to personal accounts that he used to support a lavish lifestyle.	Individual charged by criminal information.	The SBA OIG fraud case was conducted concurrently with FBI and DEA investigations.
IL	BL	The president and part-owner of an Illinois corporation conspired with others to submit a fraudulent loan application to the SBA and a lender in order to obtain an SBA-guaranteed loan of \$1,240,000 for purchase of a gasoline station. The loan application included documents falsely showing that the borrowers possessed adequate cash funds for their required equity injections.	President pled guilty.	None
IL	BL	In order to profit from the sale of a failing business, a commercial loan officer/entrepreneur allegedly directed his colleague and friend, a commercial loan broker, to prepare false corporate financial statements portraying the business as profitable. The inflated financial statements were used to induce multiple lenders to make loan commitments totaling \$6.18 million of SBA-guaranteed funds. All loan commitments were cancelled during the investigation.	Loan officer/entrepreneur indicted.	FDIC/OIG
IN	BL	When applying for SBA-guaranteed loans for his electrical contracting firm, an individual allegedly reported he had no criminal history and concealed numerous arrests and felony convictions. The individual has defaulted on the loans with a principal balance totaling \$564,341 and has filed for bankruptcy.	Individual indicted.	None
KS	GC	The owner of a temporary staffing company concealed the involvement of a non-disadvantaged person in the management and operations of her business. Her false statements resulted in SBA certifying the company as an 8(a) company and allowing it to obtain government 8(a) set-aside contracts valued at about \$5.4 million.	Owner sentenced to 5 years probation with community service and a \$3,000 fine.	DOJ/AT, VA/OIG, DCIS, USSS

# Appendices

## Appendix X Legal Actions Summary April 1, 2010 through September 30, 2010

State	Program	Alleged Violation(s) Prosecuted	Legal Action	Investigated Jointly With
LA	DL	An individual, who had been approved for an SBA disaster business loan of \$123,800, submitted forged and/or fraudulent building permits, receipts, and construction contracts to induce SBA to disburse disaster loan funds to which she was not entitled. She later converted the funds to personal use.	Individual sentenced to 12 months and 1 day in prison, 36 months supervised release, and restitution to the SBA in the amount of \$122,641.	HUD/OIG
LA	DL	In order to receive a \$50,000 SBA disaster loan, a husband and wife are alleged to have applied using an address of another property that they owned, but did not occupy, and misrepresenting it as their primary residence. In addition, the indictment alleges that the couple made false statements in order to receive benefits from the National Flood Insurance Program and the Louisiana Road Home Program.	Couple indicted.	HUD/OIG, DHS/OIG, FBI
LA	DL	An individual made false statements and submitted false documents to SBA in order to receive a physical disaster loan of \$38,800 for Hurricane Katrina damages. Instead of using the SBA loan to repair the family home, the individual and her husband used the SBA disaster relief funds, as well as \$150,000 in Louisiana Road Home funds, to open a pizza restaurant.	Individual sentenced to 1 year and 1 day in prison, 3 years supervised release, and \$150,000 in restitution. Husband sentenced to 3 years probation and a \$1,500 fine for concealing knowledge of his wife's felony.	HUD/OIG
LA	BL	In a transaction involving a \$916,000 SBA-guaranteed loan, an individual allegedly created a fraudulent commission agreement used it at loan closing to circumvent the equity injection requirement.	Individual indicted.	FBI, IRS, LSAGO
LA	DL	An individual executed a written SBA "Loan Authorization and Agreement" in which she agreed to use the proceeds of the SBA loan to replace property at her residence that had been damaged by Hurricane Katrina and to provide written receipts and contracts for all repairs to the SBA. The indictment alleges that she created fraudulent documentation to reflect repair expenses incurred as a result of the storm and submitted these false documents to SBA.	Individual indicted.	HUD/OIG, DHS/OIG, USPS/OIG

# Appendices

## Appendix X Legal Actions Summary April 1, 2010 through September 30, 2010

State	Program	Alleged Violation(s) Prosecuted	Legal Action	Investigated Jointly With
LA	DL	An individual allegedly provided false statements on her applications for disaster assistance regarding her primary residence being affected by Hurricane Katrina. Although she owned the property that she claimed as her primary residence, the house was considered unlivable prior to the storm. As a result of her misrepresentations, she received \$219,000 in disaster loan funds from the SBA, as well as assistance from the Louisiana Road Home Program and FEMA.	Individual charged by criminal information.	HUD/OIG, DHS /OIG, FBI
LA	DL	An individual received an economic injury disaster loan, on behalf of her father, in the amount of \$342,000. The investigation alleges that she submitted a false mortgage as security for this loan, leases with inflated rental amounts to prove her ability to repay the loan, and receipts misrepresenting work done on the properties with the loan proceeds.	Individual indicted.	HUD/OIG, DHS/OIG, DOS/ OIG
LA	DL	An individual submitted disaster relief applications to the SBA and the Louisiana Road Home Program. It is alleged that he falsely declared a New Orleans, Louisiana property as his primary residence when submitting both applications. He received \$86,700 from the SBA and \$61,000 from the Louisiana Road Home Program.	Individual charged by criminal information.	HUD/OIG
LA	DL	An individual filed for Katrina disaster assistance using an address that was not his primary residence when the hurricane struck New Orleans. He received a \$50,000 SBA loan and \$56,000 in Louisiana Road Home Program grant funds.	Individual sentenced to 5 years probation and ordered to pay restitution of \$43,067 to the SBA and \$56,000 to the Louisiana Road Home Program.	HUD/OIG

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## Appendix X Legal Actions Summary April 1, 2010 through September 30, 2010

State	Program	Alleged Violation(s) Prosecuted	Legal Action	Investigated Jointly With
LA	DL	The manager of a construction company and his wife, the owner of a financial services company, allegedly submitted fraudulent cancelled checks and false invoices in support a \$126,300 SBA loan made to their clients, the SBA borrowers. The borrowers received the loan to rebuild/repair their residence, which had been damaged by Hurricane Ike. The borrowers hired the wife's company to negotiate and finalize the SBA loan through a power of attorney agreement. The husband's company was responsible for the repairs to the borrowers' residence.	Couple indicted.	None
MD	GC	A contractor conspired with a government employee to embezzle \$958,280 from NARA. The contractor operated three businesses listed on contracting documents as being 8(a) certified, but SBA had no record of such certifications. The employee used his government purchase card to buy goods and services from these three businesses that were either never provided or provided at inflated prices.	Contractor sentenced to 15 months in prison, 3 years supervised release, and restitution of \$958,280.64. Also ordered to forfeit two vehicles purchased with proceeds of the scheme. Employee awaiting sentencing.	NARA/OIG
MO	BL	The president of a construction company obtained a \$300,105 line of credit from a Missouri bank for the stated purpose of providing business funds for his company. Instead of using the funds for the stated purpose, he took a \$262,647.82 draw on the line of credit in order to benefit the former executive vice-president and others parties connected to the Missouri bank that issued the line of credit. Specifically, he routed about \$176,674 through separate bank accounts in order to pay off a fraudulent SBA-guaranteed loan made to another defendant in this investigation.	President pled guilty.	FBI

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## Appendix X Legal Actions Summary April 1, 2010 through September 30, 2010

State	Program	Alleged Violation(s) Prosecuted	Legal Action	Investigated Jointly With
MO	BL	A borrower signed several SBA documents in connection with a \$750,000 SBA-guaranteed loan stating he was the sole owner of a company, when, in fact, he did not have any ownership interest in the company. He also signed SBA documents affirming that certain portions of the loan proceeds were to be used for equipment and inventory purchases, working capital, and debt repayment, when, in fact, he knew the loan proceeds were intended to be used to pay down an outstanding loan balance of another business.	Individual pled guilty.	FBI
MO	BL	When applying for a \$80,070 SBA Express loan, an individual falsely indicated that she had never been arrested, charged, or convicted of any crime other than a minor motor vehicle violation. In reality, she had four prior drug convictions and had been arrested and charged with passing bad checks.	Individual sentenced to 5 years probation and restitution of \$91,885.	FBI
MS	DL	A husband and wife received \$152,000 in SBA disaster relief funds based on a claim for Hurricane Katrina damages to a property they falsely claimed to be their primary residence.	Both pled guilty.	HUD/OIG, DHS/OIG, HHS/OIG, MSAO
MS	DL	A husband and wife were approved for an SBA disaster home loan in the amount of \$240,000 for property they owned in Ocean Springs, Mississippi. They claimed this property was their primary residence at the time that Hurricane Katrina hit the Gulf Coast. In reality, the couple was living in California at the time of the storm. Only \$50,000 of the loan was disbursed.	Both pled guilty.	HUD/OIG, DHS/OIG, MSAO
NY	GC	The president/CEO of an SDVO business is alleged to be falsely claiming SDVO status for his company. The company has been awarded one Veteran-Owned set-aside contract in the amount of \$5,698,000 and three SDVO set-aside contracts totaling \$10,980,690.	Individual indicted.	VA/OIG, Army/CID

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## Appendix X Legal Actions Summary April 1, 2010 through September 30, 2010

State	Program	Alleged Violation(s) Prosecuted	Legal Action	Investigated Jointly With
TX	DL	An SBA paralegal allegedly forged an applicant's signature on loan documents, altered a personal check by placing the applicant's name on it, and made false entries into an SBA database to support loan disbursement to her own personal checking account. The applicant had originally applied for a \$33,600 SBA disaster loan to replace personal property damaged as a result of Hurricane Ike but later decided not to take the loan.	Individual indicted and found guilty.	None
TX	BL	A loan broker, the owner of an investment company, the owner of an insurance company, and an SBA borrower were involved in a complex loan fraud scheme. The scheme involved making false statements and submitting fraudulent documents to SBA-approved lending institutions in order to fraudulently obtain loans.	Six individuals have been convicted.	FBI, IRS/CID
TX	BL	Two businessmen allegedly made multiple material misrepresentations to lenders and the SBA regarding the purchase of a Houston motel. The indictment alleges one man purchased the motel from the original seller, then a day later, sold the motel to the other man at a much inflated price. The second man used an SBA-guaranteed loan of \$1,327,000, which was based on the artificially inflated sales price, as part of the financing.	Both men indicted.	FBI
TX	BL	The president of a title company, an SBA borrower (the buyer), and two sellers of a convenience store conspired to falsely represent that money had been received at closing from the buyer. The buyer obtained a \$1 million SBA-guaranteed loan and a \$300,000 conventional loan.	Three individuals and the title company pled guilty. Title company fined \$25,000.	FBI

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## Appendix X Legal Actions Summary April 1, 2010 through September 30, 2010

State	Program	Alleged Violation(s) Prosecuted	Legal Action	Investigated Jointly With
TX	DL	A sole-proprietor truck driver applied for a \$196,300 SBA disaster loan to replace machinery and equipment allegedly lost during Hurricane Rita. The indictment charges that he submitted invoices, estimates, and receipts in support of his SBA loan that did not match bank records. The only item that he purchased with SBA loan funds was a Freightliner truck for approximately \$34,000. The remaining disaster loan funds have not been accounted for.	Truck driver indicted.	None
UT	BL	The president/owner of a financial services company and his business partner allegedly recruited “straw borrowers” and used the borrowers’ names and good credit to fraudulently obtain four SBA loans and two bank loans totaling \$335,000.	President and business partner indicted.	IRS/CID
WA	BL	A business broker handling the sale of a disaster restoration company assisted the buyer in obtaining a \$1,999,800 loan by making and aiding and abetting the making of false statements. These statements included understating the true purchase price of the business, failing to disclose a promissory note, and falsely representing the duration of the seller’s employment contract. In addition, the broker structured the closing to occur in two sessions in order to conceal the above described misrepresentations from the bank and the SBA.	Broker charged by criminal information and pled guilty.	IRS/CID

**Program Codes:** BL=Business Loan; DL=Disaster Loan; GC=Government Contracting and Section 8(a) Business Development; IA=Integrity Assurance.

**Joint-investigation Federal Agency Acronyms:** Army/CID=U.S. Army/Criminal Investigation Division; DCIS=Defense Criminal Investigative Service; DEA=Drug Enforcement Administration; DHS/ICE=Department of Homeland Security/Immigration and Customs Enforcement; DOJ/AT=Department of Justice/Antitrust Division; DOS/OIG=Department of State/OIG; DHS/OIG=Department of Homeland Security/Office of Inspector General; FBI=Federal Bureau of Investigation; FDIC/OIG=Federal Deposit Insurance Corporation/OIG; GSA/OIG=General Services Administration/OIG; HHS/OIG=Department of Health and Human Services/OIG; HUD/OIG=Department of Housing and Urban Development/OIG; IRS/CID=Internal Revenue Service/CID; LSAGO=Louisiana State Attorney General’s Office; MSAO=Mississippi State Auditor’s Office; NARA/OIG=National Archives and Records Administration/OIG; NCIS=Naval Criminal Investigative Service; USA/CID=United States Army/CID; USPS/OIG=United States Postal Service/OIG; USSS=United States Secret Service; VA/OIG=Department of Veterans Affairs/OIG

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## Appendix XI Results of External Peer Reviews

Section 5(a) of the IG Act contains the following requirements for reporting the results of peer reviews in OIG Semiannual Reports to Congress:

*"(14)(A) an appendix containing the results of any peer review conducted by another Office of Inspector General during the reporting period; or*

*"(B) if no peer review was conducted within that reporting period, a statement identifying the date of the last peer review conducted by another Office of Inspector General;*

*"(15) a list of any outstanding recommendations from any peer review conducted by another Office of Inspector General that have not been fully implemented, including a statement describing the status of the implementation and why implementation is not complete; and*

*"(16) a list of any peer reviews conducted by the Inspector General of another Office of the Inspector General during the reporting period, including a list of any outstanding recommendations made from any previous peer review (including any peer review conducted before the reporting period) that remain outstanding or have not been fully implemented."*

The following information is provided in accordance with these requirements.

### Auditing

*Generally Accepted Government Auditing Standards (GAGAS)* issued by the General Accounting Office (GAO) require that audit organizations performing audits and attestation engagements in accordance with GAGAS must have an external peer review performed by reviewers independent of the audit organization being reviewed at least once every 3 years.

The SBA OIG did not have a peer review conducted during this semiannual reporting period. The last peer review of the SBA OIG was conducted by the Department of Commerce OIG, which issued its final report on December 18, 2009. The SBA OIG received a rating of "Pass" in that report (Federal audit organizations can receive a rating of Pass, Pass with Deficiencies, or Fail). There are no outstanding recommendations from previous peer reviews of the SBA OIG.

The SBA OIG did not conduct a peer review of another OIG during this semiannual reporting period. There are no outstanding recommendations from previous peer reviews of other OIGs conducted by the SBA OIG.

### Investigations

Section 6(e)(7) of the IG Act, *Attorney General Guidelines for Offices of Inspector General with Statutory Law Enforcement Authority*, and the CIGIE *Quality Standards for Investigations* require external peer reviews of OIG investigative functions no less often than once every 3 years.

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The SBA OIG did not have a peer review conducted during this semiannual reporting period. The last peer review of the SBA OIG was conducted by the Department of Transportation OIG, which issued its final report on May 7, 2009. The SBA OIG was found to be in compliance with quality standards established by the CIGIE and Attorney General guidelines (OIGs can be assessed as either Compliant or Noncompliant). There are no outstanding recommendations from previous peer reviews of the SBA OIG.

The SBA OIG did not conduct a peer review of another OIG during this semiannual reporting period. There are no outstanding recommendations from previous peer reviews of other OIGs conducted by the SBA OIG.

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## Appendix XII Gulf Coast Hurricane Reports

Title	Report Number	Issue Date	Recommendations	Questioned Costs	Funds for Better Use
Disaster Loan Application Declines Within DCMS	6-11	2/2/06	2	\$0	\$0
FEMA Online Registrations Increase DCMS Applications	6-12	2/17/06	2	\$0	\$0
Interface Error Correction Between NEMIS and DCMS	6-20	3/31/06	3	\$0	\$0
DCMS Upgrade Needs a System Certification and Accreditation.	6-21	4/27/06	1	\$0	\$0
DCMS-Performance Test Plans	6-24	6/8/06	2	\$0	\$0
Preliminary Assessment of Controls over the Coordination of Disaster Assistance Benefits Distributed by Mississippi Development Authority's Grant Assistance Program	6-28	9/25/06	4	\$0	\$0
Loan Disbursements Following the 2005 Gulf Coast Hurricanes	6-29	9/19/06	0	\$0	\$0
Flexible Staffing of SBA Personnel During Times of Emergencies or Catastrophes to Aid Disaster Loan Processing	6-31	9/25/06	2	\$0	\$0
Audit of Borrower Acceptance of Disbursements	7-20	4/17/07	2	\$0	\$0
Securing Collateral for Disaster Loan Disbursements	7-22	5/9/07	4	\$0	\$0
Review of SBA's Monitoring and Support of 8(a) Procurements Related to the Gulf Coast hurricanes of 2005	7-24	5/10/07	3	\$0	\$0
Duplicate Benefit Adjustments to Disaster Assistance Loans Associated with Housing and Urban Development Grants	7-25	5/15/07	0	\$0	\$0
Audit of Liquidation of Disaster Loans	7-26	6/1/07	7	\$0	\$0
Quality Assurance Reviews of Loss Verifications	7-29	7/23/07	4	\$0	\$0
Report of the Cancellation of Approved Disaster Loans to Individuals and Businesses Impacted by the Gulf Coast Hurricanes	7-30	9/7/07	2	\$0	\$0
The Quality of Loans Processed Under the Expedited Disaster Loan Program	7-34	9/28/07	2	\$0	\$31,980,000

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### Appendix XII Gulf Coast Hurricane Reports

Title	Report Number	Issue Date	Recommendations	Questioned Costs	Funds for Better Use
Review of the Adequacy of Supporting Documentations for Disbursements	8-07	01/29/08	3	\$0	\$0
Annual Credit Reviews for Gulf Coast Hurricane Disaster Loan Disbursements	8-10	03/28/08	4	\$0	\$29,200,000
Withdrawal of Disaster Loans Applications to Individual and Businesses Impacted by the Gulf Coast Hurricanes	8-11	03/28/08	2	\$0	\$0
Disaster Loss Verification Process	8-15	06/20/08	7	\$0	\$10,300,000
Audit of the Disaster Loan File Transfer and Servicing Delays	8-17	07/18/08	5	\$0	\$0
Early-Defaulted Gulf Coast Disaster Hurricane Loans	8-19	09/12/08	1	\$0	\$69,000,000
Audit of Use of Proceeds from Gulf Coast Hurricane Disaster Loans	9-06	01/15/09	3	\$0	\$10,147,500
Review of Borrower Eligibility for Gulf Coast Disaster Loans	9-09	03/31/09	3	\$19,000	\$683,200
Audit of Improper Payments in the Disaster Assistance Program	9-10	03/26/09	7	\$0	\$0
Monitoring of Insurance Coverage for Disaster Loan Recipients	10-01	10/20/09	4	\$0	\$0
Application of Insurance Offsets for Gulf Coast Disaster Loans	10-03	10/21/09	3	\$314,363	\$0
Duplication of Benefits between SBA Disaster Loans and Community Development Block Grants	10-13	9/2/10	5	\$0	\$2,100,000
<b>TOTAL</b>	<b>28</b>		<b>87</b>	<b>\$333,363</b>	<b>\$153,410,700</b>

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## Appendix XIII Small Business Administration Office of Inspector General

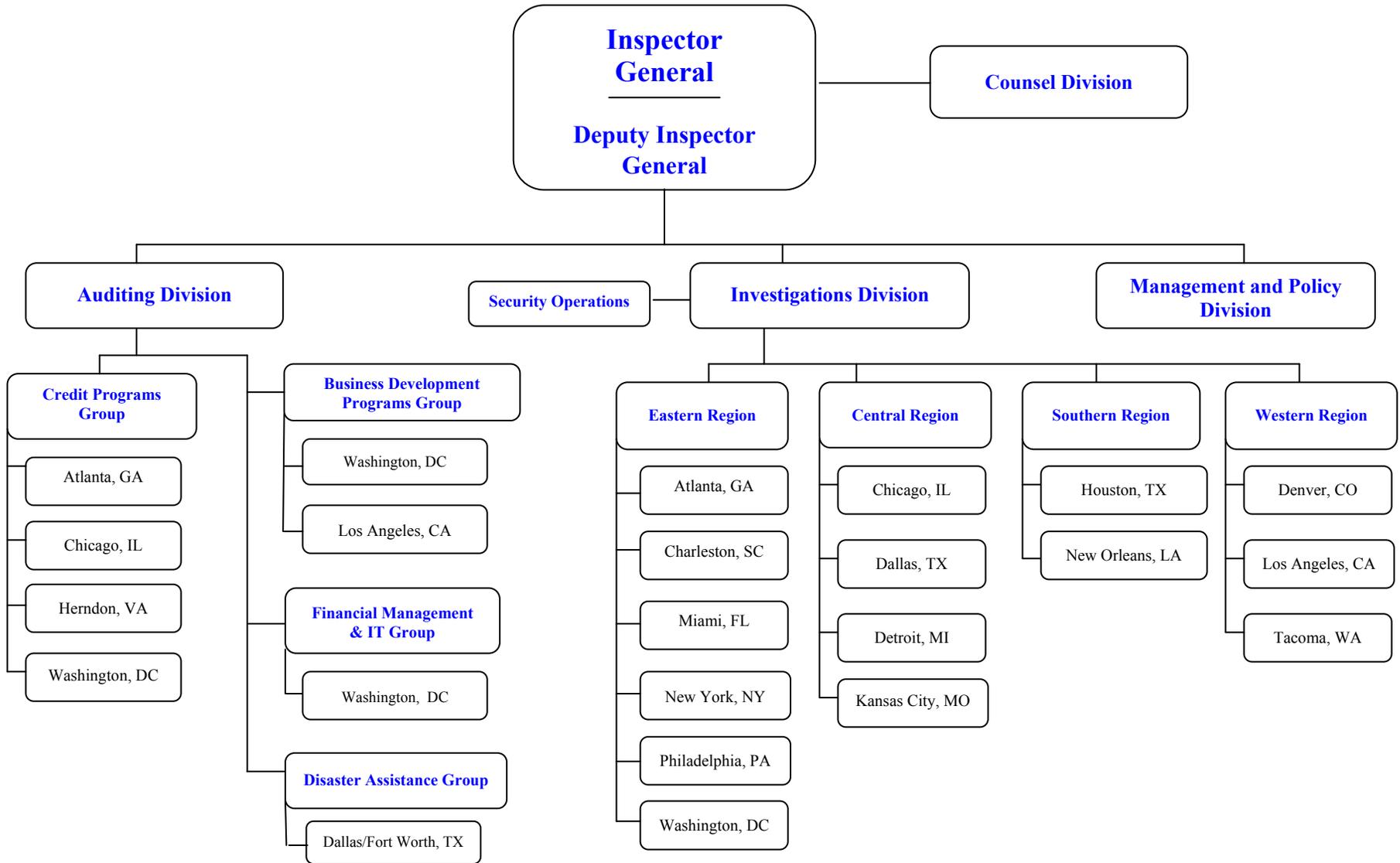
The OIG has four divisions that perform the key functions summarized below.

- **The Auditing Division** performs financial, information technology and other mandated audits, program performance reviews, and internal control assessments, and oversees audits by contractors to promote the economical, efficient, and effective operation of SBA programs.
- **The Investigations Division** manages a program to detect and deter illegal and/or improper activities involving SBA programs, operations, and personnel. The criminal investigations staff carries out a full range of traditional law enforcement functions. The security operations staff ensures that all Agency employees have the appropriate background investigations and security clearances for their duties. They also conduct the name check program, which provides SBA officials with character-eligibility information on loan applicants and other potential program participants.
- **The Counsel Division** provides legal and ethics advice to all OIG components, represents the OIG in litigation arising out of or affecting OIG operations, assists with the prosecution of civil enforcement matters, processes subpoenas, responds to Freedom of Information and Privacy Act requests, and reviews and comments on proposed Agency policies, regulations, legislation, and procedures.
- **The Management and Policy Division** provides business support (e.g., budget/financial management, human resources, information technology, and procurement) for the various OIG functions, coordinates the preparation of the Semiannual Report to Congress and the Report on SBA's Management Challenges, and develops OIG strategic and performance plans.

The OIG is headquartered in Washington, DC, and has field staff located in Atlanta, GA; Charleston, SC; Chicago, IL; Dallas/Fort Worth, TX; Detroit, MI; Denver, CO; Herndon, VA; Houston, TX; Kansas City, MO; Los Angeles, CA; Miami, FL; New Orleans, LA; New York, NY; Philadelphia, PA; Tacoma, WA; and Washington, DC.

An organization chart for the OIG is shown in Appendix XIV on page 67

**Appendix XIV**  
**Small Business Administration**  
**Office of Inspector General**





# **Make A Difference!**

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

## **Online:**

<http://www.sba.gov/ig/>

## **Call:**

1-800-767-0385 (Toll Free)

## **Write or Visit:**

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

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