

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

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## Semiannual Report to Congress Spring 2007



October 1, 2006 – March 31, 2007

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# Inspector General Act Statutory Reporting Requirements

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

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Section 4(a)(2)	Review of Legislation and Regulations	18-19
Section 5(a)(1)	Significant Problems, Abuses, and Deficiencies	3-18
Section 5(a)(2)	Recommendations with Respect to Significant Problems, Abuses and Deficiencies	35-38
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Section 5(a)(4)	Matters Referred to Prosecutive Authorities	43-47
Sections 5(a)(5) and 6(b)(2)	Summary of Instances Where Information Was Refused	None
Section 5(a)(6)	Listing of OIG Reports	21-22
Section 5(a)(7)	Summary of Significant Audits & Other Reports	4-18
Section 5(a)(8)	Audit Reports with Questioned Costs	23
Section 5(a)(9)	Audit Reports with Recommendations that Funds Be Put to Better Use	23
Section 5(a)(10)	Summary of Reports From Prior Semiannual Reports Where No Management Decision Was Made	25-26
Section 5(a)(11)	Significant Revised Management Decisions	None
Section 5(a)(12)	Significant Management Decisions with Which the OIG Disagreed	None
Section 5(a)(13)	Information Described Under Section 05(b) of the Federal Financial Management Improvement Act of 1996	N/A



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

April 2007

I am pleased to present the U.S. Small Business Administration (SBA) Office of Inspector General (OIG) Spring 2007 Semiannual Report to Congress. This report provides a summary of the OIG's activities from October 1, 2006 through March 31, 2007.

The OIG adds value to SBA programs and operations by providing auditing, investigative, and other services to support and assist the Agency in achieving its statutory mission. We seek to target potential financial vulnerabilities and fraud, promote effective program management, ensure complete and accurate financial reporting, and improve information security. During this reporting period, the OIG issued 17 reports with recommendations for improving Agency operations, reducing fraud and unnecessary losses, and recovering funds. In addition, OIG investigations led to 27 indictments and 20 convictions of subjects who defrauded the Federal Government. We also reviewed 59 legislative, regulatory, policy, procedural, and other proposals concerning the SBA and Government-wide programs. With a staff of about 100, the OIG continues to produce sizeable savings and important program improvements.

One of the OIG's significant priorities is the investigation of fraud by loan agents and other participants in the SBA business loan programs. In January 2007, OIG and Secret Service agents arrested 18 individuals sought in connection with an investigation of a massive fraud scheme. The executive vice president of a non-bank lender was indicted for conspiracy, wire fraud, tampering with witnesses, and making false declarations to a grand jury and a bank. The indictment alleged that he fraudulently caused the lender to originate as many as 76 loans totaling almost \$77 million. Several other individuals have also been indicted, including a loan agent and a former assistant vice president of another financial institution, who allegedly supplied false verifications of deposits for loan applicants and gave a loan broker unfunded cashier's checks to be used in the loan closings.

The OIG continues to devote significant resources to audits and investigations related to the 2005 Gulf Coast hurricanes. As of March 31, 2007, in concert with the Hurricane Katrina Fraud Task Force, the OIG also had 27 open cases and had obtained 19 indictments and 8 convictions. The 27 open cases, involving loan amounts totaling nearly \$6 million, relate to allegations of false statements involving residency, nonexistent property damage, and misuse of loan proceeds. As more loans are disbursed, and the 12 month deferral of payments for disaster loans comes to an end, we anticipate an increase in both fraud referrals and loss exposure to SBA. In addition, we currently have underway or planned a number of audits and reviews of SBA's loan approval and disbursement processes.

I would like to thank SBA's Administrator, Steven Preston, and Deputy Administrator, Jovita Carranza, for their strong support of the OIG's work. I look forward to continuing to work with SBA's leadership team in carrying out the OIG's mission to fight waste, fraud, and abuse and promote greater government efficiency.

Eric M. Thorson  
Inspector General



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# Overview of SBA and the OIG

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## 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 promoting the development and growth of small businesses and by assisting in the economic recovery of communities after disasters. To fulfill its mission, SBA has three programmatic strategic goals that broadly define what the Agency and its programs are trying to accomplish. These goals are to "Improve the economic environment for small businesses"; "Increase small business success by bridging competitive opportunity gaps facing entrepreneurs"; and "Restore homes and businesses affected by disaster." A fourth strategic goal, "Ensure that all SBA programs operate at maximum efficiency and effectiveness by providing them with high quality executive leadership and support services," defines the responsibility of the Agency's executive leadership and support functions to help accomplish the programmatic goals.

SBA is organized around four key functional areas: financial assistance (e.g., loan programs); contracting assistance; technical assistance (e.g., entrepreneurial development); and disaster assistance. The Agency also represents small businesses through an independent advocate and an ombudsman. SBA headquarters is located in Washington, D.C., while its business products and services are delivered with the help of 10 regional offices, 68 district offices, 4 Disaster area offices, and a vast network of resource partners in all 50 States, the District of Columbia, Puerto Rico, American Samoa, the U.S. Virgin Islands, and Guam. SBA's appropriation for Fiscal Year (FY) 2007 is \$571 million. As of March 31, 2007, SBA had 2,240 employees, including Office of Inspector General (OIG) personnel, but excluding disaster-funded employees. There were 2,434 temporary and permanent disaster employees, excluding contractors.

## The Office of Inspector General

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

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

- **The Auditing Division** performs financial, information technology and other mandated audits, program performance reviews, and internal control assessments, and oversees audits by contractors to promote the economical, efficient, and effective operation of SBA programs.
- **The Investigations Division** manages a program to detect and deter illegal and/or improper activities involving SBA programs, operations, and personnel. The criminal investigations staff carries out a full range of traditional law enforcement functions. The security operations staff ensures that all Agency employees have the appropriate background investigations and security clearances for their duties, and conducts the name check program, which provides SBA officials with character-eligibility information on loan applicants and other potential program participants.
- **The Counsel Division** provides legal and ethics advice to all OIG components, represents the OIG in litigation arising out of or affecting OIG operations, assists with the prosecution of civil enforcement matters, processes subpoenas, responds to Freedom of Information and Privacy Act

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## Overview of SBA and the OIG

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requests, and reviews and comments on proposed Agency policies, regulations, legislation, and procedures.

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

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

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

### OIG Work During This Reporting Period

As of March 31, 2007, the OIG had 101 staff on-board. The OIG's FY 2007 appropriation is \$15.3 million, including a \$1.5 million transfer for disaster assistance oversight activities. In addition, a supplemental appropriation during FY 2006 provided the OIG with \$5 million in "no-year" funds for Gulf Coast hurricane disaster oversight.

During this reporting period, OIG activities focused on the two strategic goals in our FY 2006-2011 Strategic Plan: "Improving the economy, efficiency, and effectiveness of SBA programs and operations," and "Promoting and fostering integrity in SBA programs and operations." Using this framework, the OIG concentrated on critical risks facing SBA, including: risks of financial losses due to SBA's downsizing, centralization, and limited oversight and controls; risks to SBA's performance of its statutory mission to promote small business development and Government contracting; and risks associated with SBA's information technology and financial management systems and other internal operations.

The challenges and risks facing the Agency increased significantly with the devastation from the hurricanes that hit the Gulf Coast during 2005. The OIG has undertaken a series of reviews of the management of SBA's disaster assistance process, the loan application approval process, loan disbursement activities, use of proceeds, and SBA's loan processing system, known as the Disaster Credit Management System (DCMS). The OIG is also directing significant investigative efforts toward detecting and deterring fraud related to the SBA Disaster Loan program.

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

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# Agency Management Challenges

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## OIG Issues FY 2007 Report on SBA's Top Management Challenges

In accordance with the Reports Consolidation Act of 2000, each fiscal year the OIG identifies the most serious management and performance challenges facing the Agency for inclusion in SBA's Performance and Accountability Report. The Management Challenges represent areas which the OIG considers to be particularly vulnerable to fraud, waste, abuse, or mismanagement, or which otherwise pose significant risk to the Agency, its operations, or its credibility. Each Management Challenge generally has originated from one or more OIG or Government Accountability Office (GAO) report. For each Management Challenge, the OIG provides the Agency with recommended remedial actions together with our assessment of Agency progress on each recommended action during the preceding fiscal year.

*The Management Challenges represent areas which the OIG considers to be particularly vulnerable to fraud, waste, abuse, or mismanagement, or which otherwise pose significant risk to the Agency, its operations, or its credibility.*

The Management Challenges identified in the OIG's FY 2007 report, issued on October 16, 2006, were as follows.

- Procurement flaws allow large firms to obtain small business awards and agencies to count contracts performed by large firms towards their small business goals.
- SBA faces significant challenges in financial management and reporting, which affect its ability to provide reliable, timely and accurate financial information.
- Information systems security needs improvement.
- Maximizing program performance requires that SBA fully develop, communicate, and implement a human capital management/transformation strategy.
- SBA's National Guaranty Purchase Center needs better controls over the business loan purchase process.
- SBA needs to effectively implement its participant oversight plan.
- The Section 8(a) Business Development (BD) program needs to be modified so more firms receive business development assistance, standards for determining economic disadvantage are clear and objective, and SBA ensures that firms follow 8(a) regulations when completing contracts.
- The current practices of the SBIC (Small Business Investment Company) program place too much risk on taxpayer money.
- Preventing loan agent fraud requires additional measures.
- SBA needs to continue its efforts to update its system of directives to provide proper guidance and control over its operations.

The FY 2007 Management Challenges Report is available on the OIG's website at [http://www.sba.gov/ig/FY2007\\_management\\_challenges.pdf](http://www.sba.gov/ig/FY2007_management_challenges.pdf).

As in prior years, the FY 2007 report used a color-scoring scheme to show Agency progress in addressing the actions needed to resolve each Management Challenge. Following is a summary of the ten Management Challenges in the FY 2007 report, and the status of any progress by the Agency in addressing the Challenges. (As discussed below, the second Challenge has since been eliminated.)

# Agency Management Challenges

## Summary of SBA's FY 2007 Management Challenges

	Topic	Status Score				Change in Status	
		Green	Yellow	Orange	Red	Improved	Worsened
1	Small Business Contracts			3			
2	Financial Reporting	4	2			4	
3	IT Security		8	2	1	4	
4	Human Capital		4	2		1	
5	Loan Guaranty Purchase		1	4		1	2
6	Lender Oversight	3	5	4	2	6	
7	8(a) BD Program	1		2	3	1	1
8	SBIC Program	1	1	4	1	2	1
9	Loan Agent Fraud		2	3	1	2	1
10	Policies and Procedures	1	3			3	
<p>“Improved” refers to an action item that showed progress this year over last year’s score.  “Worsened” refers to an action item that showed regression this year from last year’s score.</p>							

While Agency progress on a number of the challenges has been encouraging, much more remains to be done. By their nature, these challenges require continued long-term commitment and effort by the Agency.

### SBA Overcomes Financial Management and Reporting Challenge

SBA has made improving financial management one of its top priorities. The Agency has worked diligently to identify and address the underlying causes of its financial management issues, improve its models for estimating the Agency’s subsidy costs, improve controls over financial statement preparation, and adhere to all reporting deadlines. The Agency’s demonstrated progress in this area has resulted in two successive unqualified audit opinions on its financial statements. Therefore, subsequent to issuance of

*SBA has made improving financial management one of its top priorities.... The Agency’s demonstrated progress in this area has resulted in two successive unqualified audit opinions on its financial statements.*

the FY 2007 Management Challenges report, the OIG eliminated Challenge 2, “SBA faces significant challenges in financial management and reporting, which affect its ability to provide reliable, timely, and accurate financial information.”

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# Significant OIG Activities

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## Disaster Loans

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

On August 29, 2005, Hurricane Katrina devastated the Gulf Coast regions of Louisiana, Mississippi, and Alabama. Katrina was the third most intense hurricane to hit the United States in recorded history, and the sixth strongest recorded in the Atlantic Basin. It was quickly followed by Hurricanes Rita and Wilma, creating further loss of lives and property in Florida and Texas. As of March 31, 2007, SBA had approved almost 120,000 disaster loans, totaling \$7.13 billion, in the aftermath of the Gulf Coast hurricanes, and had fully disbursed more than 100,000 disaster loans, totaling \$4.8 billion. Including loans that have been partially disbursed, the Agency has made full or partial disbursements on 98 percent of the approved loans, for a total of \$5.3 billion.

Given the broad scope of SBA's Gulf Coast hurricane disaster assistance efforts, OIG audit and investigations work will focus heavily on this area for the foreseeable future. The OIG has a number of audits and reviews underway or planned.

### OIG Receives Complaints About Expedited Loan Processing

The OIG received multiple complaints about expedited loan processing activities at SBA's Loan Processing and Distribution Center in Fort Worth, Texas. One complaint, which was made in October 2006, alleged that during the SBA's "90-in-45" loan disbursement campaign<sup>1</sup> loans were disbursed contrary to borrowers' wishes and without necessary documentation. The complaint also stated that loan quality standards were relaxed, original mortgage documents needed to secure collateral were destroyed, and staff and resources were poorly utilized. Subsequent complaints alleged that SBA improperly canceled approved loans during four separate campaigns in FY 2006. The complaints also alleged that borrowers withdrew their applications due to a lack of assistance from SBA, and that loan officers were not allowed to assist borrowers in obtaining required documentation or to maintain loan files beyond a week's time. The OIG has initiated several reviews in response to these complaints and will issue reports addressing the issues raised.

*One complaint...alleged that...loans were disbursed contrary to borrowers' wishes and without necessary documentation.*

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<sup>1</sup> Because rebuilding efforts had progressed slowly, questions arose about whether SBA's disbursement process was too slow. To reduce the backlog of loans, on October 2, 2006, SBA initiated the "90-in-45" campaign. The campaign's name referred to the goal of disbursing funds on the backlog of 90,000 plus loans associated with Hurricanes Katrina, Rita, and Wilma within 45 days.

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## Significant OIG Activities

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### Agencies Combine Efforts to Target Gulf Coast Hurricane Fraud

In concert with other law enforcement entities on the Hurricane Katrina Fraud Task Force, the OIG had 27 open cases and obtained 19 indictments and 8 convictions as of March 31, 2007. The 27 open cases, involving loan amounts totaling nearly \$6 million, relate to allegations of false statements involving residency at the time of the Gulf Coast hurricanes, nonexistent property damage to homes and businesses, and misuse of loan proceeds. As additional loan amounts are disbursed, and the 12-month deferral of principal and interest payments for disaster loans comes to an end, the OIG anticipates an increase in both fraud referrals and loss exposure to SBA. Examples of OIG cases related to the Gulf Coast hurricanes include the following.

*...the OIG had 27 open cases and obtained 19 indictments and 8 convictions as of March 31, 2007.*

- A Louisiana woman filed applications for SBA and Federal Emergency Management Agency (FEMA) disaster benefits falsely claiming to have suffered damages from Hurricane Katrina. Based on her claim using a nonexistent address, she received an initial disbursement of \$10,000 of a \$40,000 SBA disaster loan, as well as FEMA benefits. She pled guilty and was sentenced to 60 months probation and \$10,000 in restitution. The OIG conducted the investigation jointly with the Department of Homeland Security (DHS) OIG.
- An individual was indicted for claiming his primary residence was in Mississippi at the time of the Gulf Coast hurricanes, when he actually resided in Maryland. He was approved for an SBA loan of \$208,300, of which \$10,000 was disbursed. He also received nearly \$16,000 from FEMA. The OIG conducted this investigation jointly with the DHS OIG and the Mississippi State Auditor's Office.

### Fraud Persists in 9/11 Disaster Loans Made to Small Business Victims

Over \$1.1 billion in SBA disaster assistance loans went to small business victims of the September 11th terrorist attacks. Unfortunately, as in other disasters, dishonest applicants took advantage of the need to disburse funds quickly to legitimate victims to fraudulently obtain Federal funds. Frequently, these schemes are not discovered quickly because loan repayments are typically deferred.

OIG investigations have resulted in the prosecution of numerous individuals who used this national tragedy to commit fraud for personal gain. For example, the co-owner of a charter plane company in

*When the loan went into liquidation for non-payment, he sold two properties held as collateral for the loan by producing fraudulent documents...*

Alabama was indicted for wire fraud, personal income tax evasion, fraudulent conversion of SBA collateral, and forgery of a government seal in connection with a nearly \$178,000 economic injury disaster loan that he obtained after the terrorist attacks. When the loan went into liquidation for non-payment, he sold two properties

held as collateral for the loan by producing fraudulent documents indicating that SBA had released its lien against the properties. As a result, he received over \$92,000 that should have been paid to SBA. This case resulted from a referral by SBA's Santa Ana Liquidation Center. The OIG is conducting this joint investigation with the Internal Revenue Service (IRS) and the Auburn Alabama Police Department.

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# Significant OIG Activities

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## Small Business Access to Capital

SBA has a financial assistance portfolio of small business loans and financings exceeding \$67 billion. With more than 5,000 lenders authorized to make SBA loans, the Section 7(a) Loan Guaranty program is SBA's largest lending program and the principal vehicle for providing small businesses with access to credit which cannot be obtained elsewhere. This program is vulnerable to fraud and unnecessary losses because it relies on numerous third parties (e.g., borrowers, loan agents, and lenders) to complete loan transactions. Approximately 80 percent of loans guaranteed annually by SBA are made by lenders to whom SBA has delegated loan-making authority. Additionally, SBA has centralized many loan functions and reduced the number of staff performing these functions. Since 2001, SBA's staffing has decreased by more than 25 percent while the number of SBA-guaranteed loans funded has more than doubled. As SBA has placed more responsibility and independence on its lenders, the need for OIG oversight has increased significantly.

Another vehicle for capital, the SBIC program, was established in 1958 to stimulate and supplement the flow of private equity capital and long-term debt to small business concerns using private venture capital firms and SBA-guaranteed funding. The program is being revamped because it cost about \$2 billion more than anticipated from FY 1993 to FY 2004. Finally, small and emerging contractors who cannot obtain surety bonds through regular commercial channels can apply for SBA bonding assistance under the Surety Bond Guarantee program.

### **SBAExpress and CommunityExpress Loan Purchase Process Did Not Detect Material Lender Deficiencies**

After an SBA-guaranteed loan goes into default and the lender requests SBA to pay (or "purchase") the guaranty, SBA procedures call for an agency review of lender documentation to determine whether the lender properly administered the loan. During this reporting period, the OIG conducted an audit of the Agency's guaranty purchase review process for loans made under the SBAExpress and CommunityExpress programs. The purpose of the audit was to determine whether SBA properly identified lender deficiencies that would have affected purchase decisions and adequately monitored efforts made by lenders to recover the debt through liquidation of the collateral. The OIG's review disclosed that SBA purchased up to \$130.6 million in guaranties on SBAExpress and CommunityExpress loans without obtaining information needed to assess whether lenders verified borrower use of loan proceeds and financial information or properly determined their eligibility and creditworthiness. SBA also erroneously paid approximately \$304,000 in additional guaranties on CommunityExpress loans where borrowers may not have been provided with the required technical assistance. In addition, the OIG identified two lenders who did not disclose material facts on two loans that were purchased for \$27,134 that would have impacted the purchase decisions. Finally, SBA did not refer timely to the Department of Treasury for collection \$25 million in purchased loans that were over 180 days delinquent, as required by the Debt Collection Act.

*...SBA purchased up to \$130.6 million in guaranties...without obtaining information needed to assess whether lenders verified borrower use of loan proceeds and financial information or properly determined their eligibility and creditworthiness.*

The OIG recommended that SBA: (1) review all loans approved after January 1, 2000, and purchased before February 1, 2005, to ensure that lenders complied with program requirements; (2) revise program

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## Significant OIG Activities

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guidance to ensure that lenders provide adequate documentation at the time of purchase request and that Agency personnel review this information; (3) seek recovery of erroneous payments made to lenders; and (4) properly monitor purchased loans and make timely referrals to the Department of Treasury. SBA agreed or proposed alternative corrective actions that were responsive to the OIG's recommendations.

### Joint Investigation Uncovers Massive Loan Fraud

In January 2007, agents from the OIG and the U.S. Secret Service arrested 18 individuals sought in connection with a scheme in which a non-bank lender's former executive vice president and others conspired to fraudulently qualify loan applicants for SBA-guaranteed loans. The loans were primarily for the purchase of gas stations. The executive vice president was indicted for conspiracy, wire fraud, tampering with witnesses, and making false declarations to a grand jury and a bank. The indictment alleged that he fraudulently caused the lender to originate as many as 76 loans totaling almost \$77 million, and that SBA had already paid claims totaling approximately \$28.4 million on these loans. Three other individuals were indicted for conspiracy and making false statements. The first two allegedly obtained a \$944,000 SBA-guaranteed loan through fraud, and the third allegedly facilitated the fraud by providing phony bank documentation to verify the required equity injection. SBA paid over \$709,000 on this defaulted loan. In addition, a former assistant vice president of another financial institution was indicted for conspiracy and misapplication of bank funds. She allegedly supplied false verifications of deposits for loan applicants and gave a loan broker unfunded cashier's checks to be used in the loan closings.

As a result of this investigation, the non-bank lender repurchased guaranties from SBA on three fraudulent loans, resulting in administrative recoveries of over \$1.8 million, and terminated its guaranties on two other fraudulent loans that SBA had not yet purchased, resulting in cost savings of over \$1.4 million. In addition, the lender repaid SBA over \$9.6 million for 19 fraudulent loans identified in the investigation. Consequently, as of March 31, 2007, SBA recoveries and cost savings totaled over \$12.9 million.

This ongoing investigation was based on information from the U.S. Attorney's Office in Detroit, Michigan, and is being conducted jointly with the U.S. Secret Service.

### SBA's Corrective Action Process Resulted in On-Site Reviews of Only a Small Percentage of Large Lenders

The OIG issued an audit report that addressed whether SBA had fully and timely implemented appropriate actions to correct lender deficiencies identified during on-site examinations or by other means. The audit determined that SBA had strengthened its oversight process by expanding the scope of lenders to be reviewed, providing more detailed reports to lenders, and requiring corrective actions when deficiencies were identified. However, the process had not been fully implemented. Of the 350 lenders subject to on-site reviews, only 125 were reviewed during FYs 2005 and 2006. Also, SBA did not notify lenders in a timely manner of deficiencies noted in the reviews, taking an average of 6 to 12 months after the end of

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## Significant OIG Activities

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the reviews to transmit the results. Lastly, because deficiencies noted during on-site reviews for 113 loans either were not recorded in the Delinquent Loan Collection System, or were not recorded timely, SBA may have inappropriately honored guaranties totaling \$734,676 for 8 of these loans.

*...SBA may have inappropriately honored guaranties totaling \$734,676...*

The OIG recommended that SBA: (1) ensure that all large lenders receive on-site reviews and examinations every 12 to 24 months, and that lender deficiencies identified during the reviews be recorded in a timely manner, and (2) seek recovery of the inappropriately honored guaranties. SBA responded that actions had been taken or were in process to address the recommendations, including evaluating the purchased guaranties that were identified for recovery.

### **SBA Purchased Guaranties for Loans that Were Not Properly Originated or Serviced By Lenders.**

As part of an ongoing review of SBA's guaranty purchase process, the OIG randomly selected purchased loans to assess the accuracy of the guaranty purchase process and project the overall level of erroneous

*These reports identified material lender deficiencies in originating, servicing and liquidating SBA loans...*

payments. The OIG will issue a report on this review during the next semiannual reporting period. In addition, when the OIG finds that SBA has purchased a loan guaranty despite material lender deficiencies, a loan-specific audit report is issued so that SBA can recover the

identified erroneous payment. The OIG issued individual audit reports on eight such loans during this reporting period. These reports identified material lender deficiencies in originating, servicing and liquidating loans that were not identified by SBA during the guaranty purchase process, and recommended recovery of the more than \$800,000 in overpayments. The lender deficiencies identified in the audits included failure to: substantiate the use of loan proceeds; correctly apply loan payments on loans in liquidation status; verify borrower equity injection; verify borrower repayment ability; properly determine the value of a business being purchased; conduct timely site visits; inventory, assess, and secure collateral; and consider character issues during loan origination.

For example, one lender disbursed \$358,071 directly to the borrower to purchase inventory, but did not obtain copies of paid receipts, vendor invoices, or other documentation showing that the borrower actually used

*...the lender did not comply with SBA requirements in determining the value of the business being purchased...*

the proceeds as intended. On another loan, the lender did not comply with SBA requirements in determining the value of the business being purchased even though the selling price was questionable and the change of ownership was not at arm's length. The equity injection that was required of the borrower was actually provided by the seller and, therefore, the lender may have provided 100 percent financing, which SBA procedures prohibit. Lastly, the lender did not consider all of the borrower's consumer debt and, as a result, improperly calculated repayment ability.

### **SBA has Limited Role in Identifying International Trade Constraints**

In response to a congressional request, the OIG undertook a review of SBA's international trade facilitation activities and issued a report on the results of this review. The review found that, in the general course of its work, SBA had identified key international trade constraints confronting small businesses seeking markets abroad for their products and services, but had not attempted to formally

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## Significant OIG Activities

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survey small businesses or conduct any other structured information-gathering activities. Instead, it looked to the Department of Commerce as the lead Federal agency in disseminating trade promotion information, developing business leads, and facilitating matchmaking for all sizes of U.S. businesses. The review also found that SBA has focused its modest resources on assisting small businesses mostly with export finance assistance. Finally, although SBA is a member of the Trade Committee, it plays only a minor role, has a minimal share of the total budget authority as compared with other members of the committee, and does not have its annual accomplishments and upcoming trade plans sufficiently described in the Trade Committee's most recent annual strategic document, *The 2006 National Export Strategy*.

*...SBA had identified key international trade constraints confronting small businesses...but had not attempted to formally survey small businesses or conduct any other structured information-gathering activities.*

The OIG recommended that SBA's Associate Administrator for International Trade work with the U.S. Trade Representative (USTR) to fill, on a permanent basis, a vacant SBA position assigned to USTR to ensure that small business trade constraints continue to be communicated to USTR negotiators in an effort to secure needed relief in new multilateral and bilateral trade agreements. The OIG also recommended that the SBA work with other Trade Committee member agencies to ensure greater integration with the National Export Strategy of performance measures for international trade activities as reported by those agencies in their respective Performance and Accountability Reports. Finally, the OIG recommended that an electronic matchmaking portal be created through the Office of International Trade's Web site, which would match U.S. small businesses seeking export markets with importing concerns abroad. SBA agreed with the report recommendations.

### **Loan Agent Fraud Continues to Harm SBA Loan Programs**

A loan agent is employed by a prospective borrower or a lender to prepare the documentation for a SBA loan application and/or refer the borrower to a lender (or vice versa). Honest loan agents have linked small businesses to sources of capital, while dishonest agents have perpetrated frauds involving hundreds of millions of dollars in loans. Moreover, loans associated with loan agent fraud often default for non-payment, which increases losses in the loan guaranty program.

*...a former title company escrow officer, a mortgage broker, and others intended to defraud SBA and a lender of more than \$1.8 million in connection with the purchase of a warehouse.*

\$375,000 equity injection. The defendants also laundered approximately \$473,000 of the loan proceeds. The escrow officer and broker were found guilty of conspiracy, bank fraud, and money laundering. Two of the other co-conspirators previously pled guilty and three others have been charged but remain fugitives. The OIG conducted this investigation with assistance from the Texas Comptroller of Public Accounts/Criminal Investigations Division.

In one case, a former title company escrow officer, a mortgage broker, and others intended to defraud SBA and a lender of more than \$1.8 million in connection with the purchase of a warehouse. The co-conspirators' land-flip scheme involved the false representation of a \$2.2 million sales price and false documentation of a

The OIG's FY 2007 Management Challenges Report identifies loan agent fraud as one of the top challenges for the Agency and makes recommendations to deter loan agent abuse. For example, SBA does not currently know the magnitude of the loan agent problem because it collects little information

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## Significant OIG Activities

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about loan agent involvement with its loans. The Agency needs to systematically identify all loan agents and track their association with individual loans. This is critical to identifying corrupt loan agents, since loan agents have opportunities for contacts with multiple lenders and due diligence in loan processing varies greatly among lenders.

### **Borrowers Increasingly Falsify Capital Injection**

SBA procedures require that borrowers inject available capital towards a project being financed by an SBA-guaranteed loan. Capital injection represents a borrower's own financial stake in a business, in addition to the loan. A borrower who has something personal to lose is less likely to default on a loan. Unfortunately, borrowers increasingly are falsifying the amount of their capital injection. The following examples illustrate this problem.

- The business manager of a now-defunct Pennsylvania supermarket obtained a \$993,000 SBA-guaranteed loan to assist his business in purchasing another company, which happened to belong to his mother. He submitted false documentation showing a \$250,000 cash injection into the business and provided forged power of attorney documents to improperly pledge collateral not belonging to him. The manager pled guilty to wire fraud and aiding and abetting. The OIG conducted this joint investigation with the Federal Bureau of Investigation (FBI).  
*He submitted false documentation showing a \$250,000 cash injection into the business, and provided forged power of attorney documents to improperly pledge collateral not belonging to him.*
- The owner of a small California airplane parts business and the previous owner of another small airplane parts business were indicted for wire fraud and aiding and abetting. The investigation found that the first company obtained a \$999,000 SBA-guaranteed loan to purchase the latter company. The owner of the first company failed to disclose that he had borrowed the \$125,000 cash injection from an associate of the seller of the second company. The loan defaulted, and SBA purchased the loan guaranty. This case was referred by the U.S. Attorney's Office in Boise, Idaho. The OIG is conducting this investigation jointly with the FBI.

### **Borrowers Continue to Falsely Claim Citizenship**

Some prospective borrowers, either individually or with the help of dishonest loan agents, use well-planned schemes to falsely claim U.S. citizenship when applying for SBA-guaranteed loans. Such loans often default quickly, with millions of dollars at risk. Equally troubling is the fact that loans to such ineligible borrowers can deprive honest loan applicants of access to reasonable SBA-backed financing.

In one case, a Chicago area business owner applied for a \$594,000 loan under SBA's Section 504 loan program, claiming on the application to be a U.S. citizen. When SBA requested evidence of naturalization, the owner admitted he was not a U.S. citizen, but requested a meeting with an SBA official. The official contacted the OIG and agents from the OIG videotaped the meeting at which the business  
*...the business owner again admitted he was not a U.S. citizen, but presented a counterfeit certificate of naturalization and offered a \$5,000 cash bribe to the SBA official.*

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## Significant OIG Activities

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owner again admitted he was not a U.S. citizen, but presented a counterfeit certificate of naturalization and offered a \$5,000 cash bribe to the SBA official. The applicant had hired a graphic artist to create the counterfeit certificate. The applicant pled guilty to bribery of a public official, and the graphic artist was convicted of possession of fictitious or fraudulent identification cards. This ongoing investigation is being conducted jointly with the Department of Homeland Security/Immigration and Customs Enforcement. The Illinois District Office provided significant cooperation in this case.

### **Criminals Use a Variety of Fraudulent Tactics to Obtain SBA-Backed Loans**

Criminals use a variety of methods in attempts to fraudulently obtain SBA-guaranteed loans, or to induce others to obtain such loans. These methods include: submitting fraudulent documents; making fictitious asset claims; manipulating property values; and failing to disclose debts, prior criminal records, or the fact that they have obtained other SBA-backed loans. In addition, borrowers use loan proceeds contrary to the terms of the loans. Such practices increase the chances of financial loss to SBA and its lenders. The following examples, in addition to those discussed above, demonstrate how far individuals will go to fraudulently obtain SBA loans.

- A Texas man secured a \$1 million loan by submitting an inflated purchase contract that showed a sales price of \$1,320,000 for a convenience store, when the actual price was under \$789,000. The lender disbursed loan proceeds of \$1 million based on these and other misrepresentations. The man was sentenced to 6 months home confinement, 3 years probation, and over \$624,000 in restitution for conspiracy to commit bank fraud. The OIG conducted this investigation jointly with the Texas Alcohol and Beverage Commission.
- A former Washington State business owner inflated his personal financial statement and failed to disclose a prior bankruptcy when applying for a \$1.5 million SBA-guaranteed loan to purchase a cabinet-making business. He also submitted the same false financial statement to a financial institution to obtain a \$400,000 business line of credit. The individual was sentenced to 12 months and 1 day in prison, and 5 years supervised release, and was ordered to pay restitution of over \$886,000, for making false statements to SBA and a bank. This case was originally referred to the OIG by a lender.

*A former...business owner inflated his personal financial statement and failed to disclose a prior bankruptcy when applying for a \$1.5 million SBA-guaranteed loan...*
- A Virginia Internet-based company victimized at least 600 people in a scam that promised to provide a comprehensive business plan and an SBA-guaranteed loan in exchange for a \$3,500 fee. The company lauded a 90 percent success rate in obtaining loans for its customers, and advertised that it was a member in good standing with the Ethical Internet Buyers Bureau (EIBB). The investigation disclosed that the business plans were worthless, that only one or two businesses ever received an SBA loan, and that the founders and operators of EIBB were in fact co-conspirators in the fraud. The former president of the firm pled guilty to mail fraud, tax evasion, and engaging in a monetary transaction in criminally derived property. This case was based on a referral from SBA's Richmond District Office. The OIG conducted this joint investigation with the U.S. Postal Inspection Service and the IRS.

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## Significant OIG Activities

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

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

SBA's Section 8(a) Business Development program offers a broad scope of assistance to socially and economically disadvantaged firms. Regulations permit 8(a) companies to form beneficial teaming partnerships, and allow Federal agencies to streamline the contracting process. SBA has also implemented the Mentor-Protégé program to allow new 8(a) companies to learn from experienced businesses. These businesses teach 8(a) and other small companies how to compete in the Federal contracting arena and how to take advantage of greater subcontracting opportunities available from large firms as a result of public-private partnerships. Program goals require 8(a) firms to maintain a balance between their commercial and government business. There is also a limit on the total dollar value of sole-source contracts that a company can receive while in the program – \$100 million or 5 times the value of its primary Standard Industrial Classification (SIC) code. The overall program goal is to graduate firms which experience sufficient success to be able to thrive in a competitive business environment.

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

#### SBA Accepted Contracts That Did Not Meet 8(a) Requirements

The OIG reviewed two 8(a) sole-source dredging contracts to determine the validity of allegations that the contracted work was performed by large contractors in violation of small business procurement laws and contrary to 8(a) program requirements. The audit substantiated the allegations, determining that large businesses performed 86 to 98 percent of the dredging work and materially benefited from contracts that were sole-sourced to 8(a) participants.

*...large businesses performed 86 to 98 percent of the dredging work and materially benefited from contracts that were sole-sourced to 8(a) participants.*

The OIG recommended that SBA take steps to: ensure that procurements are not accepted for 8(a) awards without sufficient information to determine whether the 8(a) participants are performing the required percentage of work; perform required reviews of procuring agencies; provide sufficient oversight resources to its district offices; and revise the size standard for dredging companies. The OIG also recommended that SBA determine whether its inability to effectively monitor the 8(a) and Mentor Protégé programs should be reported as a material weakness in the Administrator's FY 2007 internal control assurance statement. SBA generally agreed with the report recommendations, but did not provide

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## Significant OIG Activities

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target dates or propose fully responsive actions for some of the recommendations. Consequently, additional information was requested from the Agency.

### **Former SBA Official Violated the Integrity of the 8(a) Program**

*...he accepted monthly cash payments totaling over \$30,000 in exchange for awarding over \$16 million in SBA 8(a) sole source contracts to a contractor.*

As part of a continuing effort to ensure that SBA officials who are entrusted with the power to spend or direct public funds carry out their duties honestly, the OIG investigates allegations of public corruption. During this reporting period, the former head of the SBA's 8(a) division in Puerto Rico was sentenced to 4 years in prison and 2 years supervised release. A joint SBA OIG, General Services Administration (GSA) OIG, and FBI investigation found that he accepted monthly cash payments totaling over \$30,000 in exchange for awarding over \$16 million in SBA 8(a) sole source contracts to a contractor. The contractor pled guilty and was sentenced in a separate bribery case. This investigation was based on a referral from the FBI.

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

Section 4(h) of the Small Business Act, as amended, requires the OIG to report to Congress on a semi-annual basis regarding the Agency's use of its authority in connection with cosponsorships and fee-based Administration-sponsored events. SBA's Office of Strategic Alliances provided information to the OIG related to cosponsorships, including the names, dates, and locations of the cosponsored events, and the names of cosponsors. As shown in Appendix IX, between October 1, 2006 and March 31, 2007, there were 26 cosponsored events. SBA reported that it did not conduct any fee-based Administration-sponsored events during this period.

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

Section 21(a)(7) of the Small Business Act, as amended, imposes restrictions on the disclosure of information regarding individuals or small businesses that have received assistance from an SBDC, and further restricts the Agency's use of such information. The provision also requires the Agency to issue regulations regarding disclosures of such information for use in conducting financial audits or SBDC client surveys. In addition, paragraph 21(a)(7)(C)(iii) states that, until the issuance of such regulations, any client survey and the use of such information shall be approved by the Inspector General, who shall include such approval in the OIG's Semiannual Report to Congress.

The Agency reported that there were no SBDC surveys requiring OIG approval during this reporting period. Although the statutory provision was enacted in December 2004, the Agency has not yet issued the required regulations regarding disclosures of client information. Agency officials advised that they were continuing to work on the regulations.

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# Significant OIG Activities

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## Agency Management

### SBA Receives Unqualified Opinion on FY 2006 Financial Statements

The Chief Financial Officers Act of 1990 requires each Federal agency to have its financial statements audited annually. The audit of SBA's FY 2006 financial statements, conducted by KPMG under a contract with the OIG, concluded that SBA's consolidated financial statements presented fairly, in all material respects, the financial position of SBA as of and for the fiscal year which ended September 30, 2006. The financial statements also presented fairly, in all material respects, SBA's net costs, changes in net position, budgetary resources, and reconciliation of net costs to budgetary obligation for the year. However, KPMG reported a material weakness related to SBA's controls over financial reporting. While SBA continued to implement various reconciliation and data quality

*...KPMG reported a material weakness related to SBA's controls over financial reporting.*

improvement procedures, the Agency did not timely identify a \$10 billion overstatement in the disclosures concerning guaranteed loans. The overstatements were identified by SBA and occurred because SBA's subsidiary ledger was not in agreement with its general ledger. SBA personnel also did not timely analyze the reason for the variances in these general ledger memorandum accounts. As such, the system reconciliation procedures used from FY 2003 through the third quarter of FY 2006 were ineffective with respect to these accounts. The overstatements did not impact other amounts included in the consolidated financial statements.

The audit also noted two reportable conditions related to Information Technology (IT) security controls and budgetary controls surrounding travel vouchers. Further, the OIG reported that SBA did not fully comply with the Federal Information Security Management Act (FISMA) or Office of Management and Budget (OMB) Circular A-130, *Management of Federal Information Resources*, because the Agency needed to further improve its entity-wide security program. The Agency concurred with the findings and agreed to implement the recommendations.

### Continued Concerns with SBA's Information Security Program

Following numerous incidents involving the compromise or loss of sensitive personal information, OMB issued Memorandum 06-16 *Protection of Sensitive Agency Information*, which required Federal agencies to take actions to protect sensitive information entrusted to them. In reviewing SBA's implementation of OMB requirements, the OIG determined that, because of the relatively short implementation time frame and its failure to purchase the necessary capabilities, including encryption software, SBA did not fully implement the required data protection safeguards by the established deadline. As a result, the OIG determined that SBA was vulnerable to unauthorized disclosure of personally identifiable information, particularly information stored on mobile computers and devices. The Office of the Chief Information Officer (OCIO) concurred with the findings and recommendations.

*...SBA was vulnerable to unauthorized disclosure of personally identifiable information, particularly information stored on mobile computers and devices.*

In addition, FISMA requires the OIG to annually assess SBA's progress in correcting weaknesses identified in the previous year's review of its information security program. The OIG tested 11 of SBA's 19 major IT systems and found that SBA had fully certified and accredited 9 of these systems and had

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## Significant OIG Activities

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*...SBA had not classified the sensitivity of information in 80 of the 82 non-major systems. Thus...the OIG could not assess the adequacy of the security protection for these systems.*

major systems. Thus, it could not be determined which of the systems should be certified and accredited and the OIG could not assess the adequacy of the security protection for these systems.

interim certifications and accreditations for the 2 remaining systems. The OIG also attempted, to review SBA's non-major systems for compliance with the certification and accreditation provisions of FISMA, but SBA had not classified the sensitivity of information in 80 of the 82 non-

The OIG also contracted with KPMG to assess the security controls for key SBA network devices and related device operating software in support of SBA's FY 2006 financial statement audit. KPMG performed a limited vulnerability assessment which identified numerous external and internal vulnerabilities in SBA's network.

### **OIG Works to Reduce the Number of Overdue Management Decisions and Final Actions**

The Inspector General Act requires Federal agencies to make decisions on all audit findings and recommendations within a maximum of six months of report issuance. As of September 30, 2006, 41 percent of all pending SBA management decisions were overdue. To reduce the number of overdue management decisions, the OIG revised its final audit and recommendation reporting process to require that the Agency provide management decisions on recommendations made in OIG reports at the time that it transmits its comments on the draft reports. As a result, the OIG received management decisions for at least one recommendation in each report issued during this reporting period. However, as of March 31, 2007, 40 management decisions from previous reporting periods were still overdue, and the OIG continues to work with the responsible SBA managers to obtain these decisions. Further, as of March 31, 2007, the OIG had closed 82 recommendations – 43 percent more than it did as of September 30, 2006 – reducing by 30 percent the volume of overdue final actions reported on September 30, 2006. As of the end of this reporting period, 55 percent of all pending final actions (125 actions) were overdue. The OCIO and the Office of Management and Administration were responsible for over half of the overdue final actions.

*...the OIG received management decisions for at least one recommendation in each report issued during this reporting period. However...40 management decisions from previous reporting periods were still overdue...*

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

Section 4(g)(2) of the Small Business Act, as amended, provides that any gift, devise, or bequest of cash accepted by the Administrator under Section 4(g) shall be held in a separate account and shall be subject to semiannual audits by the Inspector General, who shall report his findings to Congress. According to the information provided by SBA's Office of Strategic Alliances, during this semi-annual reporting period SBA accepted a cash gift in the amount of \$1,000 from Business Loan Express, which is a conflict of interest. The Agency reports that it took appropriate action to address this issue and is in the process of returning the funds to the donor. The OIG will follow-up and ensure that this is done. SBA reported that it did not receive any additional cash gifts during this reporting period.

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# Significant OIG Activities

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## Other Significant OIG Activities

### Character Screening Diminishes Potential Program Fraud

Participants in SBA programs that involve business loans, disaster assistance loans, Section 8(a) certifications, surety bond guarantees, small business investment companies, and certified development companies must meet SBA character standards. To 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 1,569 external name check requests for these programs.

The OIG also refers applicants who appear ineligible because of character issues to program officials for

*Over \$288 million in loans have been declined during the last 10 years due to character eligibility issues, thus making credit available to other applicants who had no such issues.*

adjudication based on data from its on-line connection with the FBI. As a result of OIG referrals during this reporting period, SBA business loan program managers declined 41 applications totaling nearly \$12.1 million, and disaster loan program officials declined

132 applications totaling over \$9.5 million. Over \$288 million in loans have been declined during the last 10 years due to character eligibility issues, thus making credit available to other applicants who had no such issues.

Moreover, based on OIG efforts during this period, the Section 8(a) program declined 3 applications for admission, the Surety Bond Guarantee program declined 1 application for admission, and the Small Disadvantaged Business program declined 2 applications for admission. The OIG also initiated 122 background investigations and issued 25 security clearances for Agency employees and contractor personnel required to have clearances, adjudicated 62 background investigative reports, and coordinated with the Office of Disaster Assistance to adjudicate 409 derogatory background investigation reports. Finally, the OIG processed 2,384 internal name check requests for Agency activities such as success stories, Small Business Person of the Year nominees, and disaster assistance new hires.

### OIG Recommends Debarments

The OIG believes that it is in the public interest to debar parties who have a history of fraud or otherwise lack business integrity from conducting business with the Federal Government. Accordingly, the OIG has adopted a proactive program to identify current SBA program participants for whom debarment would serve the public interest and make debarment recommendations to the SBA. The OIG recommended that SBA debar an individual for devising a scheme that permitted numerous borrowers to fraudulently obtain SBA-guaranteed loans totaling \$9.5 million. The OIG investigation determined that the individual assisted borrowers in providing inflated checking account information and false gift letters to support their loan applications. The individual also devised a way to transfer loan proceeds from the escrow company into cashier's checks in the name of various borrowers. These checks were then submitted to the lender as evidence of the borrower's required capital injection. The Agency reviewed the OIG recommendation and debarred the individual for three years.

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## Significant OIG Activities

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### **OIG Reviews Proposed Agency Regulations and Initiatives and Recommends Statutory Amendments to Deter Fraud**

During this reporting period, the OIG identified significant inefficiencies and concerns as to a number of SBA initiatives, including: proposed revisions to size regulations; proposed revisions to lender oversight and enforcement regulations; proposed expansions of existing lending programs; a proposal relating to SBA oversight of procuring agency responsibilities to ensure that 8(a) contractors are complying with regulations governing contract performance; a proposed reorganization of the Office of Lender Oversight; a proposed streamlining of closing procedures for the Section 504 program; proposed procedures regarding the disclosure of personal information; and various proposals relating to IT security. In addition, the OIG recommended several legislative amendments to Congress to increase the penalties for fraud under SBA programs, promote the debarment of companies that fraudulently obtain small business contracts, and facilitate tracking of loan agents in order to reduce fraud in the SBA financial assistance programs.

### **OIG Fraud Awareness Briefings**

During this reporting period, the OIG conducted 4 fraud awareness briefings for approximately 95 representatives of lending institutions and 1 Katrina fraud briefing for 60 bank security officers and members of law enforcement agencies.

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# Statistical Highlights

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## 6-Month Productivity Statistics October 1, 2006, through March 31, 2007

### Summary of Office-Wide Dollar Accomplishments

Totals

A. Potential Investigative Recoveries and Fines .....	\$13,667,589
B. Loans/Contracts Not Approved or Canceled as Result of Investigations.....	\$6,412,389
C. Loans Not Made as a Result of Name Checks .....	\$21,600,570
D. Disallowed Costs Agreed to by Management .....	\$27,211,279
E. Recommendations that Funds Be Put to Better Use Agreed to by Management.....	\$0
<b>Total.....</b>	<b>\$68,891,827</b>

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

A. Reports Issued .....	17
B. Recommendations Issued .....	91
C. Dollar Value of Costs Questioned.....	\$27,972,795
D. Dollar Value of Recommendations that Funds Be Put to Better Use .....	\$0
E. Collections as a Result of Questioned Costs .....	\$1,015,757

### Audit and Report Follow-up Activities

A. Recommendations Closed .....	82
B. Disallowed Costs Agreed to by Management .....	\$27,211,279
C. Dollar Value of Recommendations that Funds Be Put to Better Use Agreed to by Management .....	\$0
D. Unresolved Recommendations.....	287

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

A. Legislation Reviewed .....	4
B. Regulations Reviewed .....	13
C. Standard Operating Procedures and Other Issuances* Reviewed .....	42
<b>Total.....</b>	<b>59</b>

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

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# Statistical Highlights

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## 6-Month Productivity Statistics October 1, 2006, through March 31, 2007

### Indictments, Convictions, and Case Activity

A. Indictments from OIG Cases .....	27*
B. Convictions from OIG Cases.....	20*
C. Cases Opened .....	56
D. Cases Closed.....	31

### Investigations Recoveries and Management Avoidances

A. Potential Recoveries and Fines as a Result of OIG Investigations .....	\$13,667,589
B. Loans/Contracts Not Approved or Canceled as Result of Investigations.....	\$6,412,389
C. Loans Not Approved as a Result of the Name Check Program .....	\$21,600,570
<b>Total</b> .....	<b>\$41,680,548</b>

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

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

### Program Actions Taken as a Result of Investigations

A. Debarments Recommended to the Agency .....	6
B. Debarments Pending at the Agency .....	6
C. Proposed Debarments Issued by the Agency .....	4
D. Final Debarments Issued by the Agency .....	6
E. Proposed Debarments Declined by the Agency .....	1

### OIG Hotline Operation Activities

A. Total Fraud Line Calls/Letters.....	166
B. Total Calls/Letters Referred to Investigations Division .....	30
C. Total Calls/Letters Referred to SBA or Other Federal Investigative Agencies.....	10
D. Total Calls/Letters Referred to Other Entities .....	63
E. Total Calls/Letters Needing No Action.....	63

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

# Appendices

## Appendix I OIG Reports Issued October 1, 2006 through March 31, 2007

Title	Report Number	Issue Date	Questioned Costs	Funds for Better Use
<i>Disaster Loans</i>				
			\$0	\$0
<b>Program Subtotal</b>			<b>\$0</b>	<b>\$0</b>
<i>Small Business Access to Capital</i>				
Audit of an SBA-Guaranteed Loan	7-02	10/23/2006	\$256,933	\$0
SBA-Guaranteed Loan to Palmarejo Service Station	7-05	12/20/2006	\$31,463	\$0
Audit of an SBA-Guaranteed Loan to Just a Cut Lawn Care, Inc.	7-06	12/28/2006	\$28,660	\$0
Audit of an SBA-Guaranteed Loan to One One Nine Consulting Corp. DBA ADOBEST	7-07	12/29/2006	\$34,608	\$0
The SBA Express and Community Express Loan Purchase and Liquidation Process	7-08	12/29/2006	\$26,401,375	\$0
Audit of an SBA-Guaranteed Loan, San Francisco, California	7-09	1/9/2007	\$141,689	\$0
Audit of an SBA-Guaranteed Loan, Grand Rapids, Michigan	7-10	1/16/2007	\$183,297	\$0
Efforts to Assist Small Businesses Compete in International Trade	7-12	1/29/2007	\$0	\$0
Audit of an SBA-Guaranteed Loan, Malta, Montana	7-15	2/12/2007	\$82,411	\$0
Audit of an SBA-Guaranteed Loan to Irom CNC Machining, Inc. and Irom Imaging, Inc.	7-17	3/12/2007	\$77,683	\$0
Audit of the Office of Lender Oversight Corrective Action Process	7-18	3/14/2007	\$734,676	\$0
<b>Program Subtotal</b>	<b>11</b>		<b>\$27,972,795</b>	<b>\$0</b>
<i>Small Business Development, Contracting, Education, and Training</i>				
Audit of Two 8(a) Sole-Source Contracts Awarded to Contractors in SBA's Mentor Protégé Program	7-19	03/30/2007	\$0	\$0
<b>Program Subtotal</b>	<b>1</b>		<b>\$0</b>	<b>\$0</b>

# Appendices

**Appendix I**  
**OIG Reports Issued**  
**October 1, 2006 through March 31, 2007**

Title	Report Number	Issue Date	Questioned Costs	Funds for Better Use
<i>Agency Management</i>				
Audit of SBA's FY 2006 Financial Statements	7-03	11/15/2006	\$0	\$0
GFRS for Fiscal Year 2006	7-04	12/20/2006	\$0	\$0
Audit of SBA's FY 2006 Financial - Management Letter	7-11	1/17/2007	\$0	\$0
Review of SBA's Protection of Sensitive Information	7-13	2/9/2007	\$0	\$0
Evaluation of the SBA's Information Security Program	7-14	02/22/2007	\$0	\$0
KPMG Technical Vulnerability Assessment	7-16	3/6/2007	\$0	\$0
<b>Program Subtotal</b>	<b>6</b>		<b>\$0</b>	<b>\$0</b>
<b>TOTALS (all programs)</b>	<b>17</b>		<b>\$27,972,795</b>	<b>\$0</b>

# Appendices

## Appendix II OIG Reports with Questioned Costs

		Reports	Recommend -actions*	Questioned Costs**	Unsupported Costs**
A.	No management decision made by September 30, 2006***	3	3	\$619,718	\$1,073,715
B.	Issued during this reporting period	10	15	\$1,605,968	\$26,366,827
	Universe from which management decisions could be made in this reporting period – <b>Subtotals</b>	13	18	\$2,225,686	\$27,440,542
C.	Management decision(s) made during this reporting period	9	14	\$871,292	\$26,366,827
	(i) Disallowed costs	7	12	\$858,684	\$0
	(ii) Costs not disallowed	2	2	\$12,608	\$14,232
D.	<b>No management decision made by March 31, 2007</b>	<b>4</b>	<b>4</b>	<b>\$1,354,394</b>	<b>\$1,073,715</b>

\* Reports may have more than one recommendation.

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

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

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

		Reports	Recommend- ations*	Recommended Funds For Better Use
A.	No management decision made by September 30, 2006***	1	1	\$293,823
B.	Issued during this reporting period	0	0	\$0
	Universe from which management decisions could be made in this reporting period – <b>Subtotals</b>	1	1	\$293,823
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 March 31, 2007</b>	<b>1</b>	<b>1</b>	<b>\$293,823</b>

\* Reports may have more than one recommendation.

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

# Appendices

## Appendix IV OIG Reports with Non-Monetary Recommendations

		Reports	Recommendations
A.	No management decision made by September 30, 2006***	24	41
B.	Issued during this reporting period	9	75
	Universe from which management decisions could be made in this reporting period – <b>Subtotals</b>	33	116
C.	Management decision(s) made (for at least one recommendation in the report) during this reporting period	17	60
D.	<b>No management decision made (for at least one recommendation in the report) by March 31, 2007 *</b>	17	56

\* 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.

# Appendices

## Appendix V OIG Reports From Prior Semiannual Periods with Overdue Management Decisions as of March 31, 2007

Title	Report Number	Date Issued	Status
Impact of Loan Splitting on Borrowers and SBA	2-31	9/30/02	Agency response does not fully address the recommendation.
Audit of San Francisco District Office Administrative Activities Related to the Silicon Valley Small Business Development Center	4-27	6/29/04	Agency has not responded to one recommendation made in the report.
Audit of an SBA-Guaranteed Loan	4-40	9/13/04	Agency response does not fully address the recommendation.
Audit of Early Defaulted Loan	4-43	9/17/04	Agency has not responded to one recommendation made in the report.
Review of a Cooperative Agreement to HP Small Business Foundation	5-11	2/11/05	Agency has not responded to one recommendation made in the report.
Defaulted 9/11 Disaster Loan to CLB Publishers Inc.	CP 5-02	2/14/05	Agency response does not fully address the recommendation.
Audit of the Contract Bundling Process	5-20	5/20/05	Agency has not responded to four recommendations made in the report.
Audit of the SBIC (Small Business Investment Company) Liquidation Process	5-22	7/28/05	Four recommendations are in management resolution.
Review of the 1502 Reporting Process	6-07	12/9/05	Two recommendations made in the report are in management resolution.
SBA's Administration of the Supplemental Terrorist Activity Relief (STAR) Loan Program	6-09	12/23/05	One recommendation made in the report is in management resolution.
SBA's FY 2005 Financial Statements Management Letter	6-10	1/18/05	Agency has not responded to one recommendation in the report.
Human Capital Planning in SBA's Office of Financial Assistance	6-13	3/02/06	Agency has not responded to one recommendation made in the report.
Improvement is Needed in Interface Error Correction Between SBA's DCMS (Disaster Credit Management System) and FEMA's (Federal Emergency Management Agency) NEMIS (National Emergency Management Information System)	6-20	3/31/06	Agency has not responded to three recommendations made in the report.
Audit of an SBA-Guaranteed Loan	6-22	5/17/2006	Agency has not responded to one recommendation in the report.
Review of DCMS - Performance Test Plan	6-24	6/8/2006	Agency has not responded to one recommendation in the report.
Survey of the Quality Assurance Review Process	6-26	7/12/2006	Agency has not responded to five recommendations in the report.

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**Appendix V**  
**OIG Reports From Prior Semiannual Periods**  
**with Overdue Management Decisions as of March 31, 2007**

<b>Title</b>	<b>Report Number</b>	<b>Date Issued</b>	<b>Status</b>
Preliminary Assessment of Controls Over the Automated Coordination of Disaster Assistance Benefits Distributed by Mississippi Development Authority's Grant Assistance Program	6-28	9/19/2006	Agency has not responded to three recommendations in the report.
Office of the Chief Information Officer Contract Awards for Agency Mission-Critical Services	6-30	9/25/2006	Agency has not responded to one recommendation in the report.
Flexible Staffing of SBA Personnel During Times of Emergencies or Catastrophes to Aid Disaster Loan Processing	6-31	9/25/2006	Agency has not responded to two recommendations in the report.
Deficiencies in OFA's (Office of Financial Assistance) Purchase Review Process for Backlogged Loans	6-35	9/25/2006	Agency has not responded to two recommendations in the report.

# Appendices

## Appendix VI OIG Reports Without Final Action as of March 31, 2007

Report Number	Title	Date Issued	Date of Management Decision	Final Action Target Date
43H0060	8(a) Continuing Eligibility Reviews	9/30/94	12/30/94	10/30/02
0-14	7(a) Service Fee Collections	3/30/00	8/22/00	12/31/04
0-30	SBA's Administration of Minority Business Enterprise Legal Defense and Education Fund Cosponsorship	9/30/00	3/26/01	**
1-11	Results Act Performance Measurement for the Minority Small Business & Capital Ownership Development Program	3/27/01	9/28/01	7/31/03
A1-06	SBA's Computer Security Program	9/28/01	1/9/02	**
2-17	SBA's FY 2001 Financial Statements – Management Letter	4/12/02	12/12/02	9/30/03
2-18	SBA's Information Systems Controls – FY 2001	5/6/02	**	**
3-08	SBA's Oversight of the Fiscal Transfer Agent for the 7(a) Loan Program	1/30/03	**	**
3-20	SBA's Information System Controls for FY 2002	3/31/03	**	**
3-26	Microloan Program: Moving Toward Performance Management	5/13/03	**	**
3-33	SBIC Oversight	7/1/03	**	4/30/05
3-35	National Women's Business Council	7/28/03	**	**
4-09	Review of SBA Purchase Cards	1/26/04	8/24/04	3/31/05
4-13	Audit of an Early Defaulted Loan	3/2/04	4/6/04	1/31/05
4-16	SBA's Administration of the Procurement Activities of Asset Sale Due Diligence Contracts and Task Orders	3/17/04	**	**
4-19	SBA's Information Systems Controls – FY 2003	4/29/05	**	**
4-22	Business Development Provided by SBA's 8(a) Business Development Program	6/2/04	7/14/04	**
4-28	Audit of an SBA-Guaranteed Loan	7/9/04	10/6/04	3/31/05
4-32	Audit of an SBA-Guaranteed Loan	7/29/04	10/6/04	3/31/05
4-34	SBA's Process for Complying with the Federal Managers' Financial Integrity Act (FMFIA) Reporting Requirements	7/29/04	9/9/04	4/30/05

\*\* Management decision or target dates vary for different recommendations.

# Appendices

## Appendix VI OIG Reports Without Final Action as of March 31, 2007

Report Number	Title	Date Issued	Date of Management Decision	Final Action Target Date
4-35	Single Audit of Federal Financial Assistance Program Service Corps of Retired Executives (SCORE)	8/03/04	1/12/05	6/30/05
4-36	Audit of an Early Defaulted Loan	8/10/04	10/6/04	3/31/05
4-39	Memorandum Advisory Report – the Transfer of Operations to the National Guaranty Purchase Center	8/31/04	**	9/30/05
4-41	Audit of Selected SBA General Support Systems	9/10/04	**	**
4-42	Audit of SBA's Email System	9/10/04	**	12/31/06
4-44	SBA-Sponsored and Cosponsored Events Conducted by District Offices	9/24/04	**	**
5-03	Review of an Indirect Cost Rate	10/25/04	1/12/05	6/30/05
5-04	Review of the Small Disadvantaged Business Certification Program	11/4/04	4/1/05	**
5-09	Memorandum Advisory Report – Pre-Demand and Demand Letters for Delinquent 9/11 Disaster Loans	1/11/05	3/8/05	7/10/05
5-12	Audit of SBA's Information Systems Controls – FY 2004	2/24/05	**	**
5-17	SBA's Continuity of Operations Planning Program	3/30/05	5/3/05	**
5-20	Audit of the Contract Bundling Process	5/20/05	5/23/06	12/30/06
5-22	Audit of SBIC Liquidation Process	7/28/05	**	**
5-23	SBA's Administration of its Special Appropriation Grants	9/24/04	**	**
5-24	Criteria For Overcoming The Presumption of Social Disadvantage is Needed	9/28/05	**	**
5-26	Audit of SBA-Guaranteed Loan	9/25/05	2/6/06	5/31/06
5-28	Review of SBA Procedures For Cash Gifts	9/30/05	2/23/06	6/30/06
6-01	Independent Evaluation of SBA's Information Security Program	10/7/05	**	**
6-04	Audit of SBA's FY 2005 Financial Statements	11/14/05	5/10/06	**

\*\* Management decision or target dates vary for different recommendations.

# Appendices

## Appendix VI OIG Reports Without Final Action as of March 31, 2007

Report Number	Title	Date Issued	Date of Management Decision	Final Action Target Date
6-07	Review of the 1502 Reporting Process	12/9/05	**	**
6-08	SBA's Information Systems Controls For FY 2005	12/22/05	8/14/06	9/29/06
6-09	Audit of SBA's Administration of the Supplemental Terrorist Activity Relief (STAR) Loan Program	12/22/05	**	**
6-14	Audit of an SBA-Guaranteed Loan	3/2/06	6/21/06	7/3/06
6-19	Review of A Company's 8(A) Business Development Program Eligibility	3/30/06	8/16/06	9/30/06
6-23	HUBZone Program Examination and Re-certification Process	5/23/06	6/14/06	11/30/06
6-33	Concerns Related to SBA's Acquisition Personnel Education and Training	9/29/06	10/05/06	1/30/07
7-03	Audit of SBA's FY 2006 Financial Statements	11/15/06	12/15/06	3/30/07
7-06	Audit of an SBA-Guaranteed Loan to Just a Cut Lawn Care, Inc	12/28/07	1/30/07	3/15/07
7-13	Review of the Small Business Administration's Protection of Sensitive Agency Information	2/09/07	**	**
7-16	Vulnerability Technology Security Assessment	3/6/07	3/7/07	**

\*\* Management decision or target dates vary for different recommendations.

# Appendices

**Appendix VII**  
**Summary of Significant Recommendations**  
**From Prior Semiannual Reporting Periods**  
**Without Final Action as of March 31, 2007\***

Report Number	Date Issued	Recommendation	Management Decision Date	Final Action Target Date
43H006021	9/30/94	Establish procedures for determining whether Section 8(a) participants should no longer be considered economically disadvantaged based on their ownership interest in their 8(a) firm, the equity and market value of their primary residence, and the net worth of their spouses.	10/30/94	10/30/02
1-11	3/27/01	Ensure that 8(a) performance plans include indicators for determining how effectively and efficiently the Section 8(a) program is operating.	9/28/01	7/31/03
2-12	3/20/02	Develop a formal policy regarding effective supervisory and enforcement actions for Small Business Lending Companies.	8/27/02	3/31/07
2-18	5/6/02	Develop an Agency-wide information security plan to establish and implement the policies, procedures and practices for the following: (1) full integration of the information security approach and implementation process; (2) coordination among program offices to support their security needs; (3) guidance to the program office to implement information system security controls; and (4) methods to monitor the effectiveness of each part of information technology security.	6/28/02	3/1/05
3-08	1/30/03	Initiate a new procurement action for fiscal transfer agent activities and terminate the existing contract with the fiscal transfer agent when a new contract can be enacted.	12/10/03	3/31/06
3-08	1/30/03	Review fiscal transfer agent activities and identify contract costs for fees and services. Report these contract costs in proposed Master Reserve Fund financial statements so future fiscal transfer agent contracts will have historical cost data for comparison purposes.	10/15/03	3/31/06

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

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## Appendix VII Summary of Significant Recommendations From Prior Semiannual Reporting Periods Without Final Action as of March 31, 2007\*

Report Number	Date Issued	Recommendation	Management Decision Date	Final Action Target Date
3-33	7/1/03	Revise the Standard Operating Procedure (SOP) on SBICs to ensure it includes requirements to perform quarterly risk assessments for capitally impaired SBICs, include an analysis of potential for repayment of outstanding leverage, and determine what criteria should be used to recommend an SBIC be transferred to liquidation.	10/6/03	6/30/06
3-33	7/1/03	Revise SOP on SBICs to ensure that the implementation of restrictive operations addresses: (1) appropriate levels of impairment requiring restrictive operations; (2) time periods SBICs should remain in restrictive operations; (3) appropriateness of remedies or combination of remedies that should be used and under what circumstances; and (4) whether forbearance regulations preclude the application of restrictive operations.	10/20/04	6/30/06
4-16	3/17/04	Develop and implement procedures to monitor contractor compliance with the 50 percent rule when applicable.	5/12/04	5/02/05
4-16	3/17/04	Ensure the amount of subcontracting is reviewed and documented in the contract file for awards of 8(a) and small business set-aside contracts and task orders to small businesses.	5/12/04	5/02/05
4-16	3/17/04	Revise SOP on Procurement and Grants Management as soon as possible, incorporate policies to address the outstanding items described above within six months of the issuance of this report.	5/12/04	5/02/05
4-28	7/9/04	Seek recovery of \$142,549 from the 7(a) lender.	10/6/04	3/31/05
4-36	8/10/04	Seek recovery of the SBA guaranty repair of \$740,000 from the 7(a) lender.	10/6/04	3/31/05

\* 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 March 31, 2007\***

Report Number	Date Issued	Recommendation	Management Decision Date	Final Action Target Date
4-39	8/31/04	Determine the appropriate number of loan officers, supervisors and attorneys to be assigned to the Herndon center by (1) establishing the elements of quality for the purchase and liquidation action review process; (2) determining how much time it takes to complete a quality review at each level (loan officer, supervisor, attorney); and (3) computing the staffing levels needed to complete the estimated annual purchase and liquidation action workloads at an acceptable level of quality.	4/13/05	9/30/05
5-04	11/4/04	Develop and implement procedures to ensure that Small Disadvantaged Business reviewers properly apply all four criteria for determining economic disadvantage, per 13 CFR 124.104(c), using 8(a) Program thresholds for maximum income and total assets, and industry financial performance comparisons.	4/1/05	9/30/05
5-09	1/11/05	Revise SOP 50 51 2 to direct servicing centers to send timely pre-demand and demand letters to delinquent borrowers. Such letters should be maintained in the loan file.	3/8/05	7/10/05

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

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## Appendix VII Summary of Significant Recommendations From Prior Semiannual Reporting Periods Without Final Action as of March 31, 2007\*

Report Number	Date Issued	Recommendation	Management Decision Date	Final Action Target Date
5-12	2/24/05	For all SBA internal and contractor supported general support systems and major applications, e.g., Egan Mainframe, SBA and Corio UNIX, Network and Windows 2000; Loan Accounting System (LAS), Sybase, Mainframe, Joint Accounting and Administration Management System (JAAMS) Oracle, and related application functions: (1) develop and document policies and procedures clearly outlining what activities should be logged, who should be responsible for reviewing logs, what the logs should be reviewed for, how often logs should be reviewed, and how long logs should be retained; (2) assign responsibility within the Office of the Chief Information Officer for the review of application and general support system security logs; and (3) retain audit logs for a sufficient period of time (at least 90 days).	4/13/05	3/31/06
5-17	3/30/05	Require that personnel named in the SBA Continuity of Operations Plan (COOP) and Business Resumption Plan (BRP) participate in plan testing so that they understand their duties if plan activation is needed.	5/3/05	12/31/05
5-22	7/28/05	Revise SOP 10 07 to require periodic assessments of each SBIC receivership's progress and operations by comparing the monthly invoices and periodic status meeting results to pre-set performance standards.	7/19/06	10/31/06
5-22	7/28/05	Ensure that each case file includes documented evidence that Office of SBIC Liquidation (OL) staff considered all liquidation methods.	11/14/05	10/31/06

\* 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 March 31, 2007\***

Report Number	Date Issued	Recommendation	Management Decision Date	Final Action Target Date
5-22	7/28/05	Revise SOP 10 07 to require OL staff to obtain, for the sale of portfolio assets by an SBIC, verification that the sale was made at commercially reasonable terms.	7/19/06	10/31/06
6-23	5/23/2006	Set a maximum acceptable timeframe for decertifying firms and removing them from SBA's list once a decision has been made that such firms no longer meet the criteria for HUBZone participation.	6/14/06	3/30/07
6-33	9/29/2006	Develop a plan for meeting the requirements of Policy Letter 05-01 that assigns responsibility and establishes timeframes for identifying the workforce, assessing skill levels and training needs, and provides for the tracking and reporting of workforce data.	10/05/06	1/30/07

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

# Appendices

## Appendix VIII Summary of Significant Recommendations October 1, 2006 through March 31, 2007

Report Number	Title	Date Issued	Recommendation
7-02	Audit of an SBA-Guaranteed Loan	10/30/06	Seek recovery of \$256,933, less any subsequent recoveries, from the lender on the guaranty paid.
7-03	Audit of SBA's FY 2006 Financial Statements	11/15/06	Ensure that policies are implemented regarding segregation of duties for Financial Reporting Information System (FRIS), JAAMS, DCMS, and LAS.
7-03	Audit of SBA's FY 2006 Financial Statements	11/15/06	Obtain the needed storage capacity to store security logs for an adequate period of time and ensure that potential security violations are reviewed for possible inappropriate use of IT equipment.
7-03	Audit of SBA's FY 2006 Financial Statements	11/15/06	Ensure that each user within the Field Cashiering System has only one role in the system. In cases where this may not be feasible given work assignments, then additional
7-03	Audit of SBA's FY 2006 Financial Statements	11/15/06	Ensure that system owners for DCMS, FRIS, JAAMS and LAS standardize software change requests and that software change testing documentation is developed in a more consistent and complete manner.
7-03	Audit of SBA's FY 2006 Financial Statements	11/15/06	Coordinate with program offices to implement policies for end-user computing, specifically enforcing user-level access controls over existing programs and data,
7-03	Audit of SBA's FY 2006 Financial Statements	11/15/06	Enhance SBA's quality assurance processes related to amounts recorded in SBA's various financial systems. Control policies should ensure that all reconciling items are pursued and fully investigated.
7-03	Audit of SBA's FY 2006 Financial Statements	11/15/06	Requests an in-depth analysis of information presented in the consolidated financial statements be performed each quarter including the footnotes for the third and fourth quarter consolidated financial statements.
7-03	Audit of SBA's FY 2006 Financial Statements	11/15/06	Requests that relevant personnel reconcile loan guaranty data recorded in the general ledger periodically with information reported by SBA's fiscal transfer agent to ensure that the amounts recorded are accurate.
7-03	Audit of SBA's FY 2006 Financial Statements	11/15/06	Implement technical access controls to address the vulnerabilities.

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## Appendix VIII Summary of Significant Recommendations October 1, 2006 through March 31, 2007

Report Number	Title	Date Issued	Recommendation
7-03	Audit of SBA's FY 2006 Financial Statements	11/15/06	Implement a more robust vulnerability assessment scanning program, to include, at a minimum, periodic scanning of production devices in accordance with the Vulnerability Assessment Team policy, and scanning of new devices during the testing process and prior to the new devices being implemented.
7-03	Audit of SBA's FY 2006 Financial Statements	11/15/06	Coordinate with program offices to ensure that system Plans of Actions and Milestones (POA&M) are fully completed.
7-05	Audit of an SBA-Guaranteed Loan to Palmarejo Service Station	12/20/06	Seek recovery of \$31,463 from the lender on the guaranty paid.
7-06	Audit of an SBA-Guaranteed Loan to Just a Cut Lawn Care, Inc.	12/28/06	Seek recovery \$28,660 from the lender on the guaranty paid.
7-07	Audit of an SBA-Guaranteed Loan to One One Nine Consulting Corp.	12/29/06	Seek recovery of \$34,608 in collateral and interest, less any subsequent recoveries, from the lender on the guaranty paid.
7-08	Audit of the SBA <i>Express</i> and Community <i>Express</i> Loan Purchase and Liquidations Process	12/29/06	Determine if lender actions warrant a denial of liability on \$14,232 in guaranties associated with the two loans that were either missing a Form 1919 or where the form was incomplete; and \$9,015 on guarantee.
7-08	Audit of the SBA <i>Express</i> and Community <i>Express</i> Loan Purchase and Liquidations Process	12/29/06	Determine if loan proceeds on the 45 loans sampled during our audit were used in accordance with the terms of the loan authorizations, and take appropriate corrective actions.
7-08	Audit of the SBA <i>Express</i> and Community <i>Express</i> Loan Purchase and Liquidations Process	12/29/06	Recover \$7,414 from a lender that awarded an SBA loan to an ineligible company.
7-11	Audit of SBA's FY 2006 Financial Statements – Management Letter	1/17/07	Enhance Quality and Assurance process to ensure proper documentation is maintained in disaster loan files.
7-11	Audit of SBA's FY 2006 Financial Statements – Management Letter	1/17/07	Continue the Quality Assurance Review activities over loan modifications to ensure SBA's SOPs are properly followed.

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## Appendix VIII Summary of Significant Recommendations October 1, 2006 through March 31, 2007

Report Number	Title	Date Issued	Recommendation
7-11	Audit of SBA's FY 2006 Financial Statements – Management Letter	1/17/07	Implement or enhance quality and assurance procedures to ensure that “post-purchase” reviews are performed timely.
7-11	Audit of SBA's FY 2006 Financial Statements – Management Letter	1/17/07	Coordinate with the Directors of the Disaster offices to establish formal disposition and monitoring procedures to ensure that incoming checks are processed timely.
7-11	Audit of SBA's FY 2006 Financial Statements – Management Letter	1/17/07	Implement training for SBA personnel involved in the Field Cashiering processing to improve the consistency with which the various SBA officer personnel process and deposit checks.
7-11	Audit of SBA's FY 2006 Financial Statements – Management Letter	1/17/07	Implement or enhance quality and assurance procedures to ensure that defaulted loan guaranty purchases are recorded timely and in the proper fiscal year in accordance with SBA requirements.
7-13	Review of the SBA's Protection of Sensitive Agency Information	2/9/07	Install encryption software on all mobile computers and devices and develop policies and procedures on their use.
7-13	Review of the Small Business Administration's Protection of Sensitive Agency Information	2/9/07	Implement two-factor authentication over all remote access connections to the Agency network where one of the factors is provided by a device separate from the computer gaining access.
7-08	Audit of the SBA <i>Express</i> and Community <i>Express</i> Loan Purchase and Liquidations Process	12/29/06	Review the 2,729 loans for compliance with SBA rules and regulations and improper payments.
7-08	Audit of the SBA <i>Express</i> and Community <i>Express</i> Loan Purchase and Liquidations Process	12/29/06	Recover \$27,134 for the two purchased SBA Express loans reviewed for which the lender failed to disclose material facts.
7-09	Audit of an SBA-Guaranteed Loan, San Francisco, California	1/9/07	Seek recovery of \$141,689, less any subsequent recoveries.
7-10	Audit of an SBA-Guaranteed Loan, Grand Rapids, Michigan	1/16/07	Seek recovery of \$183,297, less any subsequent recoveries.
7-15	Audit of an SBA-Guaranteed Loan, Malta, Montana	2/12/07	Seek recovery of \$82,411, less any subsequent recoveries.

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## Appendix VIII

### Summary of Significant Recommendations October 1, 2006 through March 31, 2007

7-17	Audit of SBA-Guaranteed Loan to IROM CNC Machining, Inc. and IROM Imaging, Inc.	3/12/07	Seek recovery of \$77,683 from GE Capital Small Business Finance Corp. on the guaranty paid by SBA.
7-18	Audit of the Office of Lender Oversight Corrective Action Process	3/14/07	Seek recovery through repairs or denials of the \$734,676 in guaranties.
7-19	Audit of Two 8(a) Sole-Source Contracts Awarded to Contractors in the Mentor/Protégé Program	3/30/07	Determine whether SBA's inability to effectively monitor the 8(a) and Mentor Protégé programs should be reported as a material weakness in the Administrator's FY 2007 internal control assurance statement.

## Appendices

**Appendix IX**  
**Events/Activities Where SBA Used its Cosponsorship Authority\***  
**Small Business Act, Section 4(h)**  
**October 1, 2006 though March 31, 2007**

<b>Name/Subject of Event</b>	<b>Event Start Date</b>	<b>Event End Date</b>	<b>Location of Event</b>	<b>Name(s) of Cosponsor(s)</b>
5th Lighting the Community Conference	11/13/06	11/14/06	Los Angeles, CA	Korean Churches for Comm. Dev. and the WH Initiative on Asian-Americans & Pac. Isl.
Online training module to educate small businesses	12/1/06	11/31/08	World Wide Web	Trump University, Inc
Congressional Breakfast, MED Week Awards Reception and Dinner, MED Week Presentation of Awards, Business Expo, Series of Small Business Workshops and Matchmaker Event	11/13/06	11/17/06	Providence, RI	Hispanic American Chamber of Commerce
New England Entrepreneurship Summit and Economic Outlook Conference	11/14/06		Westborough, MA	New England Economic Partnership, Bank of America
Publication and Distribution of The Small Business Primer	12/1/06	10/31/07	Distribution: SCORE Chapters, SBDC's, SBA District Offices, Business Schools and Business School Libraries	The Signage Foundation for Communications Excellence
Small Business Week	4/23/07	4/24/07	Washington, DC	SCORE (Additional Cosponsors)
Federal Contracting Matchmaking Event	2/16/07		San Juan, PR	Colegio de Ingenieros y Agrimensores de Puerto Rico
Cyber Security Is Good Business	1/22/07	1/23/07	San Jose, CA San Francisco, CA	National Institute of Standards and Technology, Federal Bureau of Investigation

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

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**Appendix IX**  
**Events/Activities Where SBA Used its Cosponsorship Authority\***  
**Small Business Act, Section 4(h)**  
**October 1, 2006 though March 31, 2007**

Name/Subject of Event	Event Start Date	Event End Date	Location of Event	Name(s) of Cosponsor(s)
New Mexico Small Business Week Awards Celebration 2007	4/27/07		Albuquerque, NM	Santa Fe Community College thru New Mexico SBDC
Straight Talk and the Straight Talk Series	1/20/07 3/6/07	2/27/07 4/10/07	Buffalo, NY	SCORE Buffalo Niagara
BSA/SBA Software Asset Management Educational Campaign	2/1/07	12/31/08	World Wide Web	Business Software Alliance
Financial Recordkeeping for Small Business	3/07	11/08	San Antonio, TX	The San Antonio CPA Society, a Chapter of the Texas Society of CPAs
Small Business Awards Luncheon	4/07 or 5/07		Richmond, VA	Small Business Awards Foundation, Inc.
Small Business Person of the Year Awards and Matchmaking Workshop	4/11/07		Columbia, SC	SC Chamber of Commerce, Small Business Development Center of SC, SC Department of Commerce, SC Export Consortium, Service Corps of Retired Executives, SC Manufacturing Extension Partnership, SC Women's Business Center, U.S. Department of Agriculture, Rural Development
Faith-Based Small Business Symposium	4/21/07		Virginia Beach, VA	Regent University
Minority Enterprise Development Week Awards Dinner	2/2/07		Los Angeles, CA	U.S. Dept of Commerce, Minority Business Development Agency, City of Los Angeles, Office of Economic Development and the Minority Business Opportunity Center

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

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**Appendix IX**  
**Events/Activities Where SBA Used its Cosponsorship Authority\***  
**Small Business Act, Section 4(h)**  
**October 1, 2006 though March 31, 2007**

Name/Subject of Event	Event Start Date	Event End Date	Location of Event	Name(s) of Cosponsor(s)
Salute to Small Business Lenders & Hall-of-Fame Kick-Off Networking Breakfast, SBA Finance Workshop, Annual SBA Exhibit Gala and Annual SBA Awards Dinner	5/7/07	5/10/07	St. Louis, MO	2007 Small Business Week of Eastern Missouri, Inc.
Gateway Community College Procurement Workshop Series and Matchmaker	9/06	6/07	New Haven, CT	Gateway Community College, Business Resource Center, SCORE
Entrepreneurial Training	1/1/07	12/30/07	Washington, DC	National Women's Business Center
A series of entrepreneurial training programs offered during IYF's two-day Entrepreneurial Skills Conference	2/8/07	2/9/07	Mountain View, CA	Invent Your Future Enterprises
Government Contracting Seminars	3/6/07 6/26/07	4/24/07 9/13/07	Augusta, ME	Maine Procurement Technical Assistance Center
The expansion and promotion of the co-branded SBA/JA website <a href="http://www.mindyourownbiz.org">www.mindyourownbiz.org</a> aimed at youth entrepreneurs; date-specific activities including an SBA Job Shadow Day	3/07	1/31/09	World Wide Web	JA Worldwide®
Publication and distribution of the Signage Source Book – Second Edition	3/07	9/08	Small Businesses Resource Libraries	The Signage Foundation for Communications Excellence
2007 SBA Maryland Small Business Awards Breakfast and Trade Show	5/11/07		Woodlawn, MD	Maryland Small Business Week Awards Program, Inc.

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

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## Appendices

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### Appendix IX

#### Events/Activities Where SBA Used its Cosponsorship Authority\*

##### Small Business Act, Section 4(h)

October 1, 2006 though March 31, 2007

<b>Name/Subject of Event</b>	<b>Event Start Date</b>	<b>Event End Date</b>	<b>Location of Event</b>	<b>Name(s) of Cosponsor(s)</b>
Small Business Week Recognition Program	5/07 or 6/07		New Haven, CT	Connecticut Small Business - Key to the Future
Vermont Small Business Award Winners 2007	6/6/07		Burlington, VT	Vermont Business Magazine

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

# Appendices

## Appendix X Legal Actions Summary October 1, 2006 through March 31, 2007

State	Program	Alleged Violation(s) Prosecuted	Legal Action	Investigated Jointly With
AL	DL	The co-owner of a charter plane company is alleged to have produced fraudulent documents indicating that SBA had released its lien against his property on a defaulted September 11 disaster loan for \$177,800. This allowed him to receive \$92,526, from the sale of two properties, which should have been paid to the SBA as collateral on the loan.	Co-owner indicted.	IRS, AAPD
CA	BL	The owner of a small airplane parts business obtained a \$999,000 SBA-guaranteed business loan to purchase another parts business. The buyer allegedly failed to disclose that he had borrowed the \$125,000 cash injection from an associate of the seller.	Buyer and seller indicted.	FBI
CA	SBDC	The owner of a time management company gave numerous cash gifts to a State official in exchange for receiving over \$310,000 in SBDC contracts. Another business owner is alleged to have paid the same official over \$61,000 in return for being awarded over \$527,000 in contracts.	Owner of time management company pled guilty. Other business owner indicted. State official previously pled guilty and is awaiting sentencing.	FBI
FL	BL	A former hotel owner failed to disclose a prior drug conviction when completing an SBA Form 912, Statement of Personal History, to apply for a business loan.	Hotel owner indicted and pled guilty.	None
IL	BL	The former owner of an electrical supply store provided false tax returns in order to make the company appear more profitable. This action influenced the approval of a \$1.1 million SBA loan to the purchasers of the business.	Former owner pled guilty.	FBI

# Appendices

## Appendix X Legal Actions Summary October 1, 2006, through March 31, 2007

State	Program	Alleged Violation(s) Prosecuted	Legal Action	Investigated Jointly With
IL	BL	A Chicago area business owner falsely claimed to be a U.S. citizen on his application for a \$594,000 loan through SBA's 504 loan program. When asked to provide evidence of naturalization, he offered a \$5,000 cash bribe to an SBA official in order to influence an official act.	Business owner pled guilty.	DHS/ICE
LA	DL	An individual filed applications for SBA and FEMA disaster benefits falsely claiming to have suffered damages from Hurricane Katrina. Based on her claim using a nonexistent address, she received an initial disbursement of \$10,000 of a \$40,000 SBA disaster loan, as well as FEMA benefits.	Individual pled guilty and was sentenced to 60 months probation and ordered to pay restitution of \$10,000.	DHS/OIG
MI	BL	Five individuals are alleged to be involved in a multi-faceted scheme in which borrowers are being fraudulently qualified for SBA-guaranteed loans to purchase gas stations. At least 76 loans, totaling almost \$77 million, are thought to be affected.	Five individuals indicted. To date, administrative recoveries total \$11,517,075.	USSS
MS	DL	An individual claimed that his primary residence was in Mississippi at the time of the Gulf Coast hurricanes when he allegedly resided in Maryland. He was approved for an SBA loan of \$208,300, of which he received \$10,000.	Individual indicted.	DHS/OIG
MS	DL	An individual allegedly claimed his secondary address as his primary residence in an attempt to fraudulently receive disaster assistance funds. He was approved for a \$78,900 loan from SBA, of which the initial \$10,000 had been disbursed.	Individual indicted.	DHS/OIG, USDA/OIG, MSAO

# Appendices

## Appendix X Legal Actions Summary October 1, 2006, through March 31, 2007

State	Program	Alleged Violation(s) Prosecuted	Legal Action	Investigated Jointly With
NJ	BL	The former secretary of a now-defunct seafood wholesaler and the owner of a Maryland seafood business conspired to prepare and submit false invoices to induce a financial institution to lend the wholesaler \$219,504 from a \$400,000 SBA-guaranteed line of credit.	Former secretary pled guilty and sentenced to 3 years probation and restitution of \$143,618. Other subject sentenced to 6 months home confinement, 5 years probation and restitution of \$73,344.	None
OH	BL	A business owner falsely represented that he was a citizen of the United States on his SBA loan application. He was also charged with nine other counts for immigration related offenses.	Business owner pled guilty.	DHS/ICE
PA	BL	A businessman fraudulently obtained a \$993,000 SBA-guaranteed loan by pledging collateral not belonging to him and falsely claiming to have made a \$250,000 cash injection. In support of the loan application, an accountant prepared a fraudulent tax record to increase the likelihood of the loan being approved.	Both pled guilty.	FBI
PR	GC	The head of the SBA's 8(a) division in Puerto Rico accepted monthly cash payments totaling over \$30,000 in exchange for awarding over \$16 million in SBA 8(a) sole-source contracts to an engineering firm.	SBA official sentenced to 48 months in prison and 2 years supervised release.	FBI, GSA/OIG
TX	BL	A loan broker recruited unqualified borrowers to falsely obtain nine SBA-guaranteed loans, totaling \$9,500,000, for convenience stores.	Broker was sentenced to 5 years probation and restitution of \$8,884,253 to be paid jointly with four other defendants.	FBI

# Appendices

## Appendix X Legal Actions Summary October 1, 2006, through March 31, 2007

State	Program	Alleged Violation(s) Prosecuted	Legal Action	Investigated Jointly With
TX	DL	An individual filed applications for SBA and FEMA benefits falsely claiming to have incurred damages as a result of the 2005 Gulf Coast hurricanes. The SBA loan was declined, but the individual received approximately \$35,000 in FEMA benefits.	Individual was sentenced to 39 months in prison, 3 years supervised release, and restitution of \$34,948.	DHS/OIG, SSA/OIG, USPI, DOL/OIG, HUD/OIG
TX	BL	Two individuals were involved in a fraudulent scheme to secure a \$1 million SBA-guaranteed loan by submitting an inflated purchase contract. The contract showed a sales price of \$1,320,000 for a convenience store when the true purchase price was only \$788,617.	One individual sentenced to 18 months in prison and 3 years supervised release. The other sentenced to 6 months home confinement and 3 years probation. Both ordered to pay joint restitution of \$624,565.	TABC
TX	BL	An escrow officer, the owner of a mortgage company, and the owner of a used clothing business misrepresented the property purchase price and falsified part of the equity injection in order to secure a \$2.4 million SBA-guaranteed loan to finance the purchase of a warehouse. The defendants also laundered approximately \$473,000 of the \$1,846,469 of loan proceeds.	Owner of used clothing business pled guilty. Other two subjects convicted in a jury trial. Three other co-conspirators remain fugitives.	TCPA/CID
TX	BL	An applicant misrepresented his educational background, provided fraudulent tax returns, and provided another person's social security number when applying for a \$150,000 SBA business loan.	Applicant sentenced to 27 months in prison, 3 years supervised release, and restitution of \$27,810.	USPIS, SSA/OIG

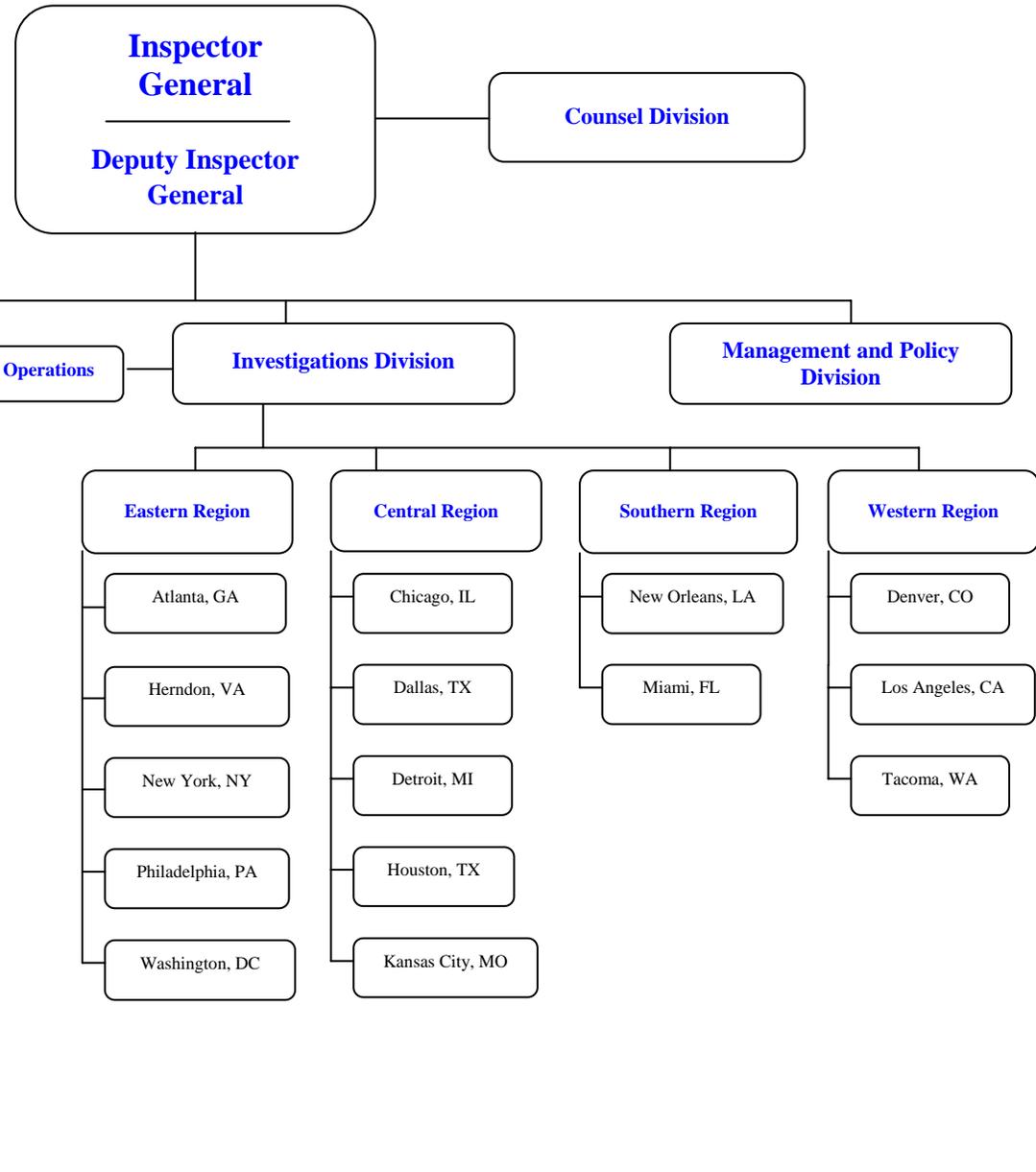
# Appendices

## Appendix X Legal Actions Summary October 1, 2006, through March 31, 2007

State	Program	Alleged Violation(s) Prosecuted	Legal Action	Investigated Jointly With
UT	BL	Three corporate officers of a landscape design firm submitted false loan documentation in order to obtain two separate SBA loans totaling \$470,100. The officers failed to disclose in their loan application that they owed delinquent payroll taxes.	All three officers received 12 months of home confinement and supervised release and were ordered to pay total restitution of \$326,144.	None
VA	BL	The former president of a consulting firm and his wife were involved in an internet scam to lure business owners into applying for SBA loans. For a fee of at least \$3,500, the firm promised to provide a comprehensive business plan and an SBA-guaranteed loan to its customers.	Both pled guilty.	USPIS, IRS
WA	BL	The former owner of a hauling business allegedly made false statements regarding his company's tax liability to the SBA and to a financial institution in order to obtain an SBA-guaranteed loan of \$750,000.	Former owner indicted.	FBI, IRS
WA	BL	The former owner of a cabinet making business inflated his Personal Financial Statement and failed to disclose a prior bankruptcy when he applied for a \$1.5 million SBA-guaranteed loan to purchase the cabinet making business.	Former owner sentenced to 12 months and a day in prison, 5 years supervised release, and restitution of \$886,506.	None

**Program Codes:** BL=Business Loans; DL=Disaster Loans; GC=Government Contracting and Section 8(a) Business Development; SBDC=Small Business Development Center **Joint-investigation Federal Agency**  
**Acronyms:** AAPD=Auburn Alabama Police Department; DHS/ICE=Department of Homeland Security/Immigration and Customs Enforcement; DHS/OIG=Department of Homeland Security/OIG; DOL/OIG=Department of Labor/OIG; FBI=Federal Bureau of Investigation; GSA/OIG=General Services Administration/ OIG; HUD/OIG=Housing and Urban Development/OIG; IRS=Internal Revenue Service; MSAO=Mississippi State Auditor's Office; SSA/OIG=Social Security Administration/OIG; TCPA/CID=Texas Controller of Public Accounts/Criminal Investigative Division; TABC=Texas Alcoholic Beverage Commission; USDA/OIG=Department of Agriculture/OIG; USPIS=United States Postal Inspection Service; USSS=United States Secret Service

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



# Make A Difference

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

## CALL

1-800-767-0385 (Toll Free)

## Write or Visit

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

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

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