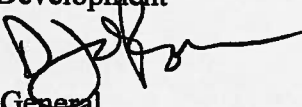




**U.S. SMALL BUSINESS ADMINISTRATION
OFFICE OF INSPECTOR GENERAL
WASHINGTON, D.C. 20416**

DATE: October 4, 2012

TO: Darryl K. Hairston
Associate Administrator
Office of Business Development

FROM: Daniel J. O'Rourke 
Assistant Inspector General
For Investigations

SUBJECT: Advisory Memorandum Regarding the Section 8(a) Program's Use of
Internal Revenue Service (IRS) Tax Verification Form 4506T
(Report #13-01-I)

In the course of their investigations, special agents of the U.S. Small Business Administration (SBA) Office of Inspector General (OIG) have noted that SBA is not making full use of a process designed to enhance the integrity and effectiveness of the Section 8(a) Business Development (BD) Program. We believe the Office of Business Development can improve that process through relatively minor changes to the program's Standard Operating Procedure (SOP).

BACKGROUND

Firms applying for or already participating in the 8(a) program must complete the Internal Revenue Service's (IRS) Form 4506T, "Request for Transcript of Tax Return," so that SBA can obtain tax returns from the IRS and compare them against the tax returns and other financial documents that the firm submitted to the Agency. According to the relevant SOP, the firm must submit the form to "ensure the accuracy of tax information submitted during the application process and also during the business development phases of the 8(a) BD Program..."¹

This requirement applies not only to the above firms but also to affiliated firms and each individual that program eligibility is based on. Without the IRS-based verification, SBA risks allowing ineligible firms to participate in the 8(a) program and deprive honest firms of the program's advantages, including preferential federal contracts.

¹ SOP 80 05 3A, Chapter 2A, paragraph 12.f. (4)

The verification process has time constraints. According to the January 2012 version of IRS Form 4506T, if a transcript of a tax return is being sent to a third party, the IRS must receive the signed form within 120 days of the signature date. (SOP 80 05 3A refers to a previous 60-day limit.) After the 120 days, the form is invalid.

CURRENT PRACTICES

OIG special agents have found that a number of 8(a) Business Development Specialists (BDS) do not send the completed Form 4506T to the IRS unless they suspect something is wrong based on a firm's annual review. The BDSs reportedly have been told during their training to follow this practice. Thus, many tax returns provided by firms to SBA are never verified against the tax returns filed with the IRS. This can have major implications.

For example, in one OIG case, the 8(a) company provided different tax returns to the program office, the IRS, and the state's equivalent of the 8(a) program. These discrepancies would have been detected if SBA officials had sent the Form 4506T to the IRS when the form was received from the firm. Unfortunately, millions of dollars in federal contracts were awarded to the ineligible firm.

Surprisingly, the SOP directs the BDS to review only the tax returns *submitted by the firm* and ensure that the firm provides a properly completed IRS Form 4506T to SBA. However, it does not state that SBA must actually submit the form to obtain the IRS version of the tax returns. **Thus, even though SBA has the capability and apparent intent to use the signed Form 4506T to obtain and compare tax returns, the SOP does not require that the form be used for its intended purpose.**

CONCLUSION

SBA appears to have the tax verification tools it needs to reduce the probability of ineligible firms entering or remaining in the 8(a) program. By implementing a few basic changes to the SOP, the Agency can strengthen the integrity and effectiveness of the 8(a) program.

RECOMMENDATIONS

The OIG recommends that the Associate Administrator for Business Development place into clearance the following changes to SOP 80 05 3A:

1. The BDS must (1) ensure that an applicant to the 8(a) program fully completes the required parts of the IRS Form 4506T and (2) promptly submit the completed and signed form to the IRS.
2. The BDS must (1) ensure that an existing 8(a) firm fully completes the required parts of the IRS Form 4506T before the start of the annual review and (2) promptly submit the completed and signed form to the IRS.

3. If a tax return obtained from the IRS does not match the tax return previously submitted to SBA, the firm shall be automatically suspended from receiving any new 8(a) contracts until the discrepancy is resolved. SBA must also report the discrepancy and suspension to the OIG Investigations Division through the OIG Hotline or an OIG local point of contact, while maintaining documentation of discussions with the 8(a) firm.
4. If the IRS does not respond in a timely manner (i.e., within 30 days of submittal), the BDS may move forward with the review. Upon receipt of the transcripts, the BDS must compare the information on the transcript with the tax return provided by the firm and report any discrepancy to the OIG Investigations Division.

MANAGEMENT COMMENTS

We provided you with a draft report. You advised that your office is in concurrence with the recommendations. Among other things, you advised that the Office of Business Development is revising its Standard Operating Procedures Manual and will incorporate the recommendations in that final document.

OIG ANALYSIS OF MANAGEMENT'S COMMENTS

Your comments are responsive to our recommendations. We appreciate the cooperation of your office during this effort. If you have any questions, please feel free to contact me on (202) 205-6648.