

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

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## Semiannual Report to Congress Fall 2005



April 1, 2005 – September 30, 2005

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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.

<i>Source</i>		<i>Page</i>
Section 4(a)(2)	Review of Legislation and Regulations	18
Section 5(a)(1)	Significant Problems, Abuses, and Deficiencies	3-20
Section 5(a)(2)	Recommendations with Respect to Significant Problems, Abuses and Deficiencies	36-38
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Section 5(a)(4)	Matters Referred to Prosecutive Authorities	41-46
Section 5(a)(5) and 6(b)(2)	Summary of Instances Where Information Was Refused	None
Section 5(a)(6)	Listing of OIG Reports	25
Section 5(a)(7)	Summary of Significant Audits & Other Reports	3-20
Section 5(a)(8)	Audit Reports with Questioned Costs	26
Section 5(a)(9)	Audit Reports with Recommendations that Funds Be Put to Better Use	26
Section 5(a)(10)	Summary of Reports From Prior Semiannual Reports Where No Management Decision Was Made	28
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

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## A Message From The Inspector General

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I am pleased to present the Small Business Administration (SBA), Office of Inspector General (OIG), Semiannual Report summarizing activities from April 1, 2005, through September 30, 2005.

As an independent, objective reviewer and evaluator of the operations and activities of the SBA, the OIG seeks to target potential financial vulnerabilities and fraud in SBA programs, promote effective program management, ensure sound Agency financial and management information, and improve information security management. During this reporting period, we issued 12 reports with recommendations for improving Agency operations, reducing fraud and unnecessary losses, and recovering funds. OIG investigations led to 26 indictments and 22 convictions of subjects who defrauded the Federal Government. In addition, the Office collectively reviewed 77 legislative, regulatory, policy, procedural, and other proposals concerning the SBA and Government-wide programs. With a staff of approximately 100, the OIG produces sizeable savings and important program improvements.

We continued to review small business Government contracting issues, focusing on contract bundling in this semiannual reporting period. Bundled contracts in the Executive Branch have raised increased concerns because they can result in fewer small businesses receiving Federal contracts, and a reduced supplier base for the Federal Government. We found that SBA was not reviewing the majority of procurements reported by agencies as bundled, and that SBA did not have a bundling database as required by the Small Business Reauthorization Act of 2000.

The OIG also identified two additional areas within the Section 8(a) Business Development (8(a)BD) Program where criteria to effectively manage the program have not been developed. SBA needs to develop criteria for overcoming the presumption of social disadvantage for 8(a) BD Program purposes, and a definition of success for the 8(a) Mentor-Protégé Program and its participants. The lack of criteria for overcoming the presumption of social disadvantage allows people who may not be socially disadvantaged, despite their status as members of a designated group, to enter the 8(a) BD program without question. As a result, someone who is not socially disadvantaged could unfairly reap the benefits of the program. Due to the lack of definitions in the Mentor-Protégé Program, SBA has no mechanism to determine if the program or its participants have succeeded or whether protégés are receiving benefits and gains.

The OIG has developed a new Strategic Plan for FY 2006-2011, which focuses on the implications of SBA's continuing transformation and the vulnerabilities associated with the substantial changes being made through downsizing and centralization. The plan emphasizes the importance of the Agency maintaining effective oversight of its programs and ensuring the integrity of its operations during this period of transition and budget cutbacks. The OIG's report on the most serious Management Challenges facing SBA and a number of recent audits indicate that SBA's resources are not sufficient for effective oversight. The OIG will need to continue to be vigilant regarding oversight issues. In addition, during the coming fiscal year we will need to concentrate on SBA's disaster relief assistance efforts, and on identifying opportunities to assist SBA in preventing waste, fraud, and abuse in its operations and programs.

I would like to thank Administrator Barreto for his support of the OIG's work. We are committed to protecting the interests of American taxpayers as we work with SBA and the Congress to achieve needed changes and improvements in SBA's programs and activities.

Peter L. McClintock  
Acting Inspector General



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# Overview of SBA and the OIG

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## The Small Business Administration

The Small Business Administration (SBA) was established in 1953 to assist small businesses from start-up through the many stages of growth. The Agency's two major goals are to help small businesses succeed and to assist victims in recovering from disasters. The SBA offers many services to entrepreneurs through its Offices of Capital Access, Entrepreneurial Development, Government Contracting and Business Development, and Disaster Assistance. Services include providing (1) assistance using counseling services and resource partners; (2) financing through the Agency's various business and disaster lending programs; and (3) access to Federal procurement opportunities; and (4) other products and services. The SBA's programs are delivered by a network of field offices in every state, the District of Columbia, the U.S. Virgin Islands, Guam, American Samoa, and Puerto Rico. The SBA had an FY 2005 appropriation of \$611.2 million (excluding \$929 million from the disaster supplemental) and, as of September 30, 2005, had 2,274 employees (including Office of Inspector General (OIG) personnel but excluding disaster-funded employees).

## The Office of Inspector General

The SBA OIG was established by the Inspector General (IG) Act of 1978. Pursuant to this authority, through its four divisions, the OIG performs the following functions nationwide.

- **The Auditing Division** performs program performance reviews, internal control assessments, and financial, information technology and mandated audits, 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 investigative 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 and Freedom of Information and Privacy Act requests, and reviews and comments on proposed Agency policies, regulations, legislation, and procedures.
- **The Management and Policy Division** provides business support (e.g., budget/financial management, human resources, information technology, and procurement) for the various OIG functions, coordinates the preparation of the Semiannual Report to Congress and the Report on SBA's Management Challenges, and develops OIG strategic and performance plans.

The OIG is headquartered in Washington, DC, and has field audit staff in Atlanta, Chicago, Dallas, and Los Angeles. Investigative field staff are located in Atlanta, Chicago, Dallas, Denver, Houston, Kansas City, Los Angeles, Miami, New York, Philadelphia, Seattle, and Washington, DC. An organization chart for the OIG is located in Appendix XI.

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## Overview of SBA and the OIG

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As of September 30, 2005, the OIG had 95 staff on-board. The OIG's FY 2005 appropriation was \$13.3 million, including a \$493,000 transfer for disaster assistance oversight activities (net of rescissions). The OIG's responsibility is to improve SBA programs by identifying key issues facing the Agency, ensuring that corrective actions are taken, and promoting a high level of integrity. We continue to focus on serving the needs of our customers and stakeholders and on safeguarding SBA resources from waste, fraud, and abuse. During recent reporting periods our five strategic goals have been to: (1) prevent fraud and unnecessary losses in SBA programs; (2) improve the security over and the accuracy of SBA accounting and management information; (3) assist SBA in improving its small business development and Government contracting programs; (4) assist SBA management in identifying and resolving persistent and emerging management issues; and (5) strengthen our ability to identify and have maximum impact on the most significant SBA issues.

OIG efforts and accomplishments during the second half of Fiscal Year (FY) 2005 are summarized in the following pages. All audit and other reports issued during this reporting period are listed in Appendix I. All investigative actions are summarized in Appendix X.

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## Significant OIG Activities

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### Goal: Prevent Fraud and Unnecessary Losses in SBA Programs

SBA has a financial assistance portfolio of small business loans and financings exceeding \$55 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 they cannot obtain elsewhere. This program is vulnerable to fraud and unnecessary losses because it relies on numerous parties (including borrowers, loan agents, lenders, and SBA) to complete loan transactions. Approximately 80 percent of loans guaranteed annually by SBA are made by SBA lenders under delegated authority. Additionally, SBA has centralized many loan functions, and reduced the number of staff performing these functions. As SBA has placed more responsibility and independence on its lenders, the importance of OIG oversight has increased significantly.

The Disaster Loan Program is another key SBA lending program, which provides direct Federal assistance for non-farm private sector disaster losses. This highly visible program is also vulnerable to fraud and unnecessary losses because loan transactions are expedited in order to provide quick relief to disaster victims. In addition, the Small Business Investment Company (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.

#### Improvements Are Needed in the SBIC Liquidation Process

As of September 30, 2005, there were 412 SBICs operating nationwide, and SBA's total financial exposure was about \$11.5 billion. If these firms become severely financially troubled, SBA can transfer them to liquidation status and attempt to recover the guaranteed funding provided. As of September 30, 2005, there were 122 SBICs in liquidation with outstanding leverage totaling \$1.8 billion.

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In response to a request from the Associate Administrator for Investment, the OIG audited the liquidation process to determine if it was conducted in an effective and efficient manner. We concluded that due to inadequate goals, performance indicators, controls, and oversight, SBA had no assurance that SBICs were liquidated for maximum recovery in the shortest possible time. We recommended that performance goals and indicators be established to show how well SBA and the liquidation agents were performing; better controls be used in selecting liquidation methods and accounting for funds; and oversight of receivership agents, the sale of assets by SBICs, and the reporting of payments to service providers to the Internal Revenue Service (IRS) be improved. The OIG also recommended that Standard Operating Procedure (SOP) 10 07, SBIC Liquidation Program, be revised to reflect the recommended changes. SBA agreed to consider costs when selecting the liquidation method, provide better oversight of the sale of assets by SBICs, and improve controls and oversight of accounting for funds and reporting payments to service providers to the IRS. SBA was noncommittal for the remaining recommendations, but stated that a contractor would be hired to review the liquidation process. The contractor's recommendations and our remaining recommendations will be considered together.

*...due to inadequate goals, performance indicators, controls, and oversight, SBA had no assurance that SBICs were liquidated for maximum recovery in the shortest possible time.*

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## Significant OIG Activities

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### Borrowers Continue to Make False Claims of Citizenship

In a continuing pattern, some borrowers falsely claim to be U.S. citizens to obtain SBA-guaranteed loans. Often, investigations by the OIG and other law enforcement agencies find borrowers and loan agents in well-organized schemes to misrepresent citizenship and gain loan approval. These loans then quickly default. Millions of dollars are at risk and unavailable to honest prospective borrowers because ineligible borrowers have accessed loans which can individually exceed \$1 million. This type of fraud may escalate, as a resource-constrained SBA depends more on lenders to administer its loan programs.

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well-organized schemes to misrepresent citizenship and gain loan approval. These loans then quickly default. Millions of dollars are at risk and unavailable to honest prospective borrowers because ineligible borrowers have accessed loans which can individually exceed \$1

The facts in a Texas case that the OIG investigated illustrate the pattern. A Texas businessman falsely represented himself as a U.S. citizen in order to induce a bank and the Agency into funding an \$875,000 SBA-guaranteed loan. During this reporting period, he was sentenced to incarceration, a fine, and deportation to his native Pakistan. The legal actions resulted from a joint investigation involving the OIG, the Department of Homeland Security, the Texas Department of Public Safety, and the Texas Alcoholic Beverage Commission.

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### Unscrupulous Applicants Defraud the Disaster Assistance Program

To help victims recover from disasters, SBA's disaster assistance program provides low-interest loans. Some applicants are able to use the disaster as an opportunity to commit fraud because emergencies dictate that loans be made quickly. The problem is likely to grow in the aftermath of a rash of hurricanes in 2004, and the devastating Hurricanes Katrina and Rita in 2005. In response to the Florida hurricanes in the Fall of 2004, the OIG recently established an investigative resident office in Miami, Florida.

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One example of disaster loan fraud involved two co-owners of a house in the Virgin Islands. They allegedly represented to SBA, the Federal Emergency Management Agency (FEMA), the Home Protection Roofing Program (funded by FEMA), and insurance companies that their house had sustained hurricane damage. In reality, the house had been damaged by a previous hurricane and had been purchased by the individuals in an "as is" damaged condition. During this reporting period, they pled guilty to fraud-related charges and have also been charged with conspiracy and mail fraud. The OIG is conducting this ongoing investigation jointly with the Department of Homeland Security.

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## Significant OIG Activities

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### 9/11 Disaster Loan Fraud Presents Special Challenges

After the September 11, 2001, terrorist attacks, SBA disbursed over \$1.1 billion in additional disaster assistance loans. As of August 2005, over \$269 million in disaster loans had been transferred to liquidation. *Because repayments were typically deferred for several years, problems with these loans have been slow to surface.* Because repayments were typically deferred for several years, problems with these loans have been slow to surface.

For example, in this reporting period, the owner of a business was arrested and charged with mail fraud in connection with his application for, and receipt of, a disaster assistance loan for nearly \$647,000. He allegedly forged the endorsement of two vendors on checks totaling almost \$132,000, deposited the funds in a business account, and transferred most of the funds to a new business. The OIG is conducting this investigation jointly with the U.S. Postal Inspection Service.

### Loan Agent Fraud Remains a Serious Vulnerability

SBA remains vulnerable to fraud committed by loan agents. Consequently, the OIG continues to identify it as a Management Challenge for the Agency. A loan agent is employed and compensated by an applicant or lender to prepare an SBA loan application and/or refer the applicant to a lender (or vice versa). *These fraudulent loans often default for non-payment, and SBA purchases the guaranteed portions of the loans.* Honest loan agents can perform a valuable function, helping small businesses access capital. However, dishonest agents have perpetrated fraudulent schemes involving hundreds of millions of dollars in loans. These fraudulent loans often default for non-payment, and SBA purchases the guaranteed portions of the loans.

A relative handful of dishonest loan agents can be involved with large dollar amounts of loans. For example, during this reporting period, a loan agent in Texas was indicted in connection with a scheme in which he represented that he could assist customers in locating properties and obtaining SBA business financing. He provided forged purchase contracts to his customers, knowing that the properties in question were already under contract with another client or were not even for sale. The case resulted from a joint investigation by the OIG and the Federal Bureau of Investigation (FBI) into nine defaulted SBA convenience store loans totaling \$9.5 million.

*A relative handful of dishonest loan agents can be involved with large dollar amounts of loans.*

In addition, loan agents sometimes conspire with others to commit crimes. In another recent case, a loan agent, a title company escrow officer, two borrowers, and three others caused fraudulent loan application documents to be submitted to a lender to secure a \$2.4 million SBA-guaranteed loan. They also laundered about \$473,000 of the proceeds for their personal benefit. The scheme included inflating the purchase price of a warehouse from \$1.5 million to \$2.2 million, and falsifying part of the required equity capital injection. During this reporting period, the individuals were indicted on various charges, including conspiracy, bank fraud, and money laundering.

*...loan agents sometimes conspire with others to commit crimes.*

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## Significant OIG Activities

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In our FY 2005 report on the Agency's Management Challenges, we discussed measures required to prevent loan agent fraud. Because SBA has little information on loan agents involved with its loans—and thus does not know the magnitude of the problem—the Agency needs to systematically identify all loan agents and track their association with individual loans. Such measures are especially important as SBA continues to centralize loan processing and liquidation and shift general oversight of loans to lenders, who may vary significantly in the quality of the oversight they provide.

*...the Agency needs to systematically identify all loan agents and track their association with individual loans.*

### Lenders Continue to Violate SBA's 7(a) Loan Policies

During this reporting period, reviews of two loans ending in early default demonstrated that the loans were not processed or closed in accordance with SBA's policies. An early default is defined as a default or business failure that occurs prior to final disbursement of the loan or within 18 months from the date of final disbursement. Prior reviews of loans with early defaults have identified a high rate of lender

*The two loan reviews ... found lender deficiencies related to the verification of equity injection, securitization of loan collateral, and compliance with disbursement limitations.*

deficiencies in making and closing loans that put SBA's guaranty at risk. Full recovery of the paid SBA guaranty is recommended when such deficiencies are identified. Therefore, the OIG continues to perform reviews of these loans in order to identify and recover improper payments and correct lender deficiencies. The two loan reviews completed during this reporting period found

lender deficiencies related to the verification of equity injection, securitization of loan collateral, and compliance with disbursement limitations. The reviews resulted in recommended recoveries of \$564,048. The lender for one loan has repaid the \$308,960 guaranty purchase amount. Additional reviews of loans with early defaults are in progress.

### Criminal Tactics Vary in SBA Loan Fraud

Examples of various criminal tactics used to obtain SBA-guaranteed loans and commit general business loan fraud include: submission of false and fraudulent documents; fictitious asset claims; failure to disclose other SBA loans; misuse of loan proceeds, manipulated property values; and false claims of equity injections. Collusion between borrowers and other perpetrators—such as loan agents—is another scheme which maximizes the chances of obtaining SBA loans and may increase monetary losses.

*Examples of various criminal tactics used to obtain SBA-guaranteed loans and commit general business loan fraud include: submission of false and fraudulent documents; fictitious asset claims; failure to disclose other SBA loans; misuse of loan proceeds; manipulated property values; and false claims of equity injections.*

For example, a New Jersey bank withdrew its request for SBA to honor its guaranty of over \$846,000 on a \$1,210,000 loan after discovery that the borrowers sold their business one day after receiving the loan. The borrowers defaulted on the loan. An OIG investigation disclosed a conflict of interest between the borrowers and the loan officer. SBA also found that the bank failed to verify the borrower's tax information and did not perfect liens on collateral. The loan officer in this case resigned.

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## Significant OIG Activities

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In another case, a New Jersey business owner obtained a \$560,000 SBA-guaranteed loan by conspiring with another individual to misrepresent the required capital injection of nearly \$150,000. In lieu of the required injection, the individuals entered into an \$80,000 mortgage agreement, which they concealed from the lender. They were sentenced to probation, home confinement, fines, and over \$724,000 in restitution to the lender and SBA.

### The OIG Recommends Debarments

The OIG believes that it is in the public interest to debar parties with a history of fraud or who 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.

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For example, the OIG recommended that SBA debar a doctor based on the her guilty plea to two misdemeanor counts of fraudulently demanding, or endeavoring to obtain, money from the United States in connection with her applications for SBA and FEMA disaster relief. The doctor claimed damage to her mother's home resulting from Hurricane Floyd and allegedly executed disaster applications in her name and on behalf of her mother. The doctor claimed that a piece of her medical equipment stored at her mother's home had been damaged by Hurricane Floyd. The OIG investigation revealed that there was never any medical equipment stored at her mother's residence. In furtherance of her fraud scheme, the doctor also submitted a false lease agreement. As a result of the OIG recommendation, the Agency issued a notice of proposed debarment. This matter is still pending before the Agency.

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### Character Screening Diminishes Potential Program Abuse

The OIG's Office of Security Operations ensures that participants in programs involving business loans, disaster assistance loans, Section 8(a) certifications, surety bond guarantees, SBICs, and certified development companies meet SBA character standards through name checks and, where appropriate, fingerprint checks. During this reporting period, the OIG processed 1,296 external name check requests for these programs.

*The OIG's Office of Security Operations ensures that participants... meet SBA character standards through name checks, and, where appropriate, fingerprint checks.*

Using data from its on-line connection with the FBI, the OIG refers applicants who appear ineligible because of character issues to program officials for adjudication. During this reporting period, OIG referrals resulted in SBA business loan program managers declining 34 applications totaling \$16,395,861, and disaster loan program officials declining 20 applications,

*Nearly \$251.2 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.*

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## Significant OIG Activities

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totaling \$919,159. Nearly \$251.2 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.

In addition, based on OIG efforts during this reporting period, the Section 8(a) program declined 8 applications for admission, and the Surety Bond Guarantee Program declined 1 application. The OIG also initiated 118 background investigations and issued 21 security clearances for Agency employees and contractor personnel required to have clearances, adjudicated 85 background investigative reports, and coordinated with SBA's Office of Disaster Assistance to adjudicate 98 derogatory background investigative reports. Finally, the OIG processed 1,895 internal name check requests for Agency activities such as success stories, Small Business Person of the Year nominees, and disaster assistance new hires.

### **Fraud Awareness Briefings Emphasize Preventing and Deterring Crime**

Because SBA is shifting the processing, liquidation, and oversight of loans to private financial institutions, it is essential that the OIG develops strong working relationships with lenders and other resource partners who can report indicators of potential fraud, and thus minimize losses. Fraud awareness briefings are one tool to help leverage scarce resources by training SBA staff and non-governmental service providers to identify and act upon early signs of fraud.

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During this reporting period, OIG special agents provided fraud awareness briefings to over 600 participants from banks and other lending institutions in Puerto Rico, Texas, and Colorado. The presentations focused on identifying fraud indicators and coordinating efforts to deter fraud.

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## Significant OIG Activities

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### **Goal: Improve the Security Over and the Accuracy of SBA Accounting and Management Information**

SBA depends on a complex information technology (IT) environment, which includes a number of mission critical systems running on a mix of legacy mainframe, client-server, and minicomputers. The Agency has had difficulty producing reliable and timely financial and management information to support its operations, primarily because of reliance on outdated IT systems that are not integrated. SBA recently implemented a new Disaster Credit Management system to modernize and improve its disaster loan-making activities. The SBA has also implemented a Lender and Loan Monitoring System to monitor its business loan portfolio. These efforts are critical to SBA's successful future operations; however, they do not impact SBA's Loan Accounting System, which is outdated and in need of replacement.

The Chief Financial Officers Act of 1990 requires each Federal agency to have annual audited financial statements. A key Office of Management and Budget (OMB) initiative is to have agencies improve their financial management activities, including providing financial statements and financial performance information in a more timely manner. For several years, SBA's external auditors have been critical of the Agency's reporting process and its ability to provide accurate, complete, and reliable financial data.

#### **SBA Makes Significant Progress in Overcoming Financial Management Challenge**

Various laws and regulations place significant responsibilities on Federal financial managers to assess whether they are managing public resources effectively and efficiently. In recent years, the OIG, Government Accountability Office (GAO), and SBA's external auditors all noted significant internal control weaknesses that resulted in the Agency being unable to produce reliable, timely, and accurate financial information, including its annual financial statements.

Recognizing the importance of sound financial management, SBA's Administrator made improved financial management one of the Agency's top priorities, and the Agency made significant progress in this direction. SBA's most important accomplishments have been improved models for estimating the

*SBA's most important accomplishments have been improved models for estimating the Agency's subsidy costs and improved controls over financial statement*

Agency's subsidy costs, and improved controls over financial statement preparation. These improvements contributed significantly to permitting the external auditors to render a qualified opinion on the SBA's FY 2004 financial statements.

Despite these improvements, SBA's financial management issues persist, and the OIG continues to identify financial management as one of the Agency's top Management Challenges. SBA must further improve financial controls, enhance quality assurance procedures over financial reporting, refine subsidy cost estimation techniques, and obtain an unqualified opinion on the Agency's financial statements. SBA must demonstrate that it can accomplish these objectives while implementing new reporting and internal control requirements in an effective and timely manner.

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## Significant OIG Activities

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OMB Circular A-123 provides an excellent opportunity for SBA to demonstrate, and for OIG to assess, the Agency's ability to incorporate new reporting and internal control requirements into its current financial management activities. A-123, which becomes effective in FY 2006, updates internal control standards, strengthens the requirements for conducting management's assessment of internal control over financial reporting, and emphasizes the need to integrate and coordinate internal control assessments with other internal control-related activities. Actions necessary for successful implementation of A-123 are similar to, or support, actions needed to resolve the Agency's financial Management Challenge. Thus, during this reporting period, the OIG has worked with SBA to ensure successful implementation of A-123. We are providing internal control assessment tools, the external auditor's documentation of SBA's key accounting and reporting cycles, and an informal review of SBA's A-123 implementation plans.

*We are providing internal control assessment tools, independent auditor documentation of SBA's key accounting and reporting cycles, and an informal review of SBA's OMB Circular A-123 implementation plans.*

The OIG continues to monitor SBA's progress in this area by: (1) increasing the resources devoted to the Agency's annual financial statement audit; (2) working closely with SBA to ensure the Agency incorporates corrective actions identified by the OIG, external auditors, and others into its financial reporting plans; and (3) requiring OIG review of all final actions on recommendations related to SBA's financial Management Challenge.

### **SBA Needs to Address its Legacy Mainframe Migration Problem**

SBA has identified the modernization of the loan accounting process, where the Loan Accounting System (LAS) is the central hub, as the single biggest operational challenge facing the Agency. This mainframe-based system has been in place for approximately 30 years and is virtually obsolete. LAS includes 19 subsystems and serves as the principal data processing and data collection tool for SBA's loan servicing, monitoring, and accounting processes. In FY 2004, LAS serviced a loan portfolio which totaled approximately \$60 billion. While LAS has supported the Agency's loan servicing, monitoring, and accounting processes for many years, SBA's Office of Chief Information Officer noted in a December 2004 modernization proposal that "there are several significant drawbacks of the current platform including extremely high-cost, obsolete technology, and serious security holes that cannot easily be addressed." In addition, the existing contract with SBA's LAS-outsourced services provider will expire effective on February 17, 2007. Lack of attention to its legacy mainframe problem threatens SBA's ability to meet day-to-day business operating needs.

*SBA has identified the modernization of the loan accounting process, where the Loan Accounting System (LAS) is the central hub, as the single biggest challenge facing the SBA.*

and accounting processes for many years, SBA's Office of Chief Information Officer noted in a December 2004 modernization proposal that "there are several significant drawbacks of the current platform including extremely high-cost, obsolete technology, and serious security holes that cannot easily be addressed." In addition, the existing contract with SBA's LAS-outsourced services provider will expire effective on February 17, 2007. Lack of attention to its legacy mainframe problem threatens SBA's ability to meet day-to-day business operating needs.

The OIG determined that SBA needs to immediately develop and deploy an effective migration or modernization plan for LAS. A major impediment to making needed changes is that LAS is "owned" by multiple SBA Offices including: Office of Financial Assistance, Office of Disaster Assistance, Office of Field Operations and the Office of Chief Financial Officer. The multiple SBA Offices that "own" LAS have disparate organizational goals and objectives,

*The multiple SBA Offices that "own" LAS have disparate organizational goals and objectives, making prioritization and implementation of remediation efforts challenging.*

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## Significant OIG Activities

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making prioritization and implementation of remediation efforts challenging. We recommended that SBA adopt a plan using good financial and project management principles to migrate off of the legacy LAS, and obtain such budget and resource authority as needed to ensure the success of the project. SBA agreed to begin the process of developing a new system as a replacement for the LAS.

### **Cost Savings are Possible in Consolidating SBA's Systems, Subject to the FISMA Requirements**

The Federal Information Security Management Act (FISMA) requires the OIG to perform an independent evaluation of SBA's information security program. SBA is required to carry out an information security program to ensure that its assets and ability to operate are free from areas of vulnerability that could disrupt operations and the delivery of program services.

In our May 2005 evaluation of SBA's information security program, we concluded that SBA could achieve economies of scale by consolidating its existing 39 systems subject to FISMA reporting into 20

*SBA could achieve economies of scale by consolidating its existing 39 systems subject to FISMA reporting into 20 systems without reducing the underlying security of SBA information within any of those systems.*

systems without reducing the underlying security of SBA information within any of those systems. Additionally, SBA may be able to increase its security efforts by concentrating on the residual risks in the remaining 20 systems. This review identified that SBA could potentially save \$475,000 every three years by not performing certifications and accreditations on systems which are really subsystems, feeder systems, or non-

major systems. SBA agreed with our recommendations to reduce its number of major systems subject to FISMA from 39 to 20.

### **SBA's Electronic Forms System Violates the Privacy Act**

SBA maintains an automated forms database which is available to employees throughout the Agency, and facilitates access to SBA and Government-wide Standard Forms. The OIG reviewed SBA's Informs system to determine whether employee personal identifying information is protected from improper disclosure. We concluded that the Informs system was susceptible to unauthorized disclosure of personal or Privacy Act information. This information included individual SBA employee names, employee identifiers or social security numbers, addresses, phone numbers, and dates of birth. The lack of controls to prevent unauthorized disclosure of these records was determined to be a violation of the Privacy Act. SBA agreed to migrate away from the Informs system and convert to a system of fillable Adobe Acrobat forms which cannot be saved with personally identifiable information on Agency file servers or other storage devices.

*...the Informs system was susceptible to unauthorized disclosure of personal or Privacy Act information...includ[ing] individual SBA employee names, employee identifiers or social security numbers, addresses, phone numbers, and dates of birth.*

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## Significant OIG Activities

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### **Goal: Assist SBA in Improving its Small Business Development and Government Contracting Programs**

Through its Government contracting programs, the SBA works to create an environment for maximum participation by small, disadvantaged, and women-owned businesses in Federal Government contract awards. These programs include, among others, the HUBZone Empowerment Contracting Program and the Small Disadvantaged Business (SDB) Certification Program. The SBA also negotiates with Federal agencies to establish procurement goals for contracting with small, small disadvantaged, women-owned, service-disabled veteran-owned, and HUBZone small businesses. The current Government-wide small business goal is 23 percent of the total value of all prime contract awards for each fiscal year.

SBA also manages the Section 8(a) Business Development (8(a) BD) program, which was established to provide business development assistance to small businesses owned by socially and economically disadvantaged individuals, and help them access the multi-billion dollar Federal procurement market. In addition, SBA provides assistance to existing and prospective small businesses through a variety of counseling and training services offered by Agency 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. All demand effective and efficient management, outreach, and service delivery. Determining whether business development and Government contracting programs meet these demands requires reliable internal and external data for effective monitoring and oversight.

### **The OIG Identifies Additional Impediments to Small Business Access to the Federal Procurement Process and Needed Improvement in SBA Oversight**

After issuing a new Management Challenge during the last reporting period concerning Federal procurement as it relates to small business—"Flaws in the Federal procurement process allow large firms to receive small business awards and agencies to receive small business credit for contracts performed by large firms,"—the OIG conducted additional Federal procurement projects during this reporting period. As noted in the Management Challenge and in recent reviews, SBA has not taken all the steps needed to be an effective advocate for small business.

In a 2002 report, the President publicly expressed his concerns about contract bundling, noting that not only are substantially fewer small businesses receiving Federal contracts, but the Federal Government is

*SBA is "responsible for reviewing all acquisitions not set-aside for small businesses to determine whether a set-aside is appropriate and to identify alternative strategies to maximize the participation of small businesses in the procurement."*

suffering from a reduced supplier base. According to the Small Business Act, "bundling of contract requirements" is the consolidation of two or more procurement requirements for goods or services previously provided or performed under separate smaller contracts into a solicitation of offers for a single contract that is likely to be unsuitable for award to a small business concern due to (1) the

diversity, size, or specialized nature of the elements of the performance specified; (2) the aggregate dollar value of the anticipated award; (3) the geographical dispersion of the contract performance sites; or any

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## Significant OIG Activities

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combination of the preceding three factors. Procuring agencies are required to notify SBA of all proposed contracts that would be considered bundled. SBA is “responsible for reviewing all acquisitions not set-aside for small businesses to determine whether a set-aside is appropriate and to identify alternative strategies to maximize the participation of small businesses in the procurement.”

During this reporting period, the OIG completed an audit survey of the contract bundling process and found that SBA was not reviewing the majority of procurements reported by agencies as bundled. Eighty

*...the OIG completed an audit survey of the contract bundling process and found that SBA was not reviewing the majority of procurements reported by agencies as bundled.*

seven percent of the reported potential bundlings we identified during the survey were not reviewed by SBA. Procuring agencies acknowledged that they did not always notify SBA of the bundlings. According to an SBA official, procuring agencies do not always understand what constitutes bundling, so

many of the reported bundled contracts may not actually be bundled. Although SBA stated that they did not have adequate resources to provide direct oversight, compensating controls were not implemented to ensure that SBA reviewed all bundlings reported to other sources, such as OMB.

Further, SBA did not have a bundling database as required by the Small Business Reauthorization Act of 2000, and had not disseminated a best practices guide as required by OMB’s Office of Federal Procurement Policy bundling strategy. According to an SBA official, the database has not been developed because the Department of Defense, which accounts for over 50 percent of the procurement actions, is not required to supply certain bundling information needed for the database. The SBA indicated general agreement with the report’s recommendations.

*...SBA did not have a bundling database as required by the Small Business Reauthorization Act of 2000, and had not disseminated a best practices guide as required by OMB’s Office of Federal Procurement Policy bundling strategy.*

### The OIG Recommends Debarring Government Contractor

The Small Business Act provides that the Federal Government should protect the interests of small businesses and ensure that a fair and representative share of Government contracts are placed with small

*The Small Business Act provides that the Federal Government should protect the interests of small businesses and ensure that a fair and representative share of Government contracts are placed with small businesses.*

businesses. In June 2005, the OIG recommended that SBA debar a company for misrepresenting that it was a small business concern in obtaining a Government contract which was set-aside for a small business. The OIG's recommendation to the Agency related that the company had exceeded the applicable size standards identified in the relevant solicitation at the time that it bid on the contract.

The Small Business Act provides that debarment is appropriate if a business misrepresents its size standard in order to obtain a small business set-aside contract (15 USC §645(d)). The Agency has not finished its evaluation to decide whether to debar the company.

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## Significant OIG Activities

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### SBA Needs to Develop More Explicit Criteria for the Section 8(a) BD Program

During this reporting period, the OIG identified two additional areas within the 8(a) Program where criteria to effectively manage the program have not been developed. For FY 2005, OIG Management Challenge 7 was partially based on the lack of criteria defining business success, and the need to redefine economic disadvantage using objective, quantitative, and qualitative criteria. By the end of FY 2005, the Agency had defined business success and included values to be used when analyzing each of the elements of economic disadvantage which, when fully implemented, should lead to improvement in the management of the 8(a) Program. Criteria are also needed in other 8(a) program areas.

The 8(a) Mentor-Protégé Program is intended to enhance the capability of 8(a) participants to compete more successfully for Federal Government contracts. The program encourages private-sector relationships and expands SBA's efforts to identify and respond to the developmental needs of 8(a) participants. Mentor and protégé firms are required to enter into a written agreement setting forth the protégé's needs and describing the assistance the mentor is committed to provide to address those needs.

*Program officials have not defined success for the 8(a) Mentor-Protégé Program and its participants, and do not track performance statistics for mentor-protégé relationships*

During this reporting period, the OIG completed an audit survey of the 8(a) Mentor-Protégé Program and found that program officials cannot determine if either the Mentor Protégé Program or its participants have succeeded. Program officials have not defined success for the 8(a) Mentor-Protégé Program and its

participants, and do not track performance statistics for mentor-protégé relationships. Most of the seven agreements we reviewed followed a standard template using "boilerplate" language that was not specific in addressing the needs of the individual protégés. Also, the agreements did not propose any specific actions to be undertaken during the agreement period. SBA agreed with the OIG's recommendations and provided comments indicating certain steps have already been taken to implement the recommendations.

The OIG also issued a report which concluded that criteria for overcoming the presumption of social disadvantage for 8(a) Program purposes are needed. In order to participate in the 8(a) Program, the majority owner(s) of the company seeking admittance must, among other things, be socially disadvantaged, i.e., be an individual who has "been subjected to racial or ethnic prejudice or cultural bias within American society because of their identities as members of groups and without regard to their individual qualities." The regulations specify that there is a rebuttable presumption that Black Americans, Hispanic Americans, Native Americans, Asian Pacific Americans, and Subcontinent Asian Americans are socially disadvantaged. This presumption can be overcome with "credible evidence to the contrary." However, SBA has not developed criteria for what constitutes credible evidence. Although SBA did not provide formal comments, program officials agreed with the OIG's recommendations.

*...criteria for overcoming the presumption of social disadvantage for 8(a) Program purposes are needed.*

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## Significant OIG Activities

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### SBA Official Allegedly Violates Public Trust

As part of a continuing effort to ensure that those 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, an assistant district director for SBA's 8(a)BD Program was indicted on conspiracy and bribery charges. Specifically, he allegedly used his position to obtain over \$20,000 for his personal benefit from a contractor who received over \$3 million in 8(a) contracts. This investigation was based on a referral from the FBI. The OIG is conducting this ongoing investigation jointly with the FBI and the General Services Administration OIG.

*During this reporting period, an assistant district director for SBA's 8(a)BD Program was indicted on conspiracy and bribery charges.*

### SBDC Surveys Require OIG Approval

Section 21(a)(7) of the Small Business Act 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 IG who shall include such approval in the OIG's Semiannual Report.

The Agency requested the OIG's approval of an Initial Impact Survey and a Follow-up Economic Impact Survey during this reporting period. We reviewed the two surveys and determined that they did not raise any issues of concern relating to disclosure of private or personal information. The surveys were to be used for the OMB Program Assessment Rating Tool process and to assist program managers to better manage the SBDC program. The surveys were approved by the OIG in April 2005. Agency officials continue to work on the required regulations regarding disclosures of client information and expect these regulations to be circulated for clearance in the near future.

*We reviewed ... two surveys and determined that they did not raise any issues of concern relating to disclosure of private or personal information.*

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## Significant OIG Activities

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### **Goal: Assist SBA Management in Identifying and Resolving Persistent and Emerging Management Issues**

A key OIG objective has been to identify emerging and persistent programmatic and operational problems that may hamper SBA's ability to effectively support small business. Many of these problems have been identified by the OIG as major Management Challenges, and are set forth in the OIG's annual report on Management Challenges. The OIG updates the Management Challenges each year so that they accurately reflect the current Challenges facing the Agency.

#### **SBA Addresses Its Top Management Challenges**

In accordance with the Reports Consolidation Act of 2000, the OIG each fiscal year identifies the most important management and performance Challenges facing the Agency for inclusion in SBA's consolidated Performance and Accountability Report. This list of Management Challenges represents the areas that the OIG considers to be particularly vulnerable to fraud, waste, abuse, or mismanagement, or that otherwise pose significant risk to the Agency, its operations, or its credibility. Each Challenge generally has been the subject of one or more OIG or GAO reports, or has resulted from our general knowledge of Agency management issues. For each Management Challenge, we provide the Agency with recommended remedial actions together with our assessment of Agency progress on each action item during the preceding fiscal year.

The most serious Management Challenges that faced SBA during FY 2005 were as follows:

- SBA needs to improve its managing for results processes and performance data. (To be eliminated for FY 2006.)
- SBA faces significant challenges in financial management and reporting which affects 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 needs better controls over the business loan purchase process.
- SBA needs to continue improving lender/participant oversight.
- The Section 8(a) Business Development program needs to be modified so more firms receive access to business development, standards for determining economic disadvantage are clear and objective, and more eligible companies receive 8(a) contracts.
- SBA needs to enforce its rules to deter firms receiving small business set-aside, 8(a), or small disadvantaged business (SDB) price evaluation preference contracts from passing through large portions of the procurement to other firms. (To be eliminated for FY 2006.)
- Preventing loan agent fraud requires additional measures.
- SBA needs to update its system of directives to provide proper guidance and control over its operations.
- The current structure and oversight practices of the Small Business Investment Company (SBIC) program place too much risk on taxpayer money.
- Flaws in the Federal procurement process allow large firms to receive small business awards and agencies to receive small business credit for contracts performed by large firms.

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## Significant OIG Activities

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Because the Management Challenge process is evolutionary, the OIG believes it is important that they be updated as appropriate so that they accurately reflect the current Challenges facing the Agency. During

*Because the Management Challenge process is evolutionary, the OIG believes it is important that they be updated as appropriate so that they accurately reflect the current Challenges facing the Agency.*

this reporting period the OIG continued to appraise the current Challenges to identify revisions needed to keep them forward-looking in the light of additional work, or no changed circumstances. The results of this review will be reflected in the FY 2006 Management Challenges.

While SBA has made progress on most of the Challenges, much more remains to be done. By their nature, these Challenges require continued long-term commitment and effort by the Agency, and we continue to work with the Agency to resolve them.

For more information on the OIG's assessment of the SBA's Management Challenges, please review the report at <http://www.sba.gov/ig/challenges.html>.

*By their nature, these Challenges require continued long-term commitment and effort by the Agency and we continue to work with the Agency to resolve them.*

### SBA's Administration of Its Special Appropriation Grants Has Not Been Effective

The number and total dollar amount of special appropriation grants administered by SBA has been significant over the past 3 years. The number of SBA special appropriation grants was 66 grants totaling

*If considered a distinct program, SBA's portfolio of special appropriation grants would rank as the Agency's second largest funded non-credit program.*

\$58 million in FY 2003, and 91 grants totaling \$40 million in FY 2005. If considered a distinct program, SBA's portfolio of special appropriation grants would rank as the Agency's second largest funded non-credit program. Unlike discretionary grants, SBA program offices are not involved in the administration

of special appropriation grants. Moreover, they are not necessarily related to any SBA program. Administration of these grants is currently managed by two divisions within SBA's Office of Administration (OA)—the Office of Financial and Administrative Operations (OFAO), and the Office of Procurement and Grants Management (OPGM).

An OIG audit of SBA's administration of a small selected sample of special appropriations grants found that OA (1) did not exercise adequate oversight of the three grants reviewed and did not ensure that grantees followed applicable policies and procedures; (2) approved and paid grantee reimbursement requests without requiring evidence that expenditures were allocable, allowable, and reasonable; (3) did not require documentation from the grantees that clearly identified key personnel before awarding the grant; (4) did not enforce the financial and performance reporting requirements of the grants, thereby ensuring grantees are delivering the services promised in their proposals; and (5) did not have formal written procedures to guide the review, monitoring, and oversight of SBA's portfolio of special appropriations grants. The OIG concluded that the grant administration process for special appropriations grants was ineffective and exposed SBA to the risk that grant funds may be used for activities other than their intended purpose.

*...the grant administration process for special appropriations grants was ineffective and exposed SBA to the risk that grant funds may be used for activities other than their intended purpose.*

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## Significant OIG Activities

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The OIG report contained three findings and seven recommendations for strengthening oversight of the Agency's grant administration process. OA indicated agreement with one of the findings, but did not address or provide comments on the remaining two findings or any of the report recommendations.

### OIG Reviews Lead to Improvements in Legislation, Regulations and Agency Initiatives

Through review of many SBA regulations and initiatives, the OIG plays an important role in identifying and proposing corrective action to address program inefficiencies and areas of potential fraud, waste, and

*Through review of many SBA regulations and initiatives, the OIG plays an important role in identifying and proposing corrective action to address program inefficiencies and areas of potential fraud, waste, and abuse.*

abuse. The OIG's substantive comments frequently lead to marked improvement in legislation and regulations proposed by SBA or affecting SBA programs, new and revised Agency internal operating procedures, Agency reorganizations, and other matters requiring the Administrator's signature.

From April 1, 2005, through September 30, 2005, the OIG reviewed four proposed legislative and regulatory changes and 73 internal SBA operating procedures and other initiatives, covering a wide variety of Agency initiatives. The OIG was able to identify problems and recommend solutions in several areas of considerable importance to the Agency: the Agency's transformation initiatives; regulations affecting Government-wide procurement procedures; restructuring of the Agency's loan programs; and, numerous critical personnel procedures. For example, the OIG's review of SBA's proposed regulations on cosponsorship and gift acceptance authority identified a number of significant deficiencies. These included regulatory language that could have permitted SBA to promote the products or services of private parties that had made donations to the Agency. Other problems could have resulted in the misuse of SBA's logo by private parties and confusion among agency and small business personnel over fees for cosponsored events. As a result of OIG's recommendations, the Agency made numerous revisions to the proposed regulations.

*...OIG's review of SBA's proposed regulations on cosponsorship and gift acceptance authority identified a number of significant deficiencies... As a result of OIG's recommendations, the Agency made numerous revisions to the proposed regulations.*

### SBA Did Not Perform Certain Gift Authority Procedures

Section 4(g)(2) of the Small Business Act as amended by SBA's most recent reauthorization 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 IG who shall report his findings to

*We found that although cash gifts were properly held in a separate account (the Business Assistance Trust Fund), SBA did not perform certain required procedures for soliciting, accepting, and utilizing cash gifts.*

Congress. The OIG met this requirement during the reporting period by conducting an audit and issuing a report. We found that although cash gifts were properly held in a separate account (the Business Assistance Trust Fund), SBA did not perform certain required procedures for soliciting, accepting, and utilizing cash gifts. The report contained five

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## Significant OIG Activities

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findings and nine recommendations for improving those procedures. Additionally, by the end of the reporting period, the Agency's final regulations for implementing the changes to SBA's gift authority had been developed and were going through the internal clearance process.

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

Section 4(h) of the Small Business Act requires the OIG to report to Congress on a semiannual basis regarding the Agency's use of its authority in connection with cosponsorships and fee-based

*From April 1, 2005, through September 30, 2005, there were 21 cosponsorships...*

Administration-sponsored events. SBA's Office of Strategic Alliances provided information to the OIG related to cosponsorships, including the name, dates, and locations of the co-sponsorships, and names of

cosponsors. From April 1, 2005, through September 30, 2005, there were 21 cosponsorships as shown in Appendix IX. SBA reported that it did not conduct any fee-based Administration-sponsored events during this period.

### **Percentage of Overdue Final Implemented Actions Has Increased While the Number of Overdue Management Decisions has Decreased**

Management decisions on OIG recommendations take several forms. Program officials may agree to a recommendation as presented by the OIG, seek to negotiate a compromise agreement with the OIG, or disagree with the recommendation. The IG Act requires that Federal agencies make management decision on all findings and recommendations within a maximum of six months of report issuance. As of September 30, 2005, 39 management decisions on recommendations in OIG reports were overdue—approximately 40 percent of all pending management decisions. This represents a small decrease in the number of overdue management decisions since March 31, 2005. The Office of Field Operations, the Office of the Chief Information Officer (OCIO), and Government Contracting were responsible for over half of the overdue management decisions. The percentage of recommendations with overdue final implemented actions has substantially increased—by 44 percent—since March 31, 2005. As of the end of this reporting period, 52 percent of all pending final actions were overdue. The OCIO and the Office of Management and Administration are responsible for almost half of these overdue final actions.

*The percentage of recommendations with overdue final implemented actions has substantially increased—by 44 percent—since March 30, 2005. As of the end of this reporting period, 52 percent of all pending final actions were overdue.*

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## Significant OIG Activities

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### **Goal: Strengthen our ability to identify and have maximum impact on the most significant SBA issues**

To successfully implement our strategic goals, the OIG must ensure the efficiency and effectiveness of our internal operations. The OIG must manage its human capital and other resource allocation processes to maximize the impact of our efforts to improve Agency programs and operations. Moreover, we must be quick to respond to the changes currently taking place in SBA.

#### **New Information System Will Maximize Investigators' Effectiveness**

Criminal investigators traditionally have relied on paper documents and files to report their activities and case results. Investigators encountered several limitations when working with hard copy files: (1) retrieving case information was often slow, (2) sharing information with other investigators depended upon proximity to paper files, and (3) detecting patterns of criminal activity from multiple cases was difficult.

During this reporting period, the OIG implemented a new Investigations Management Information System (IMIS). Once data is loaded into the system, IMIS functions like a portable case file, enabling investigators to electronically retrieve all related documents. Investigators are able to perform nation-

*Once data is loaded into the system, IMIS functions like a portable case file, enabling investigators to electronically retrieve all related documents.*

wide cross checks on information (such as the names of subjects of investigations). The Investigations Division will be able to analyze IMIS data to determine patterns of criminal activity and retrieve and report performance measurement data more quickly, accurately, and consistently.

#### **New OIG Strategic Plan Focuses on SBA's Major Systemic Problems**

The OIG has developed a new Strategic Plan, covering Fiscal Years 2006-2011, under the Government Performance and Results Act. This Strategic Plan reflects a rethinking and refinement of our earlier strategic goals and planning framework in order to focus OIG efforts on identifying the larger systemic problems in SBA's programs and operations. In an era of tight budgets, the OIG must focus on the most significant risks to the SBA and taxpayers, and on the most critical problems with SBA programs and operational processes. Thus, the OIG has developed this Strategic Plan based on recent significant changes in SBA operations and on our assessment of risks associated with delivering SBA programs in this changed environment. This plan is designed to assist SBA in meeting the challenges it faces, and help the Agency to accomplish its mission in the most effective, efficient, and economical manner possible. Under the new plan, the OIG identifies two Strategic Goals: (1) Improve the economy, efficiency, and effectiveness of SBA programs and operations; and (2) Promote and foster integrity in SBA programs and operations.

*the OIG has developed this Strategic Plan based on recent significant changes in SBA operations and on our assessment of risks associated with delivering SBA programs in this changed environment.*

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## Statistical Highlights

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### FY 2005 6-Month Productivity Statistics April 1, 2005, through September 30, 2005

Office-wide Dollar Accomplishments	Totals
A. Potential Investigative Recoveries and Fines.....	\$1,414,183
B. Loans Not Made as Result of Investigations and Name Checks.....	\$18,830,252
C. Disallowed Costs Agreed to by Management.....	\$308,960
D. Recommendations that Funds Be Put to Better Use Agreed to by Management.....	<u>\$457,000</u>
<b>Total</b> .....	<u>\$21,010,395</u>

#### Efficiency and Effectiveness Activities

A. Reports Issued.....	12
B. Recommendations Issued.....	69
C. Dollar Value of Costs Questioned.....	\$2,038,232
D. Dollar Value of Recommendations that Funds Be Put to Better Use.....	\$475,000
E. Collections as a Result of Questioned Costs .....	\$1,712,687

#### Follow-up Activities

A. Recommendations Closed.....	98
B. Disallowed Costs Agreed to by Management .....	\$308,960
C. Dollar Value of Recommendations that Funds Be Put to Better Use Agreed to by Management.....	\$457,000
D. Unresolved Recommendations.....	98

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

A. Legislation Reviewed.....	2
B. Regulations Reviewed.....	2
C. Standard Operating Procedures Reviewed.....	14
D. Other Issuances Reviewed* .....	<u>59</u>
<b>Total</b> .....	<u>77</u>

\*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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## FY 2005 6-Month Productivity Statistics (cont.) April 1, 2005, through September 30, 2005

### Summary of Indictments, Convictions, and Case Activity

A. Indictments from OIG Cases.....	25
B. Convictions from OIG Cases .....	21
C. Cases Opened .....	29
D. Cases Closed .....	40

### Summary of Recoveries and Management Avoidances

A. Potential Recoveries and Fines as a Result of OIG Investigations.....	\$1,414,183
B. Loans/Contracts Not Approved as a Result of OIG Investigations.....	\$1,515,232
C. Loans/Contracts Not Approved as a Result of the Name Check Program .....	<u>\$17,315,020</u>
<b>Total .....</b>	<u><b>\$20,244,435</b></u>

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

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

### Program Actions Taken as a Result of Investigations

A. Debarments Recommended to the Agency .....	7
B. Debarments Pending at the Agency .....	7
C. Proposed Debarments Issued by the Agency .....	1
D. Final Debarments Issued by the Agency.....	0

### Summary of OIG Hotline Operation

A. Total Fraud Line Calls/Letters .....	134
B. Total Calls/Letters Referred to Investigations Division.....	26
C. Total Calls/Letters Referred to SBA or Other Federal Investigative Agencies .....	73
D. Total Calls/Letters Needing No Action.....	35

# Statistical Highlights

## FY 2005 Full Year Productivity Statistics October 1, 2004, through September 30, 2005

<b>Office-wide Dollar Accomplishments</b>	<b>Totals</b>
A. Potential Investigative Recoveries and Fines.....	\$21,946,963
B. Loans Not Made as Result of Investigations and Name Checks.....	\$31,333,272
C. Disallowed Costs Agreed to by Management .....	\$1,965,492
D. Recommendations that Funds Be Put to Better Use Agreed to by Management.....	\$599,549
<b>Total .....</b>	<b><u>\$55,845,276</u></b>

### Efficiency and Effectiveness Activities

A. Reports Issued.....	30
B. Recommendations Issued.....	171
C. Dollar Value of Costs Questioned.....	3,290,153
D. Dollar Value of Recommendations that Funds Be Put to Better Use.....	\$475,000
E. Collections as a Result of Questioned Costs .....	\$2,584,551

### Follow-up Activities

A. Recommendations Closed.....	241
B. Disallowed Costs Agreed to by Management .....	\$1,965,492
C. Dollar Value of Recommendations that Funds Be Put to Better Use Agreed to by Management.....	\$599,549
D. Unresolved Recommendations.....	98

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

A. Legislation Reviewed.....	37
B. Regulations Reviewed.....	4
C. Standard Operating Procedures Reviewed .....	21
D. Other Issuances Reviewed* .....	94
<b>Total .....</b>	<b><u>156</u></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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## FY 2005 Full Year Productivity Statistics (cont.) October 1, 2004, through September 30, 2005

### Summary of Indictments, Convictions, and Case Activity

A. Indictments from OIG Cases.....	50**
B. Convictions from OIG Cases .....	41**
C. Cases Opened .....	58**
D. Cases Closed .....	69**

### Summary of Recoveries and Management Avoidances

A. Potential Recoveries and Fines as a Result of OIG Investigations.....	\$21,946,963
B. Loans/Contracts Not Approved as a Result of OIG Investigations.....	\$4,010,232
C. Loans/Contracts Not Approved as a Result of the Name Check Program .....	<u>\$27,323,040</u>
<b>Total .....</b>	<u><b>\$53,280,235</b></u>

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

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

### Program Actions Taken as a Result of Investigations

A. Debarments Recommended to the Agency .....	7
B. Debarments Pending at the Agency .....	7
C. Proposed Debarments Issued by the Agency .....	4
D. Final Debarments Issued by the Agency.....	4

### Summary of OIG Hotline Operation

A. Total Fraud Line Calls/Letters .....	310**
B. Total Calls/Letters Referred to Investigations Division.....	61
C. Total Calls/Letters Referred to SBA or Other Federal Investigative Agencies .....	196
D. Total Calls/Letters Needing No Action.....	53

\*\*Corrections were made for October 1, 2004, through March 31, 2005, period.

# Appendix

## Appendix I OIG Reports Issued April 1, 2005, through September 30, 2005

Title	Report Number	Issue Date	Questioned Costs	Funds for Better Use
<i><b>Capital Access</b></i>				
Audit of SBA-Guarantied Loan to L.I.C. Auto Sales, Inc. dba King Bear	5-21	7/15/2005	\$308,960	
Audit of SBIC Liquidation Process	5-22	7/28/2005		
Audit of Early Defaulted Loan to Hansen Enterprises	5-26	9/28/2005	\$255,088	
Management Advisory Report PLP Processing Restrictions for Paying off Existing SBA Debt in a Change of Ownership Transaction	5-27	9/28/2005	\$1,474,184	
<b>Program Subtotal</b>	<b>4</b>		<b>\$2,038,232</b>	
<i><b>Agency Management</b></i>				
Advisory Memorandum Report – Consolidation of SBA’s Systems Subject to FISMA	5-19	5/20/2005		\$475,000
Audit of SBA’s Informs Electronic Forms System	5-25	9/23/2005		
Review of SBA Procedures for Cash Gifts	5-28	9/30/2005		
Management Advisory Report – SBA Needs to Implement a Viable Solution to Its Loan Accounting System Migration Problem	5-29	9/30/2005		
<b>Program Subtotal</b>	<b>4</b>			<b>\$475,000</b>
<i><b>Government Contracting and Business Development</b></i>				
Review of the Mentor-Protégé Program	5-18	4/18/2005		
Audit of the Contract Bundling Process	5-20	5/20/2005		
Audit of SBA's Administration of Its Special Appropriation Grants	5-23	9/21/2005		
Criteria for Overcoming the Presumption of Social Disadvantage is Needed	5-24	9/28/2005		
<b>Program Subtotal</b>	<b>4</b>			
<b>TOTALS (all programs)</b>	<b>12 Reports</b>		<b>\$2,038,232</b>	<b>\$475,000</b>

## Appendix

### Appendix II OIG Reports with Questioned Costs

		Reports	Recs*	Questioned Costs**	Unsupported Costs**
A.	No management decision made by March 31, 2005	5	7	\$3,880,620.10	\$3,086,077.13
B.	Issued during this reporting period	3	3	\$2,038,232.00	\$0
	Universe from which management decisions could be made in this reporting period – Subtotals	8	10	\$5,918,852.10	\$3,086,077.13
C.	Management decision(s) made during this reporting period	1	1	\$308,960.00	\$0
	(i) Disallowed costs	1	1	\$308,960.00	\$0
	(ii) Costs not disallowed	0	0	\$0	\$0
D.	<b>No management decision made by September 30, 2005</b>	7	9	\$5,609,892.10	\$3,086,077.13

\* Reports may have more than one recommendation.

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

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

		Reports	Recs*	Recommended Funds For Better Use
A.	No management decision made by March 31, 2005**	2	2	\$300,823.00
B.	Issued during this reporting period	1	6	\$475,000.00
	Universe from which management decisions could be made in this reporting period – Subtotals	3	8	\$775,823.00
C.	Management decision(s) made during this reporting period	2	6	\$457,000.00
	(i) Recommendations agreed to by SBA management	2	6	\$457,000.00
	(ii) Recommendations not agreed to by SBA management	0	0	\$0
D.	<b>No management decision made by September 30, 2005</b>	2	2	\$318,823.00

\* Reports may have more than one recommendation.

\*\*March 31, 2005, closing balance was corrected.

# Appendix

## Appendix IV OIG Reports with Non-Monetary Recommendations

		Reports	Recommendations
A.	No management decision made by March 31, 2005**	23	118
B.	Issued during this reporting period	10	60
	Universe from which management decisions could be made in this reporting period – Subtotals	33	178
C.	Management decision(s) made (for at least one recommendation in the report) during this reporting period	16	91
D.	<b>No management decision made (for at least one recommendation in the report) by September 30, 2005</b>	25	87

\*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.

\*\*March 31, 2005, closing balance was corrected.

# Appendix

## Appendix V OIG Reports From Prior Semiannual Periods with Overdue Management Decisions as of September 30, 2005

Title	Number	Issued	Status
Impact of Loan Splitting on Borrowers and SBA	2-31	9/30/2002	Two recommendations are in management resolution.
SBA Oversight of Due Diligence Contractor for Asset Sales	3-19	3/31/2003	Agency has not responded to two recommendations made in the report.
SBA's Acquisition, Development and Implementation of the Joint Accounting and Administrative Management System	3-32	6/30/2003	Agency has not responded to two recommendations made in the report.
Audit of Puerto Rico & US Virgin Islands District Office Cosponsored and SBA-sponsored Activities	4-07	1/20/2004	Four recommendations are in management resolution.
Audit of SBA's Information Systems Controls Fiscal Year 2003	4-19	4/29/2004	Agency has not responded to three recommendations made in the report.
Audit of San Francisco District Office Administrative Activities Related to the Silicon Valley Small Business Development Center	4-27	6/29/2004	Management has not responded to two recommendations made in the report.
Audit of Selected SBA Computer General Support Systems	4-41	9/10/2004	Agency has not responded to one recommendation made in the report.
Audit of SBA's Email System	4-42	9/10/2004	Agency has not responded to one recommendation made in the report. Two other recommendations are in management resolution.
Audit of a SBA Guaranteed Loan to Elatec Technology Corporation and HK Equipment, Inc.	4-40	9/13/2004	One recommendation is in management resolution.
Audit of Early Defaulted Loan to Big Z Travel Center	4-43	9/17/2004	Management has not responded to one recommendation in the report.
Audit Report - Summary Audit of SBA-Sponsored and Cosponsored Events Conducted by District Offices.	4-44	9/24/2004	Two recommendations are in management resolution.
Review of Indirect Cost Rate of the Walsh Group, P.A	5-03	10/25/2004	Management has not responded to one recommendation made in the report.
Review of the Small Disadvantaged Business Certification Program	5-04	11/4/2004	One recommendation is in management resolution.
Single Audit of the Mountain Made Foundation	5-08	1/6/2005	Management has not responded to three recommendations made in the report.
Review of a Cooperative Agreement to HP Small Business Foundation	5-11	2/11/2005	Agency has not responded to one recommendation made in the report.
Defaulted 9/11 Disaster Loan to CLB Publishers Inc.	CP 5-02	2/14/2005	One recommendation is in management resolution.
Audit of SBA's FY 2004 Financial Statements - Management Letter	5-13	2/23/2005	One recommendation made in the report is in management resolution.
SBA Small Business Procurement Awards are not Always Going to Small Businesses	5-14	2/24/2005	Agency has not responded to five recommendations made in the report.
Audit of SBA's Information Systems Controls FY 2004	5-12	2/24/2005	One recommendation is in management resolution. Agency has not responded to one other recommendation made in the report.

# Appendix

## Appendix VI OIG Reports Without Final Action as of September 30, 2005

Report Number	Title	Date Issued	Date of Management Decision	Final Action Target
43H0060	8(a) Continuing Eligibility Reviews	9/30/94	12/30/94	10/30/02
9-23	Survey of Electronic Records Management	9/15/99	11/30/99	9/30/05
0-14	7(a) Service Fee Collections	3/30/00	8/22/00	12/31/04
0-19	SDB Certification Program Obligations and Expenditures	6/30/00	3/30/01	9/30/02
0-30	SBA's Administration of MBELEDF Cosponsorship	9/30/00	3/26/01	**
1-11	GPRA for the MSB&COD Program	3/27/01	9/28/01	7/31/03
1-12	SBA's Information Systems Controls – FY 2000	3/27/01	***	**
1-16	SBA's Follow-up on SBLC Examinations	8/17/01	9/25/01	**
A1-06	Evaluation of SBA's Computer Security Program	9/28/01	1/9/02	**
2-12	Improvements in the SBLC Oversight Process	3/20/02	***	9/30/05
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	***	**
2-27	SBA's Experience with Defaulted Franchise Loans	9/16/02	12/19/02	6/30/04
2-29	Internal Control Over Colson Services Corporation's Contract as Central Servicing Agent for SBA's CDC Program	9/16/02	12/12/02	6/30/06
3-08	SBA's Oversight of the Fiscal Transfer Agent for the 7(a) Loan Program	1/30/03	***	**
3-10	504 Loan Program Oversight	2/6/03	10/1/03	6/30/05
3-14	TEP Consulting, Inc.	3/14/03	4/10/03	12/31/03
3-18	Grants to the Texas Center for Women's Business Enterprise	3/20/03	6/4/03	10/15/03
3-20	SBA's Information System Controls for FY 2002	3/31/03	***	**
3-21	Equity Injection in the SBA 7(a) Loan Guaranty Program	3/31/03	5/27/04	2/18/05
3-26	Microloan Program: Moving Toward Performance Management	5/13/03	***	**
3-30	Audit of an Early Defaulted Loan	6/19/03	12/21/04	10/31/05
3-32	SBA's Acquisition, Development and Implementation of the Joint Accounting and Administrative Management System	6/30/03	***	**
3-33	SBIC Oversight	7/1/03	***	4/30/05
3-34	SBA's Compliance with JFMIP Property Management System Requirements	7/23/03	9/11/03	12/30/06
3-35	National Women's Business Council	7/28/03	***	**
3-36	Audit of an Early Defaulted Loan	8/19/03	10/01/03	9/30/04
3-41	Audit of an Early Defaulted Loan	9/29/03	4/22/04	5/31/05
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
4-15	SACS/MEDCOR: Ineffective and Inefficient	3/9/04	5/11/04	9/30/05

# Appendix

## Appendix VI (cont.) OIG Reports Without Final Action as of September 30, 2005

Report Number	Title	Date Issued	Date of Management Decision	Final Action Target
4-16	SBA's Administration of the Procurement Activities of Asset Sale Due Diligence Contracts and Task Orders	3/17/04	***	**
4-17	SBA's FY 2003 Financial Statements – Management Letter	3/23/04	5/14/04	**
4-18	SBA's Loan Application Tracking System	4/5/04	***	**
4-19	SBA's Information Systems Controls – FY 2003	4/29/05	***	**
4-22	Business Development Provided by the 8(a) Business Development Program	6/2/04	7/14/04	**
4-26	Audit of an Early Defaulted Loan	6/22/04	7/1/04	3/31/05
4-28	Audit of SBA Guaranteed Loan	7/9/04	10/6/04	3/31/05
4-29	Audit of an Early Defaulted Loan	7/12/04	10/6/04	3/31/05
4-31	Audit of Expenses for Meals and Refreshments Incurred by the Latino Coalition Foundation on an SBA 7(j) Cooperative Agreement	7/19/04	1/12/05	9/30/05
4-32	Audit of SBA Guaranteed Loan	7/29/04	10/6/04	3/31/05
4-34	SBA's Process for Complying with the FMFIA Reporting Requirements	7/29/04	9/9/04	4/30/05
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 on 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	***	**
4-44	SBA-Sponsored and Cosponsored Events Conducted by District Offices	9/24/04	***	9/30/05
5-02	Advisory Memorandum Report – Independent Evaluation of SBA's Information Security Program	10/7/04	2/4/05	9/30/05
5-03	Review of Indirect Cost Rate of the Walsh Group, P.A.	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	**
5-05	Audit of SBA's Fiscal Year 2004 Financial Statements	11/15/04	***	**
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	***	**
5-13	SBA's FY 2004 Financial Statements – Management Letter	2/23/05	***	**
5-17	SBA's Continuity of Operations Planning Program	3/30/05	5/3/05	**
5-21	SBA Guaranteed Loan to L.I.C. Auto Sales, Inc.	7/15/05	8/16/05	8/30/05

\*\* Target dates vary with different recommendations.

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

# Appendix

## Appendix VII Significant Recommendations From Prior Semiannual Reporting Periods Without Final Action as of September 30, 2005\*

Report Number	Date Issued	Recommendation	Management Decision Date	Final Action Target
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 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.	8/27/02	12/31/03
2-18	5/6/02	Develop an Agency-wide 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	11/17/03
3-08	1/30/03	Initiate a new procurement action for fiscal and transfer agent (FTA) activities and terminate the existing contract with the FTA when a new contract can be enacted.	12/10/03	3/31/06
3-08	1/30/03	Review FTA activities and identify contract costs for fees and services. Report these contract costs in proposed Master Reserve Fund (MRF) financial statements so future FTA contracts will have historical cost data for comparison purposes.	10/15/03	11/17/03
3-10	2/6/03	Design a review guide to incorporate performance aspects to address financial risk, address the specific requirements of the Section 504 loan program, and incorporate a performance-driven scoring system.	10/01/03	12/31/03
3-33	7/1/03	Revise Standard Operating Procedure (SOP) on Small Business Investment Companies (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	4/5/05
3-36	8/19/03	Seek recovery of \$282,447 from the lender less any subsequent recoveries.	10/1/03	9/30/04

# Appendix

**Appendix VII (cont.)  
Significant Recommendations  
From Prior Semiannual Reporting Periods  
Without Final Action as of September 30, 2005\***

<b>Report Number</b>	<b>Date Issued</b>	<b>Recommendation</b>	<b>Management Decision Date</b>	<b>Final Action Target</b>
3-41	9/29/03	Require the lender to repay SBA \$273,675.	4/22/04	5/31/05
4-13	3/2/04	Request the District Director to seek recovery from the lender of principal, interest, and expenses totaling \$767,049 paid.	4/06/04	1/31/05
4-17	3/23/04	That the Chief Financial Officer (CFO) develop a methodology, utilizing representative samples if necessary, to verify the completeness and accuracy of performance measure data reported by program offices.	5/14/04	10/22/04
4-19	4/29/04	That the Chief Information Officer (CIO) revise and enhance existing policies and procedures to ensure: control weaknesses identified in certification and accreditation reviews and audit reports are resolved in a timely manner and ensure senior management is provided timely information regarding the progress towards implementing corrective actions; OCIO monitoring controls are effective to preclude reoccurrence of previously noted weaknesses; technical personnel are provided technical training to enable personnel to successfully carry out their duties and responsibilities; technical skills are sufficient to meet new technical requirements prior to implementing new hardware and software; and OCIO effectively participates in all phases of system development in a timely manner so that system controls are properly designed and developed to provide adequate security, and reliability, completeness, and accuracy for all significant system initiatives both within and outside of OCIO.	8/12/04	1/31/05
4-19	4/29/04	That the CIO, in conjunction with system owners: develop policies and procedures to require system owners to provide plans of action to OCIO for correcting weaknesses identified from audits, management reviews, and certification and accreditation reviews; ensure that plans adequately address management actions to resolve or minimize weaknesses in the short term while implementing longer term system corrective actions; develop reporting processes to follow up on system owner corrective action plans; and ensure that sufficient resources are made available to monitor system owner corrective action plans.	8/13/04	1/31/05

# Appendix

**Appendix VII (cont.)  
Significant Recommendations  
From Prior Semiannual Reporting Periods  
Without Final Action as of September 30, 2005\***

<b>Report Number</b>	<b>Date Issued</b>	<b>Recommendation</b>	<b>Management Decision Date</b>	<b>Final Action Target</b>
4-19	4/29/04	That the CIO: implement procedures to ensure compliance with Procedural Notice 9000-1406 "Removal of Old Computer User Accounts;" require network security administrators to review all current network accounts to identify and eliminate unnecessary accounts; require periodic documented reviews of all generic network accounts to ensure that they are authorized and needed; provide resources sufficient to monitor and assess network administration activities to ensure compliance with Federal laws and regulations, SBA policies and procedures, National Institute of Standards and Technology guidance, and industry best practices; and in coordination with program directors, develop procedures for controlling contractor personnel access to the network and applications. Procedures should also be established to: require Contracting Officers' Technical Representatives (COTRs) to notify security administrators in writing of each contractor personnel needing a network and application account along with privileges to assign to the account; and require all network and application accounts established for contractor personnel to be established with a renewal or termination date not to exceed one year or the length of the contract, whichever is less. In coordination with the Office of Human Capital Management, procedures should be developed for network and application security administrators to receive notification of termination of SBA employees.	8/4/04	11/30/04
4-19	4/29/204	That the CIO in consultation with OHCM, develop procedures for escalating administrative consequences for personnel identified as not compliant, such as: advise first-time offenders to immediately change their passwords to conform to the policy; temporarily disable accounts for a second offense, and notify the account owner and immediate supervisor; and suspend accounts for a third offense, and send a request for adverse personnel action to the office director OHCM, and the account holder.	2/04/05	9/30/05
4-26	6/22/04	That the Associate Administrator seek recovery of the SBA guaranty repair of \$235,008.	7/01/04	3/31/05
4-28	7/9/04	Seek recovery of \$142,549 from the lender.	10/06/04	3/31/05
4-29	7/12/04	That the Associate Administrator seek recovery of the SBA guaranty repair of \$373,760.	10/06/04	3/31/05
4-32	7/29/04	Seek recovery of \$542,663 from the lender.	10/06/04	3/31/05

# Appendix

**Appendix VII (cont.)  
Significant Recommendations  
From Prior Semiannual Reporting Periods  
Without Final Action as of September 30, 2005\***

<b>Report Number</b>	<b>Date Issued</b>	<b>Recommendation</b>	<b>Management Decision Date</b>	<b>Final Action Target</b>
4-36	8/10/04	That the Associate Administrator to seek recovery of the SBA guaranty repair of \$740,000.	10/06/04	3/31/05
5-04	11/4/04	That the Acting Associate Administrator for Business Development develop and implement procedures to ensure that SDB 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
5-04		That the Acting Associate Administrator for Business Development develop and implement procedures to ensure that eligibility reviewers recommend denial of SDB certification if a firm or any of its principals do not comply with 13 CFR 124.108(e).	4/1/05	9/30/05
5-05	11/15/04	That the CFO: (1) continue to develop new quality assurance review procedures and enhance existing procedures to ensure that all financial transactions are properly reflected in the financial statements, and that footnote disclosures are accurate and logical and contain comprehensive information essential to the fair presentation of SBA's financial condition; (2) perform additional analytical procedures monthly or quarterly; (3) develop and complete additional checklists; (4) perform studies of best practices; and (5) have an independent review conducted by individuals not associated with SBA's daily financial management and reporting responsibilities, such as an outside peer reviewer.	12/20/04	12/15/05
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
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, Sybase, Mainframe, 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 OCIO Security 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).	4/18/05	4/15/06

# Appendix

**Appendix VII (cont.)  
Significant Recommendations  
From Prior Semiannual Reporting Periods  
Without Final Action as of September 30, 2005\***

<b>Report Number</b>	<b>Date Issued</b>	<b>Recommendation</b>	<b>Management Decision Date</b>	<b>Final Action Target</b>
5-12	2/24/05	For the Loan Accounting System (LAS): (1) provide software developers, testers, and IT management with ongoing training in software development, testing and acceptance procedures; (2) define sufficient documentation standards for LAS, and (3) define sufficient test standards and procedures for LAS.	6/22/05	3/31/06
5-17	3/30/05	Assign overall Continuity of Operations Program (COOP) Business Resumption Program oversight responsibilities to the Office of Chief Operating Officer.	5/3/05	6/1/05
5-17	3/30/05	That the Chief Operating Officer require that personnel named in the SBA COOP and BRP participate in plan testing so that they understand their duties if plan activation is needed.	5/3/05	12/31/05
5-17	3/30/05	Annually test the SBA COOP and a percentage of all headquarters and field office BRP every year to ensure compliance, and therefore determine if the plans tested are adequate. Full testing of all SBA program and field office BRPs should occur at least every 4 years to ensure that all BRPs are sufficient and that program and field offices have viable, complete and tested BRPs.	5/30/05	12/31/05

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

# Appendix

## Appendix VIII 6-Month Significant Recommendations Summary as of September 30, 2005

Report Number	Title	Date Issued	Recommendation
5-18	Review of the Mentor-Protégé Program	4/18/05	Ensure that the Mentor-Protégé agreements are specific enough that SBA can monitor and determine whether each protégé will be in receiving/has received "material benefits" and "developmental gains" using the definition of success adopted when the action in Recommendation 1A is completed.
5-18	Review of the Mentor-Protégé Program	4/18/05	Define success for the Mentor-Protégé Program and its participants, as well as what is meant by "material benefits" and "developmental gains."
5-20	Audit of the Contract Bundling Process	5/20/05	That the ADA for GC&BD implement current operating plans in accordance with SOP 60 02 and establish procedures with each of the 23 major procurement agencies Offices of Small and Disadvantaged Business Utilization. These procedures should identify what constitutes possible bundling, when and where proposed procurements must be referred to SBA for review, and consequences for procuring agencies that do not notify SBA of proposed acquisitions involving contract bundling.
5-21	Audit of Early Default King Bear	7/15/05	That the Associate Administrator for Financial Assistance seek recovery of \$308,960 from the lender on the guaranty paid.
5-22	Audit of SBIC Liquidation Process	7/28/05	Revise SOP 10 07 to require the development of meaningful goals and performance indicators that will measure the efficiency, effectiveness, and timeliness of the efforts of the Office of SBIC Liquidation (OLO) and to include procedures to monitor periodically how well the OLO is achieving its goals.
5-22	Audit of SBIC Liquidation Process	7/28/05	Revise SOP 10 07 to require OLO staff to obtain, for the sale of portfolio assets by an SBIC, verification that the sale was made at commercially reasonable terms.
5-22	Audit of SBIC Liquidation Process	7/28/05	Track the costs for each liquidation case and summarize all costs by liquidation method yearly. After a reasonable period of time, this historical cost should be used for cost analyses.
5-22	Audit of SBIC Liquidation Process	7/28/05	Revise SOP 10 07 to require periodic assessments of each receivership's progress and operations by comparing the monthly invoices and periodic status meeting results to pre-set performance standards.
5-22	Audit of SBIC Liquidation Process	7/28/05	Restructure contracts with receivership agents to include performance standards that will be used to assess performance.
5-22	Audit of SBIC Liquidation Process	7/28/05	Revise SOP 10 07 to require the development of meaningful goals and performance indicators that will measure the efficiency, effectiveness, and timeliness of each liquidation method.

# Appendix

## Appendix VIII (cont.) 6-Month Significant Recommendations Summary as of September 30, 2005

Report Number	Title	Date Issued	Recommendation
5-22	Audit of SBIC Liquidation Process	7/28/05	Revise SOP 10 07 to require OLO staff to ascertain, for the sale of portfolio assets by an SBIC, whether the buyer was an associate of the SBIC.
5-22	Audit of SBIC Liquidation Process	7/28/05	Designate formally one person to be the OLO cashier and another as alternate. Provide training to designees concerning the requirements listed in SOP 10 07.
5-22	Audit of SBIC Liquidation Process	7/28/05	Revise SOP 10 07 to: (1) require a documented cost analysis be included in the selection process for each SBIC liquidation case. An exception would be cases for which the suspicion of fraud is the motivating factor for selecting the liquidation method. If fraud is suspected, the case file should be appropriately documented. (2) include the additional liquidation methods of: (a) using commission-based contractors to sell acquired assets and (b) selling SBA's equity and debt interest in the SBICs.
5-22	Audit of SBIC Liquidation Process	7/28/05	Ensure that each case file includes documented evidence that OLO staff considered all liquidation methods.
5-22	Audit of SBIC Liquidation Process	7/28/05	Determine the disposition of the two missing checks. If the checks were lost, efforts should be made to seek replacements from the makers. If improperly cashed, a referral should be made to the OIG/Investigations.
5-22	Audit of SBIC Liquidation Process	7/28/05	Incorporate the goals and performance indicators into the Agency's annual performance plan and use them to monitor and assess the progress towards achieving SBIC liquidation goals.
5-22	Audit of SBIC Liquidation Process	7/28/05	Incorporate revised procedures for filing IRS Forms 1096 and 1099 into SOP 10 07.
5-22	Audit of SBIC Liquidation Process	7/28/05	Determine through coordination with the IRS and the service providers whether IRS Forms 1099 and 1096 were filed accurately for calendar year 2003. If not filed accurately, implement actions to file the forms, as required.
5-23	Audit of SBA's Administration of Its Special Appropriation Grants	9/21/05	That the Assistant Administrator for Administration develop policies and procedures to guide the review, monitoring and oversight process of the Agency's growing portfolio of special appropriations grants for inclusion in the forthcoming SOP 00 11 2 and ensure that adequate resources are deployed to implement the new policies and ensure they are followed.
5-24	Criteria for Overcoming the Presumption of Social Disadvantage is Needed	9/28/05	That the Associate Deputy Administrator for Government Contracting and Business Development either (1) develop and implement criteria on what constitutes "credible evidence" for overcoming the presumption of social disadvantage, or (2) develop and implement criteria for social disadvantage that applies equally to all applicants.

# Appendix

## Appendix VIII (cont.) 6-Month Significant Recommendations Summary as of September 30, 2005

Report Number	Title	Date Issued	Recommendation
5-26	Audit of Early Defaulted Loan to Hansen Enterprises	9/28/05	Seek recovery of \$255,088, less any subsequent recoveries, from the lender.
5-29	Management Advisory Report – SBA Needs to Implement a Viable Solution to its Loan Accounting System Migration Problem	9/30/05	That the Chief Operating Officer take concrete steps to improve the computing environment and potentially eliminating the security vulnerabilities identified for its legacy mainframe operating system.
5-29	Management Advisory Report – SBA Needs to Implement a Viable Solution to its Loan Accounting System Migration Problem	9/30/05	That the Acting Deputy Administrator in coordination with affected component offices of the Agency, adopt a plan to expedite migration or modernization of SBA’s Loan Accounting System off the current UNISYS legacy mainframe and make this the highest priority of the SBA going forward using good project management practices and financial management of the project.
5-29	Management Advisory Report – SBA Needs to Implement a Viable Solution to its Loan Accounting System Migration Problem	9/30/05	That the Acting Deputy Administrator ensure the adopted migration or modernization plan for the SBA Loan Accounting System include such budgets and resources to ensure success of the project and if possible, be included in the FY 2007 Capital Asset Plan submission to OMB and Congress.
5-29	Management Advisory Report – SBA Needs to Implement a Viable Solution to its Loan Accounting System Migration Problem	9/30/05	That the Chief Information Officer in conjunction with OCFO explore the feasibility of charging each individual office for legacy applications which only those offices use when newer and more economical alternate computing capabilities exist.
5-29	Management Advisory Report – SBA Needs to Implement a Viable Solution to its Loan Accounting System Migration Problem	9/30/05	We recommend that the Chief Information Officer and any potential LAS modernization project review the 1999 Booz, Allen and Hamilton – Loan Monitoring System Business Process Reengineering study and other materials from the previous Systems Modernization Initiative project as a beginning to updating the work processes around the SBA legacy systems.

# Appendix

## Appendix IX List of Events/Activities Where SBA Used its Cosponsorship Authority\* Small Business Act, Section 4(h) April 1, 2005, through September 30, 2005

Name/Subject of Event	Date of Event Start	Date of Event End	Location of Event	Type of Activity	Names of Cosponsors
Business Web Training	4/4/05	8/31/05	World Wide Web	Cosponsorship	Education to Go, Inc.
"Go Global" Training Workshops	4/11/05	3/31/07	Washington, DC	Cosponsorship	Trade Center Management Associates d/b/a The International Trade Center
Utah Small Business Awards Luncheon	4/11/05	6/9/05	Salt Lake City, UT	Cosponsorship	Utah Small Business Lenders, Inc.
Women's Business Roundtable: Marketing on a Shoestring	4/11/05	5/29/05	Annapolis, MD	Cosponsorship	Business and Professional Women of Maryland (BPW/md)
2005 Montana Small Business Week Advertorial	4/13/05	5/29/05	Montana	Cosponsorship	<u>Big Sky Business Journal</u>
Regional Small Business Week	5/5/05	6/16/05	Los Angeles, CA	Cosponsorship	Los Angeles Chamber of Commerce
Small Business Week Awards Reception, Presentation of Awards and Expo	5/13/05	6/30/05	Lincoln, Warwick, Providence & Smithfield, RI	Cosponsorship	SCORE and Central Rhode Island Chamber of Commerce
Small Business Week Awards Dinner	5/19/05	6/24/05	Claymont, DE	Cosponsorship	Delaware Economic Development Office (DEDO)
2nd Annual Small Business Forum	5/24/05	7/2/05	Dayton, OH	Cosponsorship	Central State University - College of Business and Industry
The 2005 Small Business Community Resource Fair	6/3/05	7/8/05	Centennial, CO	Cosponsorship	Smoky Hill Library, South Metro Denver SBDC and SCORE
Internet Marketing Seminar "Is Your Website Increasing Sales" What Industrial Manufacturers and Distributors Need to Know	6/10/05	7/21/05	Newark, DE	Cosponsorship	Thomas Industrial Network, Inc.
Enhancing Entrepreneurship Using the Internet and SBA	6/13/05	6/30/07	World Wide Web	Cosponsorship	National Women's Business Center and eBay Inc.
Symposium: "Small Business and Regulation"	6/28/05	10/19/05	Washington, DC	Cosponsorship	Public Forum Institute (Lead Cosponsor).

# Appendix

**Appendix IX (cont.)  
List of Events/Activities Where SBA Used its Cosponsorship Authority\*  
Small Business Act, Section 4(h)  
April 1, 2005, through September 30, 2005**

Name/Subject of Event	Date of Event Start	Date of Event End	Location of Event	Type of Activity	Names of Cosponsors
2005 Annual Small Business Resource Fair	6/29/05	9/18/05	Denver, CO	Cosponsorship	Denver Public Library, Minority/Women Chambers' Coalition, Colorado Small Business Development Center, Downtown Denver Partnership, Inc., Colorado Association of Government Guaranty Lenders
Employee Planning, Recruiting, Selection and Hiring	7/20/05	11/26/05	Atlanta, GA	Cosponsorship	Monster
The Impact of Second Stage Companies in a Growing Economy	8/1/05	12/11/05	Big Rock Valley, Cassopolis, MI	Cosponsorship	Edward Lowe Foundation
Spirit of Small Business Awards	8/11/05	9/12/05	Santa Barbara, CA	Cosponsorship	Pacific Coast Business Times (Los Angeles Chamber of Commerce)
Women's Network for Entrepreneurial Training (WNET) Roundtables	9/7/05	10/31/07	Casper, WY	Cosponsorship	First Interstate Bank
SBA Hispanic Small Business Fair and Seminars	9/23/05	6/9/06	Atlanta, GA	Cosponsorship	Peachtree DeKalb Crossing, LLC/dba Plaza Fiesta
Minority Business Recognition Luncheon	9/27/05	11/19/05	Indianapolis, IN	Cosponsorship	Indiana State Hispanic Chamber of Commerce, Indianapolis Black Chamber of Commerce, NAWBO, Indiana Business Diversity Council, NFIB, Asian American Alliance, Inc., SCORE Chapter #6 and the Indiana SBDC
Seminar: Federal Contracting for Veterans	9/29/05	10/30/05	Washington, DC	Cosponsorship	The Veterans Enterprise Training and Services Group, In. (VETS Group)

\* The Agency provided this information. It has not been verified by the OIG.

# Appendix

## Appendix X 6-Month Legal Actions Summary April 1, 2005, through September 30, 2005

<b>State</b>	<b>Program</b>	<b>Alleged Violation(s) Prosecuted</b>	<b>Legal Action</b>	<b>Investigated Jointly With</b>
CA	BL	A liquor and convenience store owner allegedly conspired to misrepresent the true seller and true buyer of a business in order to qualify for an SBA-guaranteed loan in the amount of \$275,000.	Owner charged by a criminal information.	FBI, IRS, ICE, USDA/OIG, CA-ABC
CA	BL	The owner of a now defunct insurance business solicited and received money from investors based on his false representations that his company had a Government contract subsidized by various Federal Government entities, including the SBA.	Owner pled guilty and was sentenced to 3 years probation and ordered to pay \$639 in fines and restitution.	USSS
CA	BL	The owner of a telecommunications firm allegedly provided false information about his company's financial condition, number of employees, and length of time in existence during the loan application process for a \$50,000 SBA Express Loan.	Owner charged in state court.	GCPD
NJ	BL	The owners of an x-ray diagnostic business sold their business one day after receiving a \$1,210,000 SBA-guaranteed loan. The borrowers defaulted on their loan, and the bank requested SBA to honor its guarantee in the amount of \$846,232.	Due to a conflict of interest and failure to verify tax liability, the bank withdrew its request that SBA honor its guaranty, resulting in a cost avoidance of \$846,232.	None
NJ	BL	The owner of a video and graphics production company submitted false invoices and receipts totaling \$180,000 as part of the application process to obtain a \$375,000 SBA-guaranteed loan.	Owner pled guilty and was sentenced to 2 years probation and a fine of \$1,000.	USPIS

## Appendix

**Appendix X (cont.)  
6-Month Legal Actions Summary  
April 1, 2005, through September 30, 2005**

State	Program	Alleged Violation(s) Prosecuted	Legal Action	Investigated Jointly With
NJ	BL	The owner of a window manufacturing business, his former partner, the partner's attorney, and a loan broker conspired to falsely represent a required \$700,000 capital injection for a \$1,750,000 SBA-guaranteed loan.	All sentenced to pay restitution, jointly and severally, of \$106,827.78. Attorney and loan broker fined \$5,000. Broker sentenced to 2 years in prison, 3 years supervised release. Others sentenced to probation and home confinement.	None
NJ	BL	The owner of an automotive repair business obtained a \$560,000 SBA-guaranteed loan to purchase land. The business owner conspired with the property owner to misrepresent the capital injection to the lender. In lieu of the capital injection, they entered into an \$80,000 mortgage agreement, which they concealed from the lender.	Both men were sentenced to 5 years probation, 6 months home confinement, \$3,000 fines, and ordered to pay restitution of \$721,263.62.	None
NV	BL	The owner of several florist shops conspired with his partner to provide false company information, including the length of time in business and yearly gross revenues, during the loan application process for six SBA Express Loans totaling \$300,000.	Owner pled guilty to a criminal information.	LVPD, USSS, DSDS
NY	DL	When applying for disaster loans of \$216,800 and \$80,000, the owner of two telecommunications firms misrepresented that his companies were located at the World Trade Center on September 11, 2001. The investigation revealed that the businesses had relocated prior to the terrorist attacks.	Owner pled guilty.	USPIS
NY	DL	A former attorney, who claimed his firm had been located in downtown New York City on September 11, 2001, received an SBA disaster loan for \$247,000. The investigation revealed that his firm was never located at that address.	Former attorney pled guilty to criminal charges and is awaiting sentencing. Civil settlement of \$300,000 reached.	IRS

## Appendix

**Appendix X (cont.)  
6-Month Legal Actions Summary  
April 1, 2005, through September 30, 2005**

<b>State</b>	<b>Program</b>	<b>Alleged Violation(s) Prosecuted</b>	<b>Legal Action</b>	<b>Investigated Jointly With</b>
NY	DL	The owner of a business that sells motor vehicles and parts allegedly forged the endorsement of two vendors on SBA issued two-party checks totaling \$131,600. Instead of using the majority of his SBA-guaranteed loan to pay off outstanding vendor debts, as specified, he used the funds for a new business he had started.	Owner arrested.	USPIS
NY	DL	A woman submitted an application for a disaster home loan and falsely stated that she had been residing near the World Trade Center on September 11, 2001, and her furniture and car had been destroyed by debris.	Woman pled guilty.	DHS
OH	BL	The former general manager of a food manufacturing business and his wife were involved in a scheme to falsify application documents and misuse loan proceeds in connection with a \$700,000 loan made to the business.	Both pled guilty. The former manager was sentenced to 6 months home-confinement, 5 years probation, and ordered to pay \$115,500 in restitution. His wife was fined \$100.	None
OH	BL	The former president of a now defunct jewelry business failed to disclose a civil judgment filed against him and his extensive criminal history during the loan application process for a \$99,500 SBA-guaranteed loan.	Former president was sentenced to 5 months in prison, 3 years supervised release, and was ordered to pay \$66,575.13 in restitution.	FBI
PR	BL	The owner of an import/export business—denied an SBA Micro-loan because of poor credit history—conspired with two other individuals who each applied for and received \$25,000 SBA Micro-loans on his behalf.	One individual sentenced to 2 years probation. Owner pled guilty to a criminal information. Prosecution continuing.	FBI

## Appendix

**Appendix X (cont.)  
6-Month Legal Actions Summary  
April 1, 2005, through September 30, 2005**

<b>State</b>	<b>Program</b>	<b>Alleged Violation(s) Prosecuted</b>	<b>Legal Action</b>	<b>Investigated Jointly With</b>
PR	GC	An SBA employee allegedly used his position to obtain over \$20,000 for his personal benefit from an 8(a) contractor who received over \$3 million in contracts.	Employee was indicted.	FBI, GSA/OIG
TX	BL	A restaurant owner inflated personal property values and net worth to influence financial institutions to approve two SBA-guaranteed loans and a bank line of credit totaling \$1,078,000. He then utilized financial proceeds from the loans for personal expenses.	Owner pled guilty.	FBI, IRS
TX	BL	Seven individuals—a loan broker, escrow officer, two borrowers, and three others—allegedly caused false and fraudulent loan application documents to be submitted to an SBA lender to secure a \$2,400,000 international trade loan guaranteed by SBA. The seven then laundered approximately \$473,000 of the proceeds for their personal benefit.	Seven individuals indicted.	None
TX	BL	The co-owner of a service station allegedly misrepresented ownership of real estate on his loan application in order to secure a \$669,000 SBA-guaranteed 504 loan from the Texas Certified Development Company (TCDC).	Co-owner indicted. Due to misrepresentations by the co-owner, SBA and the TCDC canceled the loan debenture request, resulting in a cost avoidance of \$669,000.	TEXAS-ABC
TX	BL	An attorney involved in the SBA 7(a) loan program was suspended by the Associate Administrator for Lender Oversight due to information that the attorney was continuing to participate in the 7(a) Program after his conviction on fraud and money laundering charges.	Debarment action will be considered upon sentencing.	FBI

## Appendix

**Appendix X (cont.)  
6-Month Legal Actions Summary  
April 1, 2005, through September 30, 2005**

<b>State</b>	<b>Program</b>	<b>Alleged Violation(s) Prosecuted</b>	<b>Legal Action</b>	<b>Investigated Jointly With</b>
TX	BL	As a result of information obtained during an investigation into nine defaulted SBA convenience store loans in the amount of \$9,500,000, the OIG investigated charges that the owner of an alleged SBA loan brokerage company made false representations to customers.	Owner indicted.	FBI
TX	BL	A borrower for a food market and his brother conspired to fraudulently obtain a \$1,000,000 SBA-guaranteed loan and a \$390,000 companion loan. The borrower misrepresented that he used personal assets for the capital injection and to purchase real estate for the business. In reality, he received the majority of these funds from his brother.	Both pled guilty.	DHS, ICE, TEXAS-ABC
TX	BL	When applying for a \$286,200 SBA-guaranteed loan to buy a convenience store, the borrower falsely claimed to be a U.S. citizen, failed to disclose a pending lawsuit, falsified the origin of the cash injection, and provided false documentation.	Borrower pled guilty.	DHS, ICE, TEXAS-ABC
TX	BL	A borrower, his loan broker, and three other individuals allegedly made misrepresentations during the loan application process to secure a \$1,000,000 SBA-guaranteed loan for the purchase of a gas station. Once the loan was funded, they allegedly laundered about \$183,519 of the proceeds for their personal benefit.	All five individuals indicted.	None
VA	BL	The president and vice-president of a now defunct asphalt company made misrepresentations regarding the financial solvency of their company and the intended purpose of the loan on the application for a \$100,000 SBA-guaranteed loan. They also spent the loan proceeds on personal items instead of purchasing paving equipment that was to serve as collateral for the loan.	Both found guilty by jury trial. Both sentenced to 18 months in prison, 3 years supervised release, and ordered to pay restitution of \$86,277.48, jointly and severally.	FBI

# Appendix

**Appendix X (cont.)  
6-Month Legal Actions Summary  
April 1, 2005, through September 30, 2005**

State	Program	Alleged Violation(s) Prosecuted	Legal Action	Investigated Jointly With
VA	GC	The president and vice president of a construction company conspired to make misrepresentations to SBA in order to maintain their company's 8(a) eligibility status. They also conspired with an environmental services company to provide false hazardous environmental training certificates to the government.	Both men and both companies indicted and pled guilty.	FBI, DCIS, EPA-CID, Army-CID, NASA/OIG
VI	DL	Co-owners of a house located in the Virgin Islands falsely represented to the SBA and other Government and insurance entities that it had sustained hurricane damage. In reality, the house had been previously damaged by a hurricane, and they had purchased it with such damage in "as is" condition.	Both pled guilty to a criminal information.	DHS
WA	SBA General	A woman falsely claimed to be affiliated with the SBA and submitted two Federal grant applications to the Washington State Office of Juvenile Justice as an SBA "Director."	Woman arrested and indicted.	None

Program codes: BL=Business Loans; DL=Disaster Loans; GC=Government Contracting and Business Development/Section 8(a) Business Development

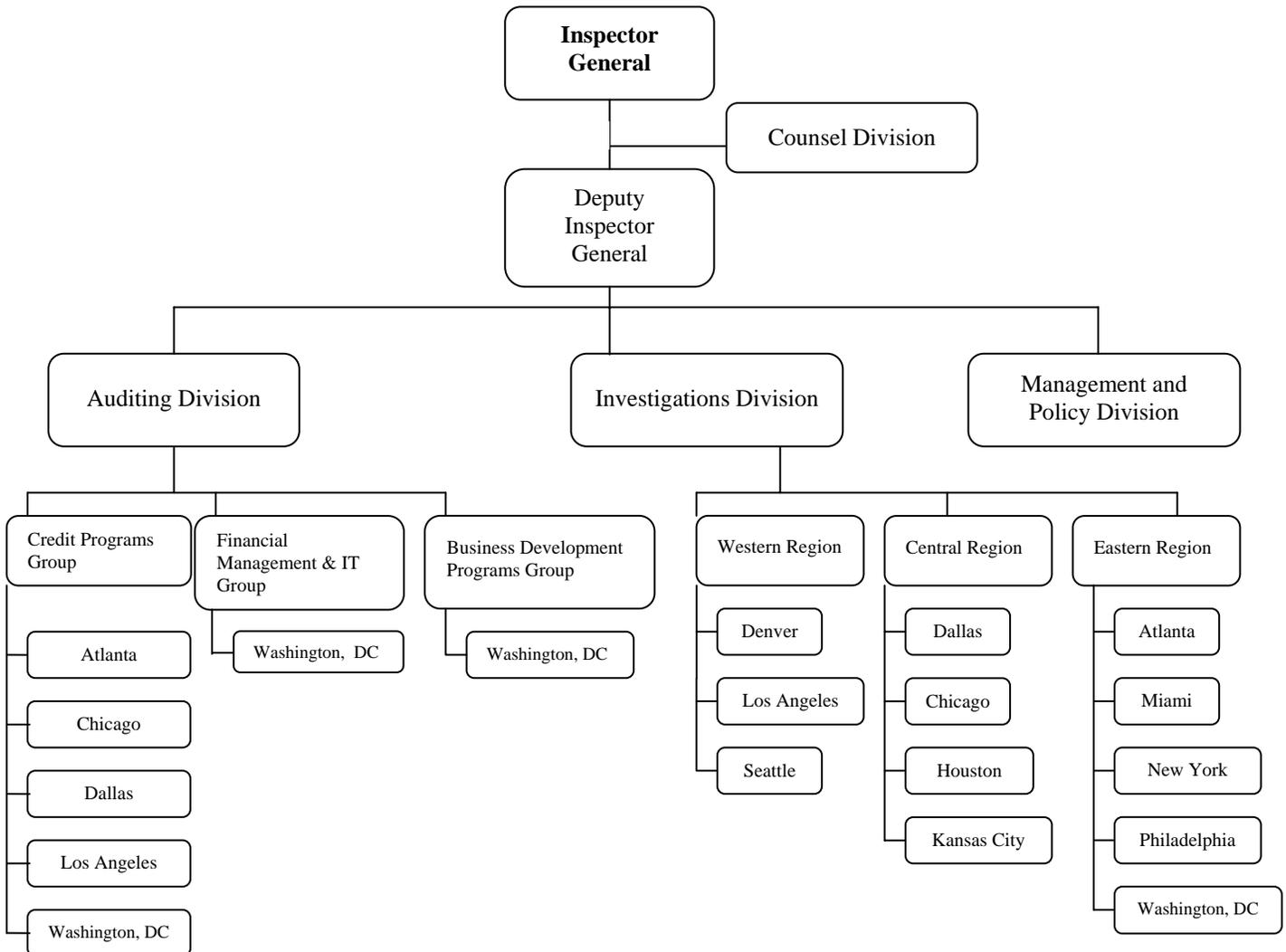
Joint-investigation Federal agency acronyms: Army CID=Army Criminal Investigation Division; CA-ABC=State of California Alcohol and Beverage Control; DCIS=Defense Criminal Investigative Service; DHS=Department of Homeland Security; DSDS=Department of State Diplomatic Security; EPA-CID=Environmental Protection Agency Criminal Investigation Division; FBI=Federal Bureau of Investigation; GCPD=Glendale California Police Department; GSA/OIG=General Services Administration OIG; ICE=Immigration and Customs Enforcement; IRS=Internal Revenue Service; LVPD=Las Vegas Police Department; NASA/OIG=National Aeronautics and Space Administration OIG; TEXAS-ABC=Texas Alcoholic Beverage Commission; USDA/OIG=United States Department of Agriculture OIG; USPIS=United States Postal Inspection Service; USSS=United States Secret Service.

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# Appendix

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## 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.